



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**95-2492236**

(IRS Employer Identification Number)

**2801 HIGHWAY 280 SOUTH**

**BIRMINGHAM, ALABAMA 35223**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code **(205) 268-1000**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically 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 definitions of "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated Filer

Non-accelerated filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Number of shares of Common Stock, \$0.01 Par Value, outstanding as of April 23, 2015: 1,000

Table of Contents

**PROTECTIVE LIFE CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR QUARTERLY PERIOD ENDED MARCH 31, 2015**

**TABLE OF CONTENTS**

**PART I**

		<b>Page</b>
Item 1.	Financial Statements (unaudited):	
	<u>Consolidated Condensed Statements of Income for the Period of February 1, 2015 to March 31, 2015 (Successor), the Period of January 1, 2015 to January 31, 2015 (Predecessor) and For The Three Months Ended March 31, 2014 (Predecessor)</u>	3
	<u>Consolidated Condensed Statements of Comprehensive Income (Loss) for the Period of February 1, 2015 to March 31, 2015 (Successor), the Period of January 1, 2015 to January 31, 2015 (Predecessor) and For The Three Months Ended March 31, 2014 (Predecessor)</u>	4
	<u>Consolidated Condensed Balance Sheets as of March 31, 2015 (Successor) and December 31, 2014 (Predecessor)</u>	5
	<u>Consolidated Condensed Statement of Shareowner's Equity for the Period of February 1, 2015 to March 31, 2015 (Successor) and for the Period of January 1, 2015 to January 31, 2015 (Predecessor)</u>	7
	<u>Consolidated Condensed Statements of Cash Flows for the Period of February 1, 2015 to March 31, 2015 (Successor), the Period of January 1, 2015 to January 31, 2015 (Predecessor), and For The Three Months Ended March 31, 2014 (Predecessor)</u>	8
	<u>Notes to Consolidated Condensed Financial Statements</u>	9
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	73
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	139
Item 4.	<u>Controls and Procedures</u>	139

**PART II**

Item 1.	<u>Legal Proceedings</u>	139
Item 1A.	<u>Risk Factors</u>	140
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	148
Item 6.	<u>Exhibits</u>	149
	<u>Signature</u>	150

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(Unaudited)

	<b>Successor Company</b>		<b>Predecessor Company</b>	
	<b>February 1, 2015 to March 31, 2015</b>		<b>January 1, 2015 to January 31, 2015</b>	<b>For The Three Months Ended March 31, 2014</b>
	<b>(Dollars In Thousands)</b>		<b>(Dollars In Thousands)</b>	
<b>Revenues</b>				
Premiums and policy fees	\$ 509,008		\$ 261,866	\$ 815,896
Reinsurance ceded	(141,401)		(89,956)	(327,713)
Net of reinsurance ceded	367,607		171,910	488,183
Net investment income	288,872		175,180	538,163
Realized investment gains (losses):				
Derivative financial instruments	33,641		(123,274)	(105,350)
All other investments	(35,056)		81,153	72,114
Other-than-temporary impairment losses			(636)	(423)
Portion recognized in other comprehensive income (before taxes)			155	(1,168)
Net impairment losses recognized in earnings			(481)	(1,591)
Other income	67,263		36,421	99,039
<b>Total revenues</b>	<b>722,327</b>		<b>340,909</b>	<b>1,090,558</b>
<b>Benefits and expenses</b>				
Benefits and settlement expenses, net of reinsurance ceded: (2015 Successor - \$117,208; 2015 Predecessor - \$87,674; 2014 Predecessor - \$304,832)	486,299		267,287	728,519
Amortization of deferred policy acquisition costs and value of business acquired	27,897		4,072	55,582
Other operating expenses, net of reinsurance ceded: (2015 Successor - \$35,036; 2015 Predecessor - \$17,056; 2014 Predecessor - \$43,766)	115,304		68,368	181,252
<b>Total benefits and expenses</b>	<b>629,500</b>		<b>339,727</b>	<b>965,353</b>
<b>Income before income tax</b>	<b>92,827</b>		<b>1,182</b>	<b>125,205</b>
Income tax expense (benefit)	29,966		(327)	41,566
<b>Net income</b>	<b>\$ 62,861</b>		<b>\$ 1,509</b>	<b>\$ 83,639</b>
Net income - basic		\$ 0.02		\$ 1.05
Net income - diluted		\$ 0.02		\$ 1.03
Cash dividends paid per share		\$		\$ 0.20
Average shares outstanding - basic			80,452,848	79,608,461
Average shares outstanding - diluted			81,759,287	80,872,152

See Notes to Consolidated Condensed Financial Statements



Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

	<b>Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)</b>	<b>January 1, 2015 to January 31, 2015 (Dollars In Thousands)</b>	<b>Predecessor Company For The Three Months Ended March 31, 2014</b>
<b>Net income</b>	\$ 62,861	\$ 1,509	\$ 83,639
Other comprehensive income (loss):			
Change in net unrealized gains (losses) on investments, net of income tax: (2015 Successor - \$(157,355); 2015 Predecessor - \$259,738; 2014 Predecessor - \$259,589)	(292,233)	482,370	482,093
Reclassification adjustment for investment amounts included in net income, net of income tax: (2015 Successor - \$(131); 2015 Predecessor - \$(2,244); 2014 Predecessor - \$(2,023))	(242)	(4,166)	(3,756)
Change in net unrealized gains (losses) relating to other-than- temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2015 Successor - \$0; 2015 Predecessor - \$(131); 2014 Predecessor - \$2,429)		(243)	4,511
Change in accumulated (loss) gain - derivatives, net of income tax: (2015 Successor - \$(12); 2015 Predecessor - \$5; 2014 Predecessor - \$316)	(23)	9	587
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2015 Successor - \$31; 2015 Predecessor - \$13; 2014 Predecessor - \$235)	59	23	436
Change in postretirement benefits liability adjustment, net of income tax: (2015 Successor - \$0; 2015 Predecessor - \$(6,475); 2014 Predecessor - \$(632))		(12,025)	(1,173)
Total other comprehensive income (loss)	(292,439)	465,968	482,698
<b>Total comprehensive income (loss)</b>	<b>\$ (229,578)</b>	<b>\$ 467,477</b>	<b>\$ 566,337</b>

See Notes to Consolidated Condensed Financial Statements

Table of Contents

**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

(Unaudited)

	Successor Company As of March 31, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
<b>Assets</b>		
Fixed maturities, at fair value (amortized cost: 2015 Successor - \$38,170,605; 2014 Predecessor - \$33,738,242)	\$ 37,642,607	\$ 36,775,989
Fixed maturities, at amortized cost (fair value: 2015 Successor - \$528,828; 2014 Predecessor - \$485,422)	551,320	435,000
Equity securities, at fair value (cost: 2015 Successor - \$739,207; 2014 Predecessor - \$778,744)	741,532	803,230
Mortgage loans (related to securitizations: 2015 Successor - \$441,624; 2014 Predecessor - \$455,250)	5,589,795	5,133,780
Investment real estate, net of accumulated depreciation (2015 Successor - \$21; 2014 Predecessor - \$246)	7,435	5,918
Policy loans	1,735,370	1,758,237
Other long-term investments	618,546	514,639
Short-term investments	256,303	250,645
Total investments	47,142,908	45,677,438
Cash	454,773	379,411
Accrued investment income	484,090	474,522
Accounts and premiums receivable	95,462	84,458
Reinsurance receivables	5,712,449	6,106,113
Deferred policy acquisition costs and value of business acquired	1,314,647	3,294,570
Goodwill	735,712	102,365
Other intangibles, net of accumulated amortization (2015 Successor - \$6,886)	676,114	
Property and equipment, net of accumulated depreciation (2015 Successor - \$1,449; 2014 Predecessor - \$118,487)	103,623	52,853
Other assets	148,505	316,207
Income tax receivable		
Assets related to separate accounts		
Variable annuity	13,339,653	13,157,429
Variable universal life	857,167	834,940
<b>Total assets</b>	<b>\$ 71,065,103</b>	<b>\$ 70,480,306</b>

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED BALANCE SHEETS**

(continued)

(Unaudited)

	<b>Successor Company As of March 31, 2015 (Dollars In Thousands)</b>	<b>Predecessor Company As of December 31, 2014 (Dollars In Thousands)</b>
<b>Liabilities</b>		
Future policy benefits and claims	\$ 30,158,669	\$ 29,944,890
Unearned premiums	691,119	1,574,077
Total policy liabilities and accruals	30,849,788	31,518,967
Stable value product account balances	1,923,684	1,959,488
Annuity account balances	10,846,606	10,950,729
Other policyholders funds	1,340,943	1,430,325
Other liabilities	1,835,545	1,621,168
Income tax payable	65,091	23,901
Deferred income taxes	1,406,560	1,545,478
Non-recourse funding obligations	641,600	582,404
Repurchase program borrowings	510,123	50,000
Debt	1,669,637	1,300,000
Subordinated debt securities	454,225	540,593
Liabilities related to separate accounts		
Variable annuity	13,339,653	13,157,429
Variable universal life	857,167	834,940
Total liabilities	65,740,622	65,515,422
<b>Commitments and contingencies - Note 10</b>		
<b>Shareowner s equity</b>		
Preferred Stock; (Predecessor) \$1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, 2015 (Successor) and 2014 (Predecessor) - \$.01 par value and \$.50 par value; shares authorized: 5,000 and 160,000,000; shares issued: 1,000 and 88,776,960, respectively		44,388
Additional paid-in-capital	5,554,059	606,125
Treasury stock, at cost (2014 Predecessor - 9,435,255)		(185,705)
Retained earnings	62,861	3,082,000
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2015 Successor - \$(157,486); 2014 Predecessor - \$796,960)	(292,475)	1,480,068
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2015 Successor - \$0; 2014 Predecessor - \$2,208)		4,101
Accumulated gain (loss) - derivatives, net of income tax: (2015 Successor - \$19; 2014 Predecessor - \$(45))	36	(82)
Postretirement benefits liability adjustment, net of income tax: (2015 Successor - \$0; 2014 Predecessor - \$(35,545))		(66,011)
Total shareowner s equity	5,324,481	4,964,884
<b>Total liabilities and shareowner s equity</b>	<b>\$ 71,065,103</b>	<b>\$ 70,480,306</b>



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

See Notes to Consolidated Condensed Financial Statements

Table of Contents

## PROTECTIVE LIFE CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNER S EQUITY

(Unaudited)

	Common Stock	Additional Paid-In- Capital	Treasury Stock (Dollars In Thousands)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner s Equity
<b>Predecessor Company</b>						
Balance, December 31, 2014	\$ 44,388	\$ 606,125	\$ (185,705)	\$ 3,082,000	\$ 1,418,076	\$ 4,964,884
Net income for the period of January 1, 2015 to January 31, 2015				1,509		1,509
Other comprehensive income					465,968	465,968
Comprehensive income for the period of January 1, 2015 to January 31, 2015						467,477
Stock-based compensation		1,550				1,550
Balance, January 31, 2015	\$ 44,388	\$ 607,675	\$ (185,705)	\$ 3,083,509	\$ 1,884,044	\$ 5,433,911

	Common Stock	Additional Paid-In- Capital	Treasury Stock (Dollars In Thousands)	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner s Equity
<b>Successor Company</b>						
Balance, February 1, 2015	\$	\$ 5,554,059	\$	\$	\$	\$ 5,554,059
Net income for the period of February 1, 2015 to March 31, 2015				62,861		62,861
Other comprehensive loss					(292,439)	(292,439)
Comprehensive loss for the period of February 1, 2015 to March 31, 2015						(229,578)
Balance, March 31, 2015	\$	\$ 5,554,059	\$	\$ 62,861	\$ (292,439)	\$ 5,324,481

See Notes to Consolidated Condensed Financial Statements

Table of Contents

## PROTECTIVE LIFE CORPORATION

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Successor Company February 1, 2015 to March 31, 2015	Predecessor Company January 1, 2015 to January 31, 2015	For The Three Months Ended March 31, 2014
	(Dollars In Thousands)		
<b>Cash flows from operating activities</b>			
Net income	\$ 62,861	\$ 1,509	\$ 83,639
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment losses	1,415	42,602	34,827
Amortization of DAC and VOBA	27,897	4,072	55,582
Capitalization of deferred policy acquisition costs	(49,191)	(22,489)	(58,461)
Depreciation and amortization expense	8,335	820	1,865
Deferred income tax	28,509	30,791	(19,101)
Accrued income tax	80,549	(32,803)	48,333
Interest credited to universal life and investment products	130,209	79,088	210,800
Policy fees assessed on universal life and investment products	(188,403)	(90,288)	(253,394)
Change in reinsurance receivables	11,571	(85,081)	(19,016)
Change in accrued investment income and other receivables	(6,242)	(5,789)	(13,635)
Change in policy liabilities and other policyholders' funds of traditional life and health products	(112,286)	176,980	17,791
Trading securities:			
Maturities and principal reductions of investments	27,556	17,946	25,257
Sale of investments	31,584	26,422	47,457
Cost of investments acquired	(75,342)	(27,289)	(37,070)
Other net change in trading securities	51,908	(26,901)	(20,589)
Amortization of premiums and accretion of discounts on investments	67,285	12,930	32,680
Change in other liabilities	(222,769)	238,592	2,744
Other, net	77,909	(149,889)	(70,973)
<b>Net cash (used in) provided by operating activities</b>	<b>(46,645)</b>	<b>191,223</b>	<b>68,736</b>
<b>Cash flows from investing activities</b>			
Maturities and principal reductions of investments, available-for-sale	45,713	59,028	221,379
Sale of investments, available-for-sale	712,281	191,062	351,930
Cost of investments acquired, available-for-sale	(1,188,255)	(149,887)	(900,641)
Change in investments, held-to-maturity	(20,000)		(20,000)
Mortgage loans:			
New lendings	(248,508)	(100,530)	(126,896)
Repayments	223,644	45,741	222,646
Change in investment real estate, net	21	7	62
Change in policy loans, net	16,502	6,365	22,634
Change in other long-term investments, net	(34,077)	(25,339)	(73,019)
Change in short-term investments, net	11,049	(40,314)	(41,199)
Net unsettled security transactions	5,100	37,510	45,145
Purchase of property and equipment	(709)	(649)	(3,073)
Sales of property and equipment			
<b>Net cash (used in) provided by investing activities</b>	<b>(477,239)</b>	<b>22,994</b>	<b>(301,032)</b>
<b>Cash flows from financing activities</b>			

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Borrowings under line of credit arrangements and debt	155,000		25,000
Principal payments on line of credit arrangement and debt	(110,700)	(60,000)	(100,000)
Issuance (repayment) of non-recourse funding obligations	20,000		19,989
Repurchase program borrowings	460,123		125,000
Dividends to shareowners			(15,722)
Investment product deposits and change in universal life deposits	462,674	169,233	696,229
Investment product withdrawals	(471,218)	(240,147)	(577,210)
Other financing activities, net	68	(4)	
<b>Net cash provided by (used in) financing activities</b>	<b>515,947</b>	<b>(130,918)</b>	<b>173,286</b>
<b>Change in cash</b>	<b>(7,937)</b>	<b>83,299</b>	<b>(59,010)</b>
<b>Cash at beginning of period</b>	<b>462,710</b>	<b>379,411</b>	<b>466,542</b>
<b>Cash at end of period</b>	<b>\$ 454,773</b>	<b>\$ 462,710</b>	<b>\$ 407,532</b>

See Notes to Consolidated Condensed Financial Statements

Table of Contents

**PROTECTIVE LIFE CORPORATION**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

**1. BASIS OF PRESENTATION**

**Basis of Presentation**

On February 1, 2015, Protective Life Corporation (the Company) became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a *kaishiki kaisha* organized under the laws of Japan (Dai-ichi Life), when DL Investment (Delaware), Inc. a wholly owned subsidiary of Dai-ichi Life, merged with and into the Company (the Merger). Prior to February 1, 2015, and for the periods reported as predecessor, the Company's stock was publicly traded on the New York Stock Exchange and subsequent to the Merger date, the Company remains as an SEC registrant within the United States. The Company is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, credit life and disability insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company (PLICO) is the Company's largest operating subsidiary.

The Merger was accounted for by the Company under the acquisition method of accounting under ASC Topic 805 *Business Combinations*. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The Company elected to apply pushdown accounting by applying the guidance allowed by ASC Topic 805, *Business Combinations*, including the initial recognition of most of the Company's assets and liabilities at fair value as of the acquisition date, and similarly recognizing goodwill calculated based on the terms of the transaction and the fair value of the new basis of net assets of the Company. The new basis of accounting will be the basis of the accounting records in the preparation of future financial statements and related disclosures after the Merger date. Goodwill of \$735.7 million represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2015 (Successor Company). The year-end consolidated condensed financial data included herein was derived from audited financial statements but does not include all disclosures required by GAAP within this report. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (Predecessor Company).

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The operating results of companies in the insurance industry have historically been subject to significant fluctuations due to changing competition, economic conditions, interest rates, investment performance, insurance ratings, claims, persistency, and other factors.

### **Reclassifications**

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income or shareowner's equity.

Table of Contents

**Entities Included**

The consolidated condensed financial statements for the predecessor and successor periods presented in this report include the accounts of Protective Life Corporation and subsidiaries and its affiliate companies in which the Company holds a majority voting or economic interest. Intercompany balances and transactions have been eliminated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Significant Accounting Policies**

For a full description of significant accounting policies, see Note 2 to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Other than the accounting matters resulting from the application of pushdown accounting in connection with ASC Topic 805, the Company did not make significant changes to accounting policies during the three months ended March 31, 2015 except as noted below.

**Intangible Assets**

Intangible assets with definite lives are amortized over the estimated useful life of the asset. Amortizable intangible assets primarily consist of distribution relationships, trade names, and technology. Intangible assets with indefinite lives, primarily insurance licenses, are not amortized.

**Value of Business Acquired**

In conjunction with the Merger, a portion of the purchase price was allocated to the right to receive future gross profits from cash flows and earnings of the Company's insurance policies and investment contracts as of the date of the Merger. This intangible asset, called VOBA, is based on the actuarially estimated present value of future cash flows from the Company's insurance policies and investment contracts in-force on the date of the Merger. The estimated present value of future cash flows used in the calculation of the VOBA is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. The Company amortizes VOBA in proportion to gross premiums for traditional life products, or estimated gross margins ( EGMs ) for participating traditional life products within the MONY block. For interest sensitive products, the Company uses various amortization bases including expected gross profits ( EGPs ), revenues, or insurance in-force.

**Goodwill**

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Goodwill of \$735.7 million was recognized in conjunction with the Merger as the excess of the purchase considerations over the fair value of identifiable assets acquired and liabilities assumed. The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of the Company's reporting units below its carrying amount.

### **Property and Equipment**

In conjunction with the Merger, property and equipment was recorded at fair value and will be depreciated from this basis in future periods based on the respective estimated useful lives. Real estate assets were recorded at appraised values as of the acquisition date. The Company has estimated the remaining useful life of the home office building to be 25 years. Land is not depreciated.



Table of Contents

The carrying amounts of the Company's fixed assets are as follows:

	<b>Successor Company As of March 31, 2015 (Dollars In Thousands)</b>	<b>Predecessor Company As of December 31, 2014 (Dollars In Thousands)</b>
Home office building	\$ 65,102	\$ 75,109
Land	24,920	
Data processing equipment	10,377	40,919
Other, principally furniture and equipment	4,673	55,312
	105,072	171,340
Accumulated depreciation	1,449	118,487
Total property and equipment	\$ 103,623	\$ 52,853

**Guaranteed Minimum Withdrawal Benefits**

The Company also establishes reserves for guaranteed minimum withdrawal benefits ( GMWB ) on its variable annuity ( VA ) products. The GMWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the liability to be recorded at fair value using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In conjunction with the merger the Company updated the fair value of the GMWB reserves to reflect current assumptions as of February 1, 2015 (Successor Company). As a result of the application of ASC Topic 805, the Company reset the hedge premium rates utilized in the valuation for all policies to be equal to the present value of future claims with the reset hedge premium rates being capped at the actual charges to the policyholder. This update resulted in a decrease in the net liability of approximately \$266.1 million on the Merger date. As of March 31, 2015 (Successor Company), the net GMWB liability held was approximately \$72.8 million.

**Policyholder Liabilities****Insurance Liabilities and Reserves**

In conjunction with the Merger and in accordance with ASC 805, insurance liabilities and reserves are recorded at fair value and the underlying contracts are considered to be new contracts, for measurement and reporting purposes as of the acquisition date. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency, and other assumptions based on the Company's historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for the Company's property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. The Company's results depend significantly upon the extent to which its actual claims experience is consistent with the assumptions the Company used in determining its reserves and pricing its products. The Company's reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that it will pay for actual claims or the timing of those payments. As such, at the acquisition date, the Company

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

updated the assumptions described above to reflect current best estimates and reserves were calculated in accordance with the methodology described below. VOBA was recorded to reflect the difference between the fair value of the contractual insurance liability and the reserve established.

Table of Contents

**Traditional Life, Health, and Credit Insurance Products**

Traditional life insurance products consist principally of those products with fixed and guaranteed premiums and benefits, and they include whole life insurance policies, term and term-like life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies. In accordance with ASC 805, the liabilities for future policy benefits on traditional life insurance products, when combined with the associated VOBA, have been recorded at fair value. These values were computed using assumptions that includes interest rates, mortality, lapse rates, expenses estimates, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported.

**Universal Life and Investment Products**

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances.

The Company establishes liabilities for fixed indexed annuity ( FIA ) products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC or Codification ) Topic 815 *Derivatives and Hedging* which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The future changes in the fair value of the liability for these FIA products will be recorded in *Benefit and settlement expenses* with the liability being recorded in *Annuity account balances*. For more information regarding the determination of fair value of annuity account balances please refer to Note 15, *Fair Value of Financial Instruments*. *Premiums and policy fees* for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

The Company currently markets a deferred fixed annuity with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB's ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these FIA products at fair value prior to the merger date. As a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services Insurance* and is recorded in *Annuity account balances* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

The Company markets universal life products with a guaranteed minimum interest rate plus a contingent return based on equity market performance and are considered hybrid financial instruments under the FASB's ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these IUL products at fair value prior to the Merger date. As a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. Changes in the fair value of the embedded derivative are recorded in *Realized investment gains*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

*(losses) Derivative financial instruments.* For more information regarding the determination of fair value of the IUL embedded derivative refer to Note 15, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services Insurance* and is recorded in *Future policy benefits and claims* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

Table of Contents

The Company's accounting policies with respect to variable universal life ( VUL ) and VA are identical except that policy account balances (excluding account balances that earn a fixed rate) are valued at fair value and reported as components of assets and liabilities related to separate accounts.

The Company establishes liabilities for guaranteed minimum death benefits ( GMDB ) on its VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience. Future declines in the equity market would increase the Company's GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB as of March 31, 2015 (Successor Company), are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of March 31, 2015 (Successor Company), the GMDB reserve was \$31.1 million.

**Property and Casualty Insurance Products**

Property and casualty insurance products include service contract business, surety bonds, and guaranteed asset protection ( GAP ). Unearned premium reserves are maintained for the portion of the premiums that is related to the unexpired period of the policy. Benefit reserves are recorded when insured events occur. Benefit reserves include case basis reserves for known but unpaid claims as of the balance sheet date as well as incurred but not reported ( IBNR ) reserves for claims where the insured event has occurred but has not been reported to the Company as of the balance sheet date. The case basis reserves and IBNR are calculated based on historical experience and on assumptions relating to claim severity and frequency, the level of used vehicle prices, and other factors. These assumptions are modified as necessary to reflect anticipated trends.

**Reinsurance**

The Company uses reinsurance extensively in certain of its segments and accounts for reinsurance and the recognition of the impact of reinsurance costs in accordance with the ASC Financial Services Insurance Topic. The following summarizes some of the key aspects of the Company's accounting policies for reinsurance.

**Reinsurance Assets and Liabilities** Claim liabilities and policy benefits are calculated consistently for all policies in accordance with GAAP, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners and recorded as *Reinsurance receivables* on the balance sheet. The reinsurance receivables were recorded in the balance sheet using current accounting policies and the most current assumptions as of the merger date. As of the merger date, the Company also calculated the ceded VOBA associated with the reinsured policies. The reinsurance receivables combined with the associated ceded VOBA represent the fair value of the reinsurance assets. Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed by the Company's actuarial staff to ensure that appropriate amounts are ceded.

The Company analyzes and monitors the credit worthiness of each of its reinsurance partners to minimize collection issues. For newly executed reinsurance contracts with reinsurance companies that do not meet predetermined standards, the Company requires collateral such as assets held in trusts or letters of credit.

**Accounting Pronouncements Recently Adopted**

**Accounting Standards Update ( ASU ) No. 2014-08 Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity.** This Update changes the requirements for reporting discontinued operations and related disclosures. The Update limits the definition of a discontinued operation to disposals that represent strategic shifts that will have a major effect on an entity's operation and financial results. Additionally, the Update requires enhanced disclosures about the components of discontinued operations and the financial effects of the disposal. The amendments in this Update are effective for annual and interim periods beginning

Table of Contents

after December 15, 2014. The Company has reviewed the additional disclosures required by the Update, and will apply the revised guidance to any disposals occurring after the effective date.

**ASU No. 2014-11 Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.** This Update changes the requirements for classification of certain repurchase agreements, and will expand the use of secured borrowing accounting for repurchase-to-maturity transactions. In addition, the Update requires additional disclosures for repurchase agreements accounted for both as sales and as secured borrowings. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2014. The Update did not impact the Company's financial position or results of operations. The Company has updated its policies and processes to ensure compliance with the additional disclosure requirements in this Update.

**ASU No. 2014-17 Business Combinations (Topic 805).** This Update relates to pushdown accounting, which refers to pushing down the acquirer's accounting and reporting basis (which is recognized in conjunction with its accounting for a business combination) to the acquiree's standalone financial statements. The new guidance makes pushdown accounting optional for an acquiree that is a business or nonprofit activity when there is a change-in-control event (e.g., the acquirer in a business combination obtains control over the acquiree). In addition, the staff of the SEC released Staff Accounting Bulletin (SAB) No. 115, which rescinds SAB Topic 5J, *New Basis of Accounting Required in Certain Circumstances* (the SEC staff's pre-existing guidance on pushdown accounting) and conforms SEC guidance on pushdown accounting to the FASB's new guidance. The new pushdown accounting guidance became effective upon its issuance on November 18, 2014. Although now optional, the Company has applied pushdown accounting to its standalone financial statements effective with the Company becoming a wholly owned subsidiary of Dai-ichi Life on February 1, 2015. The presentation within this report for predecessor and successor periods is consistent with this Update.

**Accounting Pronouncements Not Yet Adopted**

**ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606).** This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update is effective for annual and interim periods beginning after December 15, 2017. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

**ASU No. 2014-15 Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.** This Update will require management to assess an entity's ability to continue as a going concern, and will require footnote disclosures in certain circumstances. Under the updated guidance, management should consider relevant conditions and evaluate whether it is probable that the entity will be unable to meet its obligations within one year after the issuance date of the financial statements. The Update is effective for annual periods ending December 31, 2016 and interim periods thereafter, with early adoption is permitted. The amendments in this Update will not impact the Company's financial position or results of operations. However, the new guidance will require a formal assessment of going concern by management based on criteria prescribed in the new guidance. The Company is reviewing its policies and processes to ensure compliance with the new guidance.

**ASU No. 2015-02 Consolidation - Amendments to the Consolidation Analysis.** This Update makes several targeted changes to generally accepted accounting principles, including a) eliminating the presumption that a general partner should consolidate a limited partnership and b) eliminating the consolidation model specific to limited partnerships. The amendments also clarify when fees and related party relationships

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

should be considered in the consolidation of variable interest entities. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2015. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

**ASU No. 2015-03 Interest Imputation of Interest.** The objective of this Update is to eliminate diversity in practice related to the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying



Table of Contents

amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The Update is effective for fiscal years beginning after December 15, 2015, and requires revised presentation of debt issuance costs in all periods presented in the financial statements. The Company is reviewing its processes to ensure compliance with the revised guidance.

**ASU No. 2015-05 Intangibles Goodwill and Other Internal-Use Software** - The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The Update is effect for annual and interim periods beginning after December 15, 2015. The Company is reviewing its policies and processes to ensure compliance with the revised guidance.

**3. DAI-ICHI MERGER**

On February 1, 2015 the Company, subsequent to required approvals from the Company's shareholders and relevant regulatory authorities, became a wholly owned subsidiary of Dai-ichi Life as contemplated by the Agreement and Plan of Merger (the "Merger Agreement") with Dai-ichi Life and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi Life, which provided for the Merger of DL Investment (Delaware), Inc. with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi Life. On February 1, 2015 each share of the Company's common stock outstanding was converted into the right to receive \$70 per share, without interest (the "Per Share Merger Consideration"). The aggregate cash consideration paid in connection with the Merger for the outstanding shares of common stock was approximately \$5.6 billion and paid directly to the shareowners of record by Dai-ichi Life. According to public statements by both companies, the Merger will provide Dai-ichi Life with a platform for growth in the United States, where it did not previously have a significant presence. In connection with the completion of the Merger, the Company's previously publicly traded equity was delisted from the NYSE, although the Company remains an SEC registrant for financial reporting purposes in the United States.

The Merger was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. Goodwill of \$735.7 million represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. None of the goodwill is tax deductible.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table summarizes the consideration paid for the acquisition and the preliminary determination of the fair value of assets acquired and liabilities assumed at the acquisition date:

	Fair Value As of February 1, 2015 (Dollars In Thousands)
<b>Assets</b>	
Fixed maturities	\$ 38,363,025
Equity securities	745,512
Mortgage loans	5,580,229
Investment real estate	7,456
Policy loans	1,751,872
Other long-term investments	686,507
Short-term investments	316,167
Total investments	47,450,768
Cash	462,710
Accrued investment income	484,021
Accounts and premiums receivable	112,182
Reinsurance receivables	5,724,020
Value of business acquired	1,276,886
Goodwill	735,712
Other intangibles	683,000
Property and equipment	104,364
Other assets	120,762
Income tax receivable	15,458
Assets related to separate accounts	
Variable annuity	12,970,587
Variable universal life	819,188
Total assets	\$ 70,959,658
<b>Liabilities</b>	
Future policy and benefit claims	\$ 30,195,841
Unearned premiums	682,183
Total policy liabilities and accruals	30,878,024
Stable value product account balances	1,932,277
Annuity account balances	10,941,661
Other policyholders funds	1,388,083
Other liabilities	2,188,863
Deferred income taxes	1,535,556
Non-recourse funding obligations	621,798
Repurchase program borrowings	50,000
Debt	1,519,211
Subordinated debt securities	560,351
Liabilities related to separate accounts	
Variable annuity	12,970,587
Variable universal life	819,188
Total liabilities	65,405,599
<b>Net assets acquired</b>	<b>\$ 5,554,059</b>

As of the acquisition date, all contractual cash flows related to the Company's historical and acquired receivables (as presented within this consolidated balance sheet) are expected to be collected.



Table of Contents

Intangible assets recognized by the Company included the following (excluding goodwill):

	<b>Estimated Fair Value on Acquisition Date (Dollars In Thousands)</b>	<b>Estimated Useful Life (In Years)</b>
Distribution relationships	\$ 405,000	14-22
Trade names	103,000	13-17
Technology	143,000	7-14
Total intangible assets subject to amortization	651,000	
Insurance licenses	32,000	Indefinite
Total intangible assets	\$ 683,000	

Identified intangible assets were valued using the excess earnings method, relief from royalty method or cost approach, as appropriate.

Amortizable intangible assets will be amortized straight line over their assigned useful lives. The following is a schedule of estimated aggregate amortization expense:

<b>Year</b>	<b>Amount (Dollars In Thousands)</b>
2015	\$ 37,870
2016	41,313
2017	41,313
2018	41,313
2019	41,313

All tangible and intangible assets of the Company were allocated to applicable operating segments in connection with the recording of pushdown accounting. The purchase price was also allocated to each operating segment in accordance with the determined fair value of the operating segments, such that the total reconciled with the total consideration paid in the merger. Subtraction of the fair value of the tangible and intangible assets for each operating segment from the allocated purchase price of that operating segment resulted in the goodwill allocated to each operating segment. The amount of goodwill allocated to each operating segment is reflected in Note 18, *Operating Segments*.

**Treatment of certain acquisition related costs**

The Company recorded costs related to the Merger in either the predecessor or successor periods based on the specific facts and circumstances underlying each individual transaction. Certain of these costs were fully contingent on the consummation of the Merger on February 1, 2015 (Successor Company). These costs are not expensed in either the Predecessor or Successor Company Statement of Comprehensive Income (Loss). Liabilities for payment of these contingent costs are included in the opening balance sheet as of February 1, 2015 (Successor Company), and the nature and amount of the costs are discussed below.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Fees in the amount of \$28.8 million which were paid to the Company's financial advisor related to the Merger were recorded as liabilities as of the acquisition date. In accordance with the terms of the contract, payment of these fees was contingent on the successful closing of the Merger, and became payable on the date thereof.

Certain of the Company's stock-based compensation arrangements provided for acceleration of benefits on the completion of a change-in-control event. Upon the completion of the Merger, benefits in the amount of \$138.2 million became payable to eligible employees under these arrangements. Such accounts are recorded as liabilities as of the acquisition closing date. The portion of this payable that represented expense accelerated on the merger date was \$25.4 million.

Table of Contents

**Treatment of Benefit Plans**

At or immediately prior to the Merger, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a SAR ) that were outstanding and unexercised immediately prior to the Merger and that had a base price per share of Common Stock underlying such SAR (the Base Price ) that was less than the Per Share Merger Consideration (each such SAR, an In-the-Money SAR ), whether or not exercisable or vested, was cancelled and converted into the right to receive an amount in cash less any applicable withholding taxes, determined by multiplying (i) the excess of the Per Share Merger Consideration over the Base Price of such In-the-Money SAR by (ii) the number of shares of Common Stock subject to such In- the-Money SAR (such amount, the SAR Consideration ).

At or immediately prior to the effective time of the Merger, each restricted stock unit with respect to a share of Common Stock granted under any Stock Plan (each, a RSU ) that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of RSUs.

The number of performance shares earned for each award of performance shares granted under any Stock Plan was calculated by determining the number of performance shares that would have been paid if the subject award period had ended on the December 31 immediately preceding the Merger (based on the conditions set for payment of performance share awards for the subject award period), provided that the number of performance shares earned for each award were not less than the aggregate number of performance shares at the target performance level. Each performance share earned that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of Performance Shares.

**4. MONY CLOSED BLOCK OF BUSINESS**

In 1998, MONY converted from a mutual insurance company to a stock corporation ( demutualization ). In connection with its demutualization, an accounting mechanism known as a closed block (the Closed Block ) was established for certain individuals participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the MONY acquisition.

Assets allocated to the Closed Block inure solely to the benefit of each Closed Block s policyholders and will not revert to the benefit of MONY or the Company. No reallocation, transfer, borrowing or lending of assets can be made between the Closed Block and other portions of MONY s general account, any of MONY s separate accounts or any affiliate of MONY without the approval of the Superintendent of The New York State Insurance Department (the Superintendent ). Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held in the general account.

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in accumulated other comprehensive income (loss) ( AOCI )) at the merger date represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed Block remain in force. In connection with the acquisition of MONY, the Company developed an actuarial calculation of the expected timing of MONY s Closed Block s

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

earnings as of October 1, 2013. Pursuant to the acquisition of the Company by Dai-ichi Life, this actuarial calculation of the expected timing of MONY's Closed Block earnings was recalculated and reset as of February 1, 2015, along with the establishment of a policyholder dividend obligation as of such date.

If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company's net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

period, the policyholder dividend obligation would be reduced (but not below zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

Many expenses related to Closed Block operations, including amortization of VOBA, are charged to operations outside of the Closed Block; accordingly, net revenues of the Closed Block do not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

Summarized financial information for the Closed Block as of March 31, 2015 (Successor Company), January 31, 2015 (Predecessor Company), and December 31, 2014 (Predecessor Company) is as follows:

	<b>Successor Company As of March 31, 2015 (Dollars In Thousands)</b>	<b>Predecessor Company As of December 31, 2014 (Dollars In Thousands)</b>
<b>Closed block liabilities</b>		
Future policy benefits, policyholders' account balances and other policyholder liabilities	\$ 6,105,857	\$ 6,138,505
Policyholder dividend obligation	251,458	366,745
Other liabilities	57,266	53,838
<b>Total closed block liabilities</b>	<b>6,414,581</b>	<b>6,559,088</b>
<b>Closed block assets</b>		
Fixed maturities, available-for-sale, at fair value	\$ 4,588,002	\$ 4,524,037
Equity securities, available-for-sale, at fair value		5,387
Mortgage loans on real estate	427,624	448,855
Policy loans	761,749	771,120
Cash and other invested assets	56,536	30,984
Other assets	162,135	221,270
<b>Total closed block assets</b>	<b>5,996,046</b>	<b>6,001,653</b>
Excess of reported closed block liabilities over closed block assets	418,535	557,435
<b>Portion of above representing accumulated other comprehensive income:</b>		
Net unrealized investments gains (losses) net of deferred tax benefit of \$0 (2015 Successor), \$0 (2015 Predecessor), and \$0 (2014 Predecessor) net of policyholder dividend obligation of \$(38,427) (2015 Successor), \$194,686 (2015 Predecessor), and \$106,886 (2014 Predecessor)		
Future earnings to be recognized from closed block assets and closed block liabilities	\$ 418,535	\$ 557,435

Reconciliation of the policyholder dividend obligation is as follows:

<b>Successor Company February 1, 2015 to</b>	<b>January 1, 2015 to</b>	<b>Predecessor Company For The Three Months Ended</b>
--	-------------------------------	---



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	March 31, 2015 (Dollars In Thousands)		January 31, 2015 (Dollars In Thousands)		March 31, 2014
Policyholder dividend obligation, beginning of period	\$ 323,432	\$	366,745	\$	190,494
Applicable to net revenue (losses)	(12,855)		(1,369)		(6,680)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	(59,119)		135,077		70,267
Policyholder dividend obligation, end of period	\$ 251,458	\$	500,453	\$	254,081

Table of Contents

Closed Block revenues and expenses were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Revenues</b>					
Premiums and other income	\$	31,460	\$	15,065	\$ 50,066
Net investment income (loss)		32,848		19,107	52,207
Net investment gains (losses)		634		568	5,019
Total revenues		64,942		34,740	107,292
<b>Benefits and other deductions</b>					
Benefits and settlement expenses		55,771		31,152	96,326
Total benefits and other deductions		55,771		31,152	96,326
<b>Net revenues before income taxes</b>		9,171		3,588	10,966
Income tax expense		3,210		1,256	3,838
<b>Net revenues</b>	\$	5,961	\$	2,332	\$ 7,128

## 5. INVESTMENT OPERATIONS

Net realized gains (losses) for all other investments are summarized as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
Fixed maturities	\$	373	\$	6,891	\$ 7,370
Equity securities					
Impairments on fixed maturity securities				(481)	(1,591)
Impairments on equity securities					
Modco trading portfolio		(33,160)		73,062	66,303
Other investments		(2,269)		1,200	(1,559)
Total realized gains (losses) - investments	\$	(35,056)	\$	80,672	\$ 70,523

For the period of February 1, 2015 to March 31, 2015 (Successor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$1.5 million and gross realized losses were \$1.1 million. For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$6.9 million and gross realized losses were \$0.5 million, including \$0.4 million of impairment losses.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

For the three months ended March 31, 2014 (Predecessor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$7.6 million and gross realized losses were \$1.8 million, including \$1.6 million of impairment losses.

For the period of February 1, 2015 to March 31, 2015 (Successor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$282.9 million. The gain realized on the sale of these securities was \$1.5 million. For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$172.6 million. The gain realized on the sale of these securities was \$6.9 million.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

For the three months ended March 31, 2014 (Predecessor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$264.7 million. The gain realized on the sale of these securities was \$7.6 million.

For the period of February 1, 2015 to March 31, 2015 (Successor Company), the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$20.7 million. The loss realized on the sale of these securities was \$1.1 million. For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$0.4 million. The loss realized on the sale of these securities were immaterial to the Company. The Company made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the three months ended March 31, 2014 (Predecessor Company), the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$2.7 million. The loss realized on the sale of these securities was \$0.3 million. The Company made the decision to exit these holdings in conjunction with our overall asset liability management process.

The amortized cost and fair value of the Company's investments classified as available-for-sale as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), are as follows:

As of March 31, 2015 (Successor Company)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
(Dollars In Thousands)					
<b>Fixed maturities:</b>					
Residential mortgage-backed securities	\$ 1,561,365	\$ 5,648	\$ (5,746)	\$ 1,561,267	\$
Commercial mortgage-backed securities	1,199,039	1,232	(5,431)	1,194,840	
Other asset-backed securities	824,614	1,832	(10,282)	816,164	
U.S. government-related securities	1,649,513	1,499	(13,976)	1,637,036	
Other government-related securities	19,516		(312)	19,204	
States, municipals, and political subdivisions	1,722,255	584	(44,750)	1,678,089	
Corporate securities	28,266,854	104,424	(562,102)	27,809,176	
Preferred stock	64,362	72	(690)	63,744	
	35,307,518	115,291	(643,289)	34,779,520	
Equity securities	735,175	4,483	(2,158)	737,500	
Short-term investments	184,753			184,753	
	\$ 36,227,446	\$ 119,774	\$ (645,447)	\$ 35,701,773	\$

**As of December 31, 2014  
(Predecessor Company)**

<b>Fixed maturities:</b>					
Residential mortgage-backed securities	\$ 1,374,206	\$ 56,330	\$ (12,278)	\$ 1,418,258	\$ 6,404
Commercial mortgage-backed securities	1,119,979	59,637	(2,364)	1,177,252	
Other asset-backed securities	857,441	17,885	(35,950)	839,376	(95)
U.S. government-related securities	1,394,028	44,149	(9,282)	1,428,895	
Other government-related securities	16,939	3,233		20,172	
States, municipals, and political subdivisions	1,391,526	296,594	(431)	1,687,689	
Corporate securities	24,765,303	2,759,255	(139,031)	27,385,527	

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	30,919,422	3,237,083	(199,336)	33,957,169	6,309
Equity securities	757,259	38,669	(14,182)	781,746	
Short-term investments	155,500			155,500	
	\$ 31,832,181	\$ 3,275,752	\$ (213,518)	\$ 34,894,415	\$ 6,309

(1) These amounts are included in the gross unrealized gains and gross unrealized losses columns above.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The preferred stock shown above as of March 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), are as follows:

As of March 31, 2015 Successor Company	Amortized Cost	Gross Unrealized Gains (Dollars In Thousands)	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
<b>Fixed maturities:</b>					
Other	\$ 551,320	\$	\$ (22,492)	\$ 528,828	\$
	\$ 551,320	\$	\$ (22,492)	\$ 528,828	\$
<b>As of December 31, 2014 Predecessor Company</b>					
<b>Fixed maturities:</b>					
Other	\$ 435,000	\$ 50,422	\$	\$ 485,422	\$
	\$ 435,000	\$ 50,422	\$	\$ 485,422	\$

During the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and the period ended March 31, 2014 (Predecessor Company), the Company did not record any other-than-temporary impairments on held-to-maturity securities. The Company's held-to-maturity securities had \$22.5 million of gross unrecognized holding losses as of March 31, 2015 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings, financial health of the issuer, continued access of the issuer to capital markets and other pertinent information.

The Company's held-to-maturity securities had no gross unrecognized holding losses as of December 31, 2014 (Predecessor Company).

As of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had an additional \$2.9 billion and \$2.8 billion of fixed maturities, \$4.0 million and \$21.5 million of equity securities, and \$71.5 million and \$95.1 million of short-term investments classified as trading securities, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of March 31, 2015 (Successor Company), by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

Successor Company			
Available-for-sale	Held-to-maturity		
Amortized	Fair	Amortized	Fair

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	Cost (Dollars In Thousands)		Value (Dollars In Thousands)	
Due in one year or less	\$	891,374	\$	891,238
Due after one year through five years		5,134,060		5,134,012
Due after five years through ten years		8,836,511		8,795,750
Due after ten years		20,445,573		19,958,520
	\$	35,307,518	\$	34,779,520
			\$	551,320
				\$ 528,828
			\$	551,320
				\$ 528,828

During the period of February 1, 2015 to March 31, 2015 (Successor Company), the Company did not record any pre-tax other-than-temporary impairments of investments. There were no other-than-temporary impairments related

Table of Contents

to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the period of February 1, 2015 to March 31, 2015 (Successor Company).

During the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company recorded pre-tax other-than-temporary impairments of investments of \$0.6 million, all of which related to fixed maturities. Credit impairments recorded in earnings during the period were \$0.5 million. During the period of January 1, 2015 to January 31, 2015 (Predecessor Company), \$0.1 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses. There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

During the three months ended March 31, 2014 (Predecessor Company), the Company recorded pre-tax other-than-temporary impairments of investments of \$0.4 million, of which related to fixed maturities. Credit impairments recorded in earnings during the period were \$1.6 million. During the three months ended March 31, 2014 (Predecessor Company), \$1.2 million of non-credit losses previously recorded in other comprehensive income (loss) were recorded in earnings as credit losses. There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the three months ended March 31, 2014 (Predecessor Company).

The following chart is a rollforward of available-for-sale credit losses on fixed maturities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

	<b>Successor Company</b>		<b>Predecessor Company</b>	
	<b>February 1, 2015 to March 31, 2015</b>		<b>January 1, 2015 to January 31, 2015</b>	
	<b>(Dollars In Thousands)</b>		<b>(Dollars In Thousands)</b>	
				<b>For The Three Months Ended March 31, 2014</b>
Beginning balance	\$	\$	15,478	\$ 41,692
Additions for newly impaired securities				
Additions for previously impaired securities			221	474
Reductions for previously impaired securities due to a change in expected cash flows				(21,327)
Reductions for previously impaired securities that were sold in the current period				
Ending balance	\$	\$	15,699	\$ 20,839



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2015 (Successor Company):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 834,640	\$ (5,746)	\$	\$	\$ 834,640	\$ (5,746)
Commercial mortgage-backed securities	941,676	(5,431)			941,676	(5,431)
Other asset-backed securities	724,228	(10,282)			724,228	(10,282)
U.S. government-related securities	1,303,006	(13,976)			1,303,006	(13,976)
Other government-related securities	19,204	(312)			19,204	(312)
States, municipalities, and political subdivisions	1,650,969	(44,750)			1,650,969	(44,750)
Corporate securities	21,229,892	(562,102)			21,229,892	(562,102)
Preferred stock	30,180	(690)			30,180	(690)
Equities	283,487	(2,158)			283,487	(2,158)
	\$ 27,017,282	\$ (645,447)	\$	\$	\$ 27,017,282	\$ (645,447)

The preferred stock shown above as of March 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

The book value of the Company's investment portfolio was marked to fair value as of February 1, 2015 (Successor Company), in conjunction with the Dai-ichi Merger which resulted in the elimination of previously unrealized gains and losses from accumulated other comprehensive income. The level of interest rates as of February 1, 2015 (Successor Company) resulted in an increase in the fair value of the Company's investments. Since February 1, 2015 (Successor Company) interest rates have increased resulting in net unrealized losses in the Company's investment portfolio.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2014 (Predecessor Company):

	Less Than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	Value	Loss	Value	Loss	Value	Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 166,271	\$ (9,562)	\$ 67,280	\$ (2,716)	\$ 233,551	\$ (12,278)
Commercial mortgage-backed securities	49,909	(334)	102,529	(2,030)	152,438	(2,364)
Other asset-backed securities	108,666	(6,473)	537,486	(29,477)	646,152	(35,950)
U.S. government-related securities	231,917	(3,868)	280,803	(5,414)	512,720	(9,282)
Other government-related securities						
States, municipalities, and political subdivisions	1,904	(134)	10,482	(297)	12,386	(431)
Corporate securities	1,659,287	(76,341)	776,864	(62,690)	2,436,151	(139,031)
Equities	17,430	(217)	129,719	(13,965)	147,149	(14,182)
	\$ 2,235,384	\$ (96,929)	\$ 1,905,163	\$ (116,589)	\$ 4,140,547	\$ (213,518)

Table of Contents

RMBS had a gross unrealized loss greater than twelve months of \$2.7 million as of December 31, 2014 (Predecessor Company). Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

CMBS had a gross unrealized loss greater than twelve months of \$2.0 million as of December 31, 2014 (Predecessor Company). Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of \$29.5 million as of December 31, 2014 (Predecessor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ( FFELP ). These unrealized losses have occurred within the Company's auction rate securities ( ARS ) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The U.S. government-related category had gross unrealized losses greater than twelve months of \$5.4 million as of December 31, 2014 (Predecessor Company). These declines were entirely related to changes in interest rates.

The corporate securities category had gross unrealized losses greater than twelve months of \$62.7 million as of December 31, 2014 (Predecessor Company). The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

The equities category had a gross unrealized loss greater than twelve months of \$14.0 million as of December 31, 2014 (Predecessor Company). The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

As of March 31, 2015 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade of \$1.7 billion and had an amortized cost of \$1.7 billion. In addition, included in the Company's trading portfolio, the Company held \$317.3 million of securities which were rated below investment grade. Approximately \$448.8 million of the below investment grade securities were not publicly traded.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The change in unrealized gains (losses), net of income tax, on fixed maturity and equity securities, classified as available-for-sale is summarized as follows:

	<b>Successor Company</b> <b>February 1, 2015</b> <b>to</b> <b>March 31, 2015</b> <b>(Dollars In Thousands)</b>		<b>Predecessor Company</b> <b>January 1, 2015</b> <b>to</b> <b>January 31, 2015</b> <b>(Dollars In Thousands)</b>		<b>For The Three Months Ended</b> <b>March 31, 2014</b>
Fixed maturities	\$ (343,199)	\$	670,229	\$	628,612
Equity securities	1,511		10,226		18,413

Table of Contents

**Variable Interest Entities**

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the Financial Accounting Standards Board ( FASB ) Accounting Standard Codification ( ASC or Codification ) (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity ( VIE ). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC ( Red Mountain ), that was determined to be a VIE as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company). The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company ( Golden Gate V ) and the Company in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued the note to Golden Gate V. Credit enhancement on the Red Mountain Note is provided by an unrelated third party. For details of this transaction, see Note 9, *Debt and Other Obligations*. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company's risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the Company has guaranteed the VIE's payment obligation for the credit enhancement fee to the unrelated third party provider. As of March 31, 2015 (Successor Company), no payments have been made or required related to this guarantee.

**6. MORTGAGE LOANS**

**Mortgage Loans**

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of March 31, 2015 (Successor Company), the Company's mortgage loan holdings were approximately \$5.6 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten and funded by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

The Company's commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

As of February 1, 2015 all mortgage loans were measured at fair value. Each mortgage loan was individually analyzed to determine the fair value. Each loan was either analyzed and assigned a discount rate or given an impairment, based on whether facts and circumstances which, as of the acquisition date, indicated less than full projected collections of contractual principal and interest payments. Various market factors were considered in

Table of Contents

determining the net present value of the expected cash flow stream or underlying real estate collateral, including the characteristics of the borrower, the underlying collateral, underlying credit worthiness of the tenants, and tenant payment history. Known events and risks, such as refinancing risks, were also considered in the fair value determination. In certain cases, fair value was based on the NPV of the expected cash flow stream or the underlying value of the real estate collateral.

Certain of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately \$168.8 million would become due for the remainder of 2015 (Successor Company), \$950.4 million in 2016 through 2020, \$381.2 million in 2021 through 2025, and \$119.6 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), approximately \$536.0 million and \$553.6 million, respectively, of the Company's mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the period of February 1 to March 31, 2015 (Successor Company), January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company), the Company recognized \$1.8 million, \$0.1 million, and \$3.0 million, respectively, of participating mortgage loan income.

As of March 31, 2015 (Successor Company), approximately \$20.5 million, or 0.04%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company entered into certain mortgage loan transactions that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in the Company's investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included either the acceptance of assets in satisfaction of principal during the respective periods or at a future date, and were the result of agreements between the creditor and the debtor. During the period of February 1, 2015 to March 31, 2015 (Successor Company), the Company accepted or agreed to accept assets of \$10.6 million in satisfaction of \$13.2 million of principal and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company accepted or agreed to accept assets of \$11.3 million in satisfaction of \$13.8 million of principal. These transactions resulted in no material realized losses in the Company's investment in mortgage loans net of existing discounts recorded for mortgage loans losses for the period of February 1, 2015 to March 31, 2015 (Successor Company). In the third quarter of 2014, the Company also identified one loan whose principal of \$12.6 million was permanently impaired to a value of \$7.3 million. This transaction resulted in realized losses of \$5.3 million and a decrease in the Company's investment in mortgage loans net of existing allowances for mortgage loan losses.

The Company's mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of March 31, 2015 (Successor Company), \$20.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured. None of the restructured loans were nonperforming during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. The Company did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

As of March 31, 2015 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming. The Company did not foreclose on any nonperforming loans subject to pooling and servicing agreement during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company).



Table of Contents

As of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had an allowance for mortgage loan credit losses of \$1.2 million and \$5.7 million, respectively. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

A charge off is recorded by eliminating the allowance against the mortgage loan and recording the renegotiated loan or the collateral property related to the loan as investment real estate on the balance sheet, which is carried at the lower of the appraised fair value of the property or the unpaid principal balance of the loan, less estimated selling costs associated with the property:

	Successor Company		Predecessor Company	
	February 1, 2015 to March 31, 2015		January 1, 2015 to January 31, 2015	
	(Dollars In Thousands)		(Dollars In Thousands)	
				As of December 31, 2014
Beginning balance	\$		\$ 5,720	\$ 3,130
Charge offs			(861)	(675)
Recoveries			(2,359)	(2,600)
Provision		1,171		5,865
Ending balance	\$	1,171	\$ 2,500	\$ 5,720

Table of Contents

It is the Company's policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company's general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart :

As of March 31, 2015 Successor Company	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	\$ 8,321	\$ 4,913	\$ 1,973	\$ 15,207
Number of delinquent commercial mortgage loans	6	2	1	9
<b>As of December 31, 2014 Predecessor Company</b>				
Commercial mortgage loans	\$ 8,972	\$ 1,484	\$ 1,484	\$ 10,456
Number of delinquent commercial mortgage loans	4		1	5

The Company's commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart:

As of March 31, 2015 Successor Company	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
<b>Commercial mortgage loans:</b>						
With no related allowance recorded	\$ 10,147	\$ 12,847	\$	\$ 2,537	\$ 102	\$ 122
With an allowance recorded	3,078	4,198	1,171	1,539		
<b>As of December 31, 2014 Predecessor Company</b>						
<b>Commercial mortgage loans:</b>						
With no related allowance recorded	\$	\$	\$	\$	\$	\$
With an allowance recorded	19,632	20,603	5,720	3,272	1,224	1,280

Table of Contents

Mortgage loans that were modified in a troubled debt restructuring were as follows:

As of December 31, 2014 Predecessor Company	Number of Contracts	Pre-Modification Outstanding Recorded Investment	(Dollars In Thousands)		Post-Modification Outstanding Recorded Investment
Troubled debt restructuring:					
Commercial mortgage loans	6	\$	28,648	\$	19,593

**7. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED**

**Deferred policy acquisition costs**

The balances and changes in DAC are as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		As of December 31, 2014	
Balance, beginning of period	\$		\$	2,647,980	\$	2,721,687
Capitalization of commissions, sales, and issue expenses		49,191		22,513		288,592
Amortization		(1,789)		1,117		(195,605)
Change in unrealized investment gains and losses				(96,830)		(166,694)
Balance, end of period	\$	47,402	\$	2,574,780	\$	2,647,980

**Value of business acquired**

The balances and changes in VOBA are as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		As of December 31, 2014	
Balance, beginning of period		1,276,886		646,590		848,528

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Amortization		(26,108)		(5,189)		(61,704)
Change in unrealized gains and losses		16,467		(79,418)		(140,234)
Balance, end of period	\$	1,267,245	\$	561,983	\$	646,590

As of February 1, 2015, the existing DAC and VOBA balance was written off in conjunction with the merger previously disclosed in Note 5, *Dai-ichi Merger* and in accordance with ASC Topic 805 Business Combinations.

Concurrently, a VOBA asset was created representing the actuarial estimated present value of future cash flows from the Company's insurance policies and investment contracts in-force on the date of the Merger.

Table of Contents

The expected amortization of VOBA for the next five years is as follows:

Years	Expected Amortization (Dollars In Thousands)	
2015	\$	111,617
2016		141,346
2017		131,356
2018		116,146
2019		97,272

## 8. GOODWILL

During the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company decreased its goodwill balance by approximately \$0.3 million. The decrease for the period of the Predecessor Company was due to an adjustment in the Acquisitions segment related to tax benefits realized during the period on the portion of tax goodwill in excess of GAAP basis goodwill. The goodwill balances associated with the Predecessor Company were replaced with newly established goodwill balances in conjunction with the Dai-ichi Merger, in accordance with ASC Topic 850, as described below.

As permitted by ASC Topic 805, *Business Combinations*, the Company measured its assets and liabilities at fair value on the date of the merger, February 1, 2015. The purchase price in excess of the fair value of assets and liabilities of the Company resulted in the establishment of goodwill as of the date of the merger. As of February 1, 2015 (Successor Company), the Company established an aggregate goodwill balance of \$735.7 million. Refer to Note 3, *Dai-ichi Merger*, for more information related to the Successor Company goodwill. There has been no change in the goodwill during the period of February 1, 2015 to March 31, 2015 (Successor Company).

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the measurement date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company's judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows.

## 9. DEBT AND OTHER OBLIGATIONS

**Debt and Subordinated Debt Securities**

In conjunction with the Merger and in accordance with ASC Topic 805, the Company adjusted the carrying value of debt to fair value as of the date of the Merger, February 1, 2015. This resulted in the Company establishing premiums and discounts on its outstanding debt, subordinated debentures and non-recourse funding obligations. The

Table of Contents

carrying value of the Company's revolving line of credit approximates fair value due the nature of the borrowings and the fact the Company pays a variable rate of interest that reflects current market conditions. The fair value of the Company's senior notes, subordinated debt, non-recourse funding obligations associated with Golden Gate II Captive Insurance Company and MONY Life Insurance Company, were determined using market prices as of February 1, 2015. The fair value of the Golden Gate V non-recourse funding obligation was determined using a discounted cash flow model with inputs derived from comparable financial instruments. The premiums and discounts established as of February 1, 2015 are amortized over the expected life of the instruments using the effective interest method. The amortization of premiums and discounts are recorded as a component of interest expense and are recorded in "Other operating expenses" on the Company's Consolidated Condensed Statements of Income.

Debt and subordinated debt securities are summarized as follows:

	<b>Successor Company As of March 31, 2015 (Dollars In Thousands)</b>	<b>Predecessor Company As of December 31, 2014 (Dollars In Thousands)</b>
<b>Debt (year of issue):</b>		
Revolving Line Of Credit	\$ 545,000	\$ 450,000
6.40% Senior Notes (2007), due 2018	167,090	150,000
7.375% Senior Notes (2009), due 2019	486,671	400,000
8.45% Senior Notes (2009), due 2039	470,876	300,000
	\$ 1,669,637	\$ 1,300,000
<b>Subordinated debt securities (year of issue):</b>		
6.125% Subordinated Debentures (2004), due 2034, callable 2009	\$	\$ 103,093
6.25% Subordinated Debentures (2012), due 2042, callable 2017	300,050	287,500
6.00% Subordinated Debentures (2012), due 2042, callable 2017	154,175	150,000
	\$ 454,225	\$ 540,593

During the period of February 1, 2015 to March 31, 2015 (Successor Company), the Company called and redeemed the entire \$103.1 million of outstanding principal amount of the Company's 6.125% Subordinated Debentures due 2034.

Under a revolving line of credit arrangement that was in effect until February 2, 2015 (the "Credit Facility"), the Company had the ability to borrow on an unsecured basis up to an aggregate principal amount of \$750 million. The Company had the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.0 billion. Balances outstanding under the Credit Facility accrued interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's senior unsecured long-term debt ("Senior Debt"), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The Credit Facility also provided for a facility fee at a rate, 0.175%, that could vary with the ratings of the Company's Senior Debt and that was calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The Credit Facility provided that the Company was liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date of the Credit Facility was July 17, 2017. The Company was not aware of any non-compliance with the financial debt covenants of the Credit Facility as of December 31, 2014 (Predecessor Company). There was an outstanding balance of \$450.0 million bearing interest at a rate of LIBOR plus 1.20% under the Credit Facility as of December 31, 2014 (Predecessor Company). As of December 31, 2014 (Predecessor Company), PLICO had used \$55.0 million of borrowing capacity by executing a Letter of Credit under the Credit Facility for the benefit of an affiliated captive reinsurance subsidiary of the Company. This Letter of Credit had not been drawn upon as of December 31, 2014 (Predecessor Company).

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

On February 2, 2015, the Company amended and restated the Credit Facility (the 2015 Credit Facility ). Under the 2015 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. The Company has the right in certain circumstances to request that the commitment under the 2015 Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding



Table of Contents

under the 2015 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The 2015 Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the 2015 Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon our subsequent ratings upgrade on February 2, 2015. The 2015 Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the 2015 Credit Facility. The maturity date of the 2015 Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of February 2, 2015 or the 2015 Credit Facility as of March 31, 2015 (Successor Company). There was an outstanding balance of \$545.0 million bearing interest at a rate of LIBOR plus 1.00% as March 31, 2015 (Successor Company). As of March 31, 2015 (Successor Company), PLICO had used \$55.0 million of borrowing capacity by executing a Letter of Credit under the Credit Facility for the benefit of an affiliated captive reinsurance subsidiary of the Company. This Letter of Credit had not been drawn upon as of March 31, 2015 (Successor Company).

**Non-Recourse Funding Obligations**

*Golden Gate Captive Insurance Company*

Golden Gate Captive Insurance Company (Golden Gate), a South Carolina special purpose financial captive insurance company and wholly owned subsidiary of PLICO, had three series of non-recourse funding obligation with a total outstanding balance of \$800 million as of March 31, 2015 (Successor Company). The Company holds the entire outstanding balance of non-recourse funding obligation. The Series A1 non-recourse funding obligations have a balance of \$400 million and accrue interest at 7.375%, the Series A2 non-recourse funding obligations have a balance of \$100 million and accrue interest at 8.00%, and the Series A3 non-recourse funding obligations have a balance of \$300 million and accrue interest at 8.45%.

*Golden Gate II Captive Insurance Company*

Golden Gate II Captive Insurance Company (Golden Gate II), a South Carolina special purpose financial captive insurance company wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of March 31, 2015 (Successor Company). These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of March 31, 2015 (Successor Company), securities related to \$144.9 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to \$430.1 million of the non-recourse funding obligations were held by the Company and its affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. As of March 31, 2015 (Successor Company), no payments have been made under these agreements, however, certain support agreement obligations to Golden Gate II of approximately \$1.9 million have been collateralized by the Company. Re-evaluation and, if necessary, adjustments of any support agreement collateralization amounts occur annually during the first quarter pursuant to the terms of the support agreements.

*Golden Gate V Vermont Captive Insurance Company*

On October 10, 2012, Golden Gate V, a Vermont special purpose financial insurance company, and Red Mountain, both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to \$945 million of XXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company ( WCL ). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL,

Table of Contents

pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America (Hannover Re), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is non-recourse to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of March 31, 2015 (Successor Company), the principal balance of the Red Mountain note was \$455 million. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$139.6 million and will be paid in annual installments through 2031. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of March 31, 2015 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a \$455 million outstanding non-recourse funding obligation as of March 31, 2015 (Successor Company). This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of March 31, 2015 (Successor Company), on a consolidated basis, are shown in the following table:

Issuer	Carrying Value (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	\$ 118,171	2052	2.75%
Golden Gate V Vermont Captive Insurance Company(1)	520,864	2037	5.12%
MONY Life Insurance Company(1)	2,565	2024	6.19%
Total	\$ 641,600		

(1) Fixed rate obligations

During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not repurchase any of its outstanding non-recourse funding obligations. For the three months ended March 31, 2014 (Predecessor Company), the Company did not repurchase any of its outstanding non-recourse funding obligations.

**Letters of Credit**

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Golden Gate III Vermont Captive Insurance Company ( Golden Gate III ), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the Reimbursement Agreement ) with UBS AG, Stamford Branch ( UBS ), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the LOC ) in the initial amount of \$505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the First Amended and Restated Reimbursement Agreement ), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to April 1, 2022. On August 7, 2013, Golden Gate III entered into a Second Amended and Restated Reimbursement Agreement with UBS (the Second Amended and Restated Reimbursement Agreement ), which amended and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of \$710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from

Table of Contents

\$610 million to \$720 million in 2015 if certain conditions had been met. On June 25, 2014, Golden Gate III entered into a Third Amended and Restated Reimbursement Agreement with UBS (the Third Amended and Restated Reimbursement Agreement), which amended and restated the Second Amended and Restated Reimbursement Agreement. Under the Third Amended and Restated Reimbursement Agreement, a new LOC in an initial amount of \$915 million was issued by UBS in replacement of the existing LOC issued under the Second Amended and Restated Reimbursement Agreement. The term of the LOC was extended from October 1, 2023 to April 1, 2025, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from \$720 million to \$935 million in 2015 if certain conditions are met. The LOC is held in trust for the benefit of WCL, and supports certain obligations of Golden Gate III to WCL under an indemnity reinsurance agreement originally effective April 1, 2010, as amended and restated on November 21, 2011, and as further amended and restated on August 7, 2013 and on June 25, 2014 to include additional blocks of policies, and pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. The LOC balance was \$935 million as of March 31, 2015 (Successor Company). The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately \$122.5 million and will be paid in three installments with the last payment occurring in 2021, and these contributions may be subject to potential offset against dividend payments as permitted under the terms of the Third Amended and Restated Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Third Amended and Restated Reimbursement Agreement. As of March 31, 2015 (Successor Company), no payments have been made under these agreements.

Golden Gate IV Vermont Captive Insurance Company (Golden Gate IV), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. The LOC balance increased, in accordance with the terms of the Reimbursement Agreement, during each quarter of 2014 and was \$760 million as of March 31, 2015 (Successor Company). Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$790 million in 2016. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of March 31, 2015 (Successor Company), no payments have been made under these agreements.

**Repurchase Program Borrowings**

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its



Table of Contents

borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of March 31, 2015 (Successor Company), the fair value of securities pledged under the repurchase program was \$560.2 million and the repurchase obligation of \$510.1 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 15 basis points). During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the maximum balance outstanding at any one point in time related to these programs was \$607.6 million and \$175.0 million, respectively. The average daily balance was \$381.3 million and \$77.4 million (at an average borrowing rate of 15 and 16 basis points, respectively) during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. As of December 31, 2014 (Predecessor Company), the Company had a \$50.0 million outstanding balance related to such borrowings. During 2014, the maximum balance outstanding at any one point in time related to these programs was \$633.7 million. The average daily balance was \$470.4 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2014 (Predecessor Company).

The following table provides the amount of collateral pledged for repurchase agreements, grouped by asset class, as of March 31, 2015 (Successor Company):

### Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions

#### Accounted for as Secured Borrowings

	Remaining Contractual Maturity of the Agreements As of March 31, 2015 (Successor Company) (Dollars In Thousands)				Total
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	
<b>Repurchase agreements and repurchase-to-maturity transactions</b>					
U.S. Treasury and agency securities	\$ 53,601	\$ 10,295	\$	\$	\$ 63,896
State and municipal securities					
Other asset-backed securities					
Corporate securities					
Equity securities					
Non-U.S. sovereign debt					
Loans	496,337				496,337
Other asset-backed securities					
<b>Total borrowings</b>	\$ 549,938	\$ 10,295	\$	\$	\$ 560,233

## 10. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors other than those that are employees of Dai-ichi Life that provide, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law. The Company has agreements with certain of its officers providing up to \$10 million in indemnification. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company's governance documents.

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. In addition, from time to time, companies may be asked to contribute amounts beyond prescribed limits. Most insurance guaranty fund laws provide that an assessment may be excused or deferred if it would threaten an insurer's own financial strength. The Company does not believe its insurance guaranty fund assessments will be materially different from amounts already provided for in the financial statements.



Table of Contents

A number of civil jury verdicts have been returned against insurers, broker dealers and other providers of financial services involving sales, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. Publicly held companies in general and the financial services and insurance industries in particular are also sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some companies have been the subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly and annual basis and updates its established liabilities, disclosures and estimates of reasonably possible losses or range of loss based on such reviews.

After the entry into the Merger Agreement on June 3, 2014, four lawsuits were filed against the Company, our then current directors, Dai-ichi Life and DL Investment (Delaware), Inc. on behalf of alleged Company shareowners. On June 11, 2014, a putative class action lawsuit styled *Edelman, et al. v. Protective Life Corporation, et al.*, Civil Action No. 01-CV- 2014-902474.00, was filed in the Circuit Court of Jefferson County, Alabama. On July 30, 2014, the plaintiff in *Edelman* filed an amended complaint. Three putative class action lawsuits were filed in the Court of Chancery of the State of Delaware, *Martin, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9794-CB, filed June 19, 2014, *Leyendecker, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9931-CB, filed July 22, 2014 and *Hilburn, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9937-CB, filed July 23, 2014. The Delaware Court of Chancery consolidated the *Martin*, *Leyendecker*, and *Hilburn* actions under the caption *In re Protective Life Corp. Stockholders Litigation*, Consolidated Civil Action No. 9794-CB, designated the *Hilburn* complaint as the operative consolidated complaint (the Delaware Action ) and appointed Charlotte Martin, Samuel J. Leyendecker, Jr., and Deborah J. Hilburn to serve as co-lead plaintiffs. These lawsuits allege that our Board of Directors breached its fiduciary duties to the Company's shareowners, that the Merger involves an unfair price, an inadequate sales process, and unreasonable deal protection devices that purportedly preclude competing offers, and that the preliminary proxy statement filed with the SEC on July 10, 2014 failed to disclose purportedly material information. The complaints also alleged that the Company, Dai-ichi Life and DL Investment (Delaware), Inc. aided and abetted those alleged breaches of fiduciary duties. The complaints seek injunctive relief, including enjoining or rescinding the Merger, and attorneys' and other fees and costs, in addition to other relief. The Delaware Action also seeks an award of unspecified damages.

With respect to the *Edelman* lawsuit, on September 5, 2014, the court held a hearing to address motions to dismiss the lawsuit filed on behalf of the Company, the members of the Company's Board, and DL Investment (Delaware), Inc. On September 19, 2014, the court granted those motions and dismissed the *Edelman* lawsuit in its entirety and with prejudice, pending a possible appeal by the plaintiff. With respect to the Delaware Action, on September 24, 2014, the Company, each of the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. entered into a Memorandum of Understanding (the MOU ) with the plaintiffs in that case, which sets forth the parties' agreement in principle for a settlement of the Delaware Action. As set forth in the MOU, the Company, the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. agreed to the settlement solely to eliminate the burden, expense, distraction, and uncertainties inherent in further litigation, and without admitting any liability or wrongdoing. The MOU contemplates that the parties will seek to enter into a stipulation of settlement providing for the certification of a mandatory non opt-out class, for settlement purposes only, to include any and all record and beneficial owners of shares (excluding the members of the Company's Board and their immediate family members, any entity in which any member of the Company's Board has a controlling interest, and any successors in interest thereto) that held shares at any time during the period beginning on June 3, 2014, through the date of consummation or termination of the Merger, including any and all of their respective successors in interest,



Table of Contents

successors, predecessors in interest, representatives, trustees, executors, administrators, heirs, assigns, or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, together with their predecessors, successors and assigns, and a global release of claims relating to the Merger as set forth in the MOU. As part of the settlement, the Company agreed to make certain additional disclosures related to the Merger which are set forth in the Company's Form 8-K filed on September 25, 2014 and which supplement the information contained in the Company's definitive proxy statement filed with the SEC on August 25, 2014, as amended on August 27, 2014. Nothing in the Form 8-K or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality of any of the disclosures set forth in the Form 8-K. The claims in the Delaware Action will not be released until the stipulation of settlement is approved by the Court of Chancery of the State of Delaware. The proposed settlement would have no effect on the consideration received by Company shareowners in connection with the completion of the Merger. There can be no assurance, however, that the court will approve the proposed settlement, nor can there be any assurance as to the size of any award of attorneys' fees and expenses to the plaintiffs' counsel. The Company cannot provide assurances as to the ultimate settlement of the Delaware Action or with respect to any lawsuits regarding the Merger that may be filed in the future.

Although the Company cannot predict the outcome of any litigation or regulatory action or provide assurances as to the ultimate settlement of the Delaware Action, the Company does not believe that any such outcome will have an impact, either individually or in the aggregate, on its financial condition or results of operations that differs materially from the Company's established liabilities. Given the inherent difficulty in predicting the outcome of such matters, however, it is possible that an adverse outcome in certain such matters could be material to the Company's financial condition or results of operations for any particular reporting period.

The Company was audited by the IRS and the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable income. The Company protested certain unfavorable adjustments and sought resolution at the IRS Appeals Division. The case has followed normal procedure and is now under review at Congress Joint Committee on Taxation. The Company believes the matter will conclude within the next twelve months. If the IRS prevails on every issue that it identified in this audit, and the Company does not litigate these issues, then the Company will make an income tax payment of approximately \$26.6 million. However, this payment, if it were to occur, would not materially impact the Company or its effective tax rate.

Through the acquisition of MONY by PLICO certain income tax credit carryforwards, which arose in MONY's pre-acquisition tax years, transferred to the Company. This transfer was in accordance with the applicable rules of the Internal Revenue Code and the related Regulations. In spite of this transfer, AXA, the former parent of the consolidated income tax return group in which MONY was a member, retains the right to utilize these credits in the future to offset future increases in its 2010 through 2013 tax liabilities. The Company had determined that, based on all information known as of the acquisition date and through the March 31, 2014 reporting date, it was probable that a loss of the utilization of these carryforwards had been incurred. Due to indemnification received from AXA during the quarter ending June 30, 2014, the probability of loss of these carryforwards has been eliminated. Accordingly, in the table summarizing the fair value of net assets acquired from the Acquisition, the amount of the deferred tax asset from the credit carryforwards is no longer offset by a liability.

Certain of the Company's insurance subsidiaries, as well as certain other insurance companies for which the Company has coinsured blocks of life insurance and annuity policies, are under audit for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments or unclaimed property administrators in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company is presently unable to estimate the reasonably possible loss or range of loss that may result from the audits due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, the early stages of the audits being conducted, and, with respect to one block of life insurance policies that is co-insured by a subsidiary of the Company, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with the audits probable or reasonably estimable.

Certain of the Company's subsidiaries are under a targeted multi-state examination with respect to their claims paying practices and their use of the U.S. Social Security Administration's Death Master File or similar databases (a

Table of Contents

Death Database ) to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed, and substantial legal authority exists to support the position that the prevailing industry practice was lawful. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest as well as penalties to the state if the beneficiary could not be found. It has been publicly reported that the life insurers have paid administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes it is reasonably possible that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company estimates the range of such fees to be from \$0 to \$3.5 million.

**11. EMPLOYEE BENEFIT PLANS**

Due to the Dai-ichi Life transaction, the Company re-measured all materially impacted benefit plans as of January 31, 2015 (Predecessor Company). Financial re-measurement was performed for the defined benefit pension plan, the unfunded excess benefit plan, and the postretirement life insurance plan as of January 31, 2015 (Predecessor Company). The January results for the retiree life plan were not material, and therefore, re-measurement was not deemed necessary for this plan. The Company has disclosed relevant financial information related to the January 31, 2015 (Predecessor Company) re-measurement, as follows.

Table of Contents

The following table presents the benefit obligation, fair value of plan assets, and the funded status of the Company's defined benefit pension plan and unfunded excess benefit plan of January 31, 2015 (Predecessor Company) and December 31, 2014 (Predecessor Company). This table also includes the amounts not yet recognized as components of net periodic pension costs as of January 31, 2015 (Predecessor Company) and December 31, 2014 (Predecessor Company).

	Defined Benefit Pension Plan		Predecessor Company		Unfunded Excess Benefits Plan	
	2015	2014	2015	2014	2015	2014
	(Dollars In Thousands)					
<b>Accumulated benefit obligation, end of period</b>	\$ 262,290	\$ 249,453	\$ 49,251	\$ 47,368		
<b>Change in projected benefit obligation:</b>						
Projected benefit obligation at beginning of period	\$ 267,331	\$ 219,152	\$ 49,575	\$ 39,679		
Service cost	974	9,411	95	954		
Interest cost	1,002	10,493	140	1,696		
Amendments						
Actuarial (gain) or loss	12,384	38,110	1,555	9,153		
Benefits paid	(592)	(9,835)	(122)	(1,907)		
Projected benefit obligation at end of period	281,099	267,331	51,243	49,575		
<b>Change in plan assets:</b>						
Fair value of plan assets at beginning of period	203,772	180,173				
Actual return on plan assets	(3,525)	17,921				
Employer contributions(1)	2,165	15,513	122	1,907		
Benefits paid	(592)	(9,835)	(122)	(1,907)		
Fair value of plan assets at end of period	201,820	203,772				
<b>After reflecting FASB guidance</b>						
Funded status	(79,279)	(63,559)	(51,243)	(49,575)		
<b>Amounts recognized in the balance sheet:</b>						
Other liabilities	(79,279)	(63,559)	(51,243)	(49,575)		
<b>Amounts recognized in accumulated other comprehensive income:</b>						
Net actuarial loss	96,965	80,430	22,401	20,983		
Prior service cost/(credit)	(1,001)	(1,033)	23	24		
Net transition asset	\$ 95,964	\$ 79,397	\$ 22,424	\$ 21,007		

(1) Employer contributions disclosed are based on the Company's fiscal filing year.

As of January 31, 2015 (Predecessor Company) and December 31, 2014 (Predecessor Company), the projected benefit obligation associated with the postretirement life insurance plan was \$9.8 million and \$9.3 million, respectively.

As a result of the Merger on February 1, 2015, all unrecognized prior service costs or credits, actuarial gains or losses, and any remaining transition assets or obligations were not carried forward on the acquisition date. Therefore, the amounts presented in the Amounts recognized in accumulated other comprehensive income in the chart above were set to zero on the merger date.



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The benefit obligations as of January 31, 2015 (Predecessor Company) were determined based on the assumptions used in the 2014 year-end disclosures with the follow exception:

	Defined Benefit Pension Plan	Unfunded Excess Benefit Plan	Postretirement Life Insurance Plan
Discount rate	3.55%	3.26%	3.79%

Components of the net periodic benefit cost for the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company) are as follows:

	Successor Company February 1, 2015 to March 31, 2015		Predecessor Company January 1, 2015 to January 31, 2015		Predecessor Company For The Three Months Ended March 31, 2014	
	Defined Benefit Pension Plan (Dollars In Thousands)	Unfunded Excess Benefit Plan	Defined Benefit Pension Plan	Unfunded Excess Benefit Plan (Dollars In Thousands)	Defined Benefit Pension Plan	Unfunded Excess Benefit Plan
Service cost benefits earned during the period	\$ 2,577	\$ 252	\$ 974	\$ 95	\$ 2,227	\$ 226
Interest cost on projected benefit obligation	2,652	371	1,002	140	2,587	406
Expected return on plan assets	(3,423)		(1,293)		(3,065)	
Amortization of prior service cost	(98)	3	(33)	1	(98)	3
Amortization of actuarial losses	1,781	364	668	138	1,576	321
Total net periodic benefit cost	\$ 3,489	\$ 990	\$ 1,318	\$ 374	\$ 3,227	\$ 956

During the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company contributed \$2.2 million to its defined benefit pension plan which was applied for the 2014 plan year. The Company did not contribute to the defined benefit pension plan during the period of February 1, 2015 to March 31, 2015 (Successor Company). The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage ( AFTAP ) of at least 80% and to avoid certain Pension Benefit Guaranty Corporation ( PBGC ) reporting triggers.



Table of Contents**12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following tables summarize the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) ( AOCI ) as of March 31, 2015 (Successor Company), January 31, 2015 (Predecessor Company), and December 31, 2014 (Predecessor Company).

**Changes in Accumulated Other Comprehensive Income (Loss) by Component**

Successor Company	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Thousands, Net of Tax)			
<b>Beginning Balance, February 1, 2015</b>	\$	\$	\$
Other comprehensive income (loss) before reclassifications	(292,233)	(23)	(292,256)
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings			
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(242)	59	(183)
<b>Net current-period other comprehensive income (loss)</b>	(292,475)	36	(292,439)
<b>Ending Balance, March 31, 2015</b>	\$ (292,475)	\$ 36	\$ (292,439)

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by \$10.7 million as of March 31, 2015 (Successor Company).

**Changes in Accumulated Other Comprehensive Income (Loss) by Component**

Predecessor Company	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Thousands, Net of Tax)				
<b>Beginning Balance, December 31, 2014</b>	\$ 1,484,169	\$ (82)	\$ (66,011)	\$ 1,418,076
Other comprehensive income (loss) before reclassifications	482,370	9	(12,527)	469,852
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	(243)			(243)

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Amounts reclassified from accumulated other comprehensive income (loss)(1)	(4,166)	23	502	(3,641)
<b>Net current-period other comprehensive income (loss)</b>	477,961	32	(12,025)	465,968
<b>Ending Balance, January 31, 2015</b>	\$ 1,962,130	\$ (50)	\$ (78,036)	\$ 1,884,044

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by \$(512.1) million and \$(397.5) million as of January 31, 2015 and December 31, 2014, respectively.

Table of Contents**Changes in Accumulated Other Comprehensive Income (Loss) by Component**

Predecessor Company	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives (Dollars In Thousands, Net of Tax)	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
<b>Beginning Balance, December 31, 2013</b>	\$ 539,003	\$ (1,235)	\$ (43,702)	\$ 494,066
Other comprehensive income (loss) before reclassifications	986,958	(2)	(27,395)	959,561
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	3,498			3,498
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(45,290)	1,155	5,086	(39,049)
<b>Net current-period other comprehensive income (loss)</b>	945,166	1,153	(22,309)	924,010
<b>Ending Balance, December 31, 2014</b>	\$ 1,484,169	\$ (82)	\$ (66,011)	\$ 1,418,076

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by \$(198.1) million and \$(397.5) million as of December 31, 2013 and 2014, respectively.

The following tables summarize the reclassifications amounts out of AOCI for the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company).

**Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

Successor Company February 1, 2015 to March 31, 2015	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
<b>Gains and losses on derivative instruments</b>		
Net settlement (expense)/benefit(1)	\$ (90)	Benefits and settlement expenses, net of reinsurance ceded
	(90)	Total before tax
	31	Tax benefit
	\$ (59)	Net of tax

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

<b>Unrealized gains and losses on available-for-sale securities</b>			
Net investment gains/losses	\$	373	Realized investment gains (losses): All other investments
Impairments recognized in earnings			Net impairment losses recognized in earnings
		373	Total before tax
		(131)	Tax expense
	\$	242	Net of tax

(1) See Note 16, Derivative Financial Instruments for additional information.

Table of Contents**Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

Predecessor Company January 1, 2015 to January 31, 2015	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
<b>Gains and losses on derivative instruments</b>		
Net settlement (expense)/benefit(1)	\$ (36)	Benefits and settlement expenses, net of reinsurance ceded
	(36)	Total before tax
	13	Tax benefit
	\$ (23)	Net of tax
<b>Unrealized gains and losses on available-for-sale securities</b>		
Net investment gains/losses	\$ 6,891	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(481)	Net impairment losses recognized in earnings
	6,410	Total before tax
	(2,244)	Tax expense
	\$ 4,166	Net of tax
<b>Postretirement benefits liability adjustment</b>		
Amortization of net actuarial gain/(loss)	\$ (808)	Other operating expenses
Amortization of prior service credit/(cost)	31	Other operating expenses
Amortization of transition asset/(obligation)	5	Other operating expenses
	(772)	Total before tax
	270	Tax (expense) or benefit
	\$ (502)	Net of tax

(1) See Note 16, Derivative Financial Instruments for additional information.

Table of Contents**Reclassifications Out of Accumulated Other Comprehensive Income (Loss)**

Predecessor Company For The Three Months Ended March 31, 2014	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
<b>Gains and losses on derivative instruments</b>		
Net settlement (expense)/benefit(1)	\$ (670)	Benefits and settlement expenses, net of reinsurance ceded
	(670)	Total before tax
	234	Tax benefit
	\$ (436)	Net of tax
<b>Unrealized gains and losses on available-for-sale securities</b>		
Net investment gains/losses	\$ 7,370	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(1,591)	Net impairment losses recognized in earnings
	5,779	Total before tax
	(2,023)	Tax expense
	\$ 3,756	Net of tax

---

(1) See Note 16, Derivative Financial Instruments for additional information.

Table of Contents**13. EARNINGS PER SHARE**

As of February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life, and for the period of February 1, 2015 to March 31, 2015 (Successor Company), there was no market for the Company's common stock and therefore the Company will no longer disclose earnings per share information.

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including shares issuable under various deferred compensation plans. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares outstanding during the period, assuming the shares were not anti-dilutive, including shares issuable under various stock-based compensation plans and stock purchase contracts.

A reconciliation of the numerators and denominators of the basic and diluted earnings per share is presented below for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and for the three months ended March 31, 2014 (Predecessor Company):

	<b>Predecessor Company</b>	
	<b>January 1, 2015 to January 31, 2015</b>	<b>For The Three Months Ended March 31, 2014</b>
	<b>(Dollars In Thousands, Except Per Share Amounts)</b>	
<b>Calculation of basic earnings per share:</b>		
Net income	\$ 1,509	\$ 83,639
Average shares issued and outstanding	79,343,253	78,627,003
Issuable under various deferred compensation plans	1,109,595	981,458
Weighted shares outstanding - basic	80,452,848	79,608,461
Per share:		
Net income - basic	\$ 0.02	\$ 1.05
<b>Calculation of diluted earnings per share:</b>		
Net income	\$ 1,509	\$ 83,639
Weighted shares outstanding - basic	80,452,848	79,608,461
Stock appreciation rights ( SARs )	64,570	466,251
Issuable under various other stock-based compensation plans	935,382	565,664
Restricted stock units	306,487	231,776
Weighted shares outstanding - diluted	81,759,287	80,872,152
Per share:		
Net income - diluted	\$ 0.02	\$ 1.03

**14. INCOME TAXES**

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

In the IRS audit that concluded in 2012, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. If the IRS prevails at Appeals, and the Company does not litigate these issues, an acceleration of tax payments will occur. However, such payments, if they were to occur, would not materially impact the Company or its effective tax rate.



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

In conjunction with the Merger and as a result of the adjustments to the Company's assets and liabilities which were discussed in Note 2, *Summary of Significant Accounting Policies*, the Company's deferred tax assets and liabilities were remeasured as of the date of the Merger.

The components of the Company's net deferred income tax liability are as follows:

	Successor Company As of March 31, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
<b>Deferred income tax assets:</b>		
Loss and credit carryforwards	\$ 62,047	\$ 516
Premium receivables and policy liabilities		95,298
Deferred compensation	223,593	194,223
Invested assets (other than unrealized gains)		63,901
Deferred policy acquisition costs	459,122	
Premium on corporate debt	122,199	
Unrealized loss on investments	157,505	
Valuation allowance	(2,047)	(2,206)
	1,022,419	351,732
<b>Deferred income tax liabilities:</b>		
Premium receivables and policy liabilities	37,172	
VOBA and other intangibles	686,836	
DAC and VOBA		1,078,533
Invested assets (other than unrealized gains)	1,666,936	
Net unrealized gains (losses) on investments		799,123
Other	38,035	19,554
	2,428,979	1,897,210
Net deferred income tax liability	\$ (1,406,560)	\$ (1,545,478)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014
Balance, beginning of period	\$ 137,593	\$ 193,244	\$ 105,881
Additions for tax positions of the current year	26,257	(5,010)	57,463
Additions for tax positions of prior years		7,724	39,433
Reductions of tax positions of prior years:			
Changes in judgment	(1,028)	(58,365)	(9,533)
Settlements during the period			
Lapses of applicable statute of limitations			
Balance, end of period	\$ 162,822	\$ 137,593	\$ 193,244

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The Company believes that it is possible that in the next 12 months approximately \$18.5 million of these unrecognized tax benefits will be reduced due to the expected closure of the aforementioned Appeals process. The decrease in the amount from what was previously reported is due to the execution of an extension of the statute of limitations. In general, this closure would represent the Company's possible successful negotiation of certain issues, coupled with its payment of the assessed taxes on the remaining issues. During the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and the twelve months ended December 31, 2014 (Predecessor Company), ongoing discussions with the IRS related to the examination that is in progress for tax years ending December 31, 2008 through December 31, 2011 prompted the Company to revise its measurement of unrecognized tax benefits. These revisions included increasing prior determinations of amounts accrued for earlier years as well as reducing some previously accrued amounts. These

Table of Contents

changes were almost entirely related to timing issues. Therefore, aside from the cost of interest, such changes did not result in any impact on the Company's effective tax rate.

The Company used its estimate of its annual 2015 and 2014 income in computing its effective income tax rates for the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company). The effective tax rates for the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company) were 32.3%, (27.7)%, and 33.2%, respectively. The recorded tax benefit for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) includes the benefit associated with the re-measurement of the unrecognized tax benefits discussed in the preceding paragraph.

In general, the Company is no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for tax years that began before 2003.

Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of March 31, 2015 (Successor Company).

**15. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the Fair Value Measurements and Disclosures Topic which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company has adopted the provisions from the FASB guidance that is referenced in the Fair Value Measurements and Disclosures Topic for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company's periodic fair value measurements for non-financial assets and liabilities was not material.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated condensed balance sheets are categorized as follows:

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market.
  
  - **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
    - a) Quoted prices for similar assets or liabilities in active markets
    - b) Quoted prices for identical or similar assets or liabilities in non-active markets
    - c) Inputs other than quoted market prices that are observable
    - d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.
  
  - **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.
-

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 (Successor Company):

	Level 1	Level 2 (Dollars In Thousands)	Level 3	Total
<b>Assets:</b>				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 1,561,264	\$ 3	\$ 1,561,267
Commercial mortgage-backed securities		1,194,840		1,194,840
Other asset-backed securities		216,032	600,132	816,164
U.S. government-related securities	1,117,268	519,768		1,637,036
State, municipalities, and political subdivisions		1,678,089		1,678,089
Preferred stocks	63,744			63,744
Other government-related securities		19,204		19,204
Corporate securities	132	26,525,902	1,283,142	27,809,176
Total fixed maturity securities - available-for-sale	1,181,144	31,715,099	1,883,277	34,779,520
Fixed maturity securities - trading				
Residential mortgage-backed securities		302,108		302,108
Commercial mortgage-backed securities		157,632		157,632
Other asset-backed securities		109,199	170,500	279,699
U.S. government-related securities	253,335	4,906		258,241
State, municipalities, and political subdivisions		325,692		325,692
Preferred stocks	8,342			8,342
Other government-related securities		58,299		58,299
Corporate securities		1,453,460	19,614	1,473,074
Total fixed maturity securities - trading	261,677	2,411,296	190,114	2,863,087
Total fixed maturity securities	1,442,821	34,126,395	2,073,391	37,642,607
Equity securities	659,802	11,779	69,951	741,532
Other long-term investments(1)	119,861	154,358	122,894	397,113
Short-term investments	232,095	24,208		256,303
Total investments	2,454,579	34,316,740	2,266,236	39,037,555
Cash	454,773			454,773
Other assets	16,184			16,184
Assets related to separate accounts				
Variable annuity	13,339,653			13,339,653
Variable universal life	857,167			857,167
Total assets measured at fair value on a recurring basis	\$ 17,122,356	\$ 34,316,740	\$ 2,266,236	\$ 53,705,332
<b>Liabilities:</b>				
Annuity account balances(2)	\$	\$	\$ 97,108	\$ 97,108
Other liabilities (1)	40,030	6,705	627,515	674,250
Total liabilities measured at fair value on a recurring basis	\$ 40,030	\$ 6,705	\$ 724,623	\$ 771,358

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 (Predecessor Company):

	Level 1	Level 2 (Dollars In Thousands)	Level 3	Total
<b>Assets:</b>				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 1,418,255	\$ 3	\$ 1,418,258
Commercial mortgage-backed securities		1,177,252		1,177,252
Other asset-backed securities		275,415	563,961	839,376
U.S. government-related securities	1,165,188	263,707		1,428,895
State, municipalities, and political subdivisions		1,684,014	3,675	1,687,689
Other government-related securities		20,172		20,172
Corporate securities	132	26,059,712	1,325,683	27,385,527
Total fixed maturity securities - available-for-sale	1,165,320	30,898,527	1,893,322	33,957,169
Fixed maturity securities - trading				
Residential mortgage-backed securities		288,114		288,114
Commercial mortgage-backed securities		151,111		151,111
Other asset-backed securities		105,118	169,461	274,579
U.S. government-related securities	245,563	4,898		250,461
State, municipalities, and political subdivisions		325,446		325,446
Other government-related securities		57,032		57,032
Corporate securities		1,447,333	24,744	1,472,077
Total fixed maturity securities - trading	245,563	2,379,052	194,205	2,818,820
Total fixed maturity securities	1,410,883	33,277,579	2,087,527	36,775,989
Equity securities	630,910	99,266	73,054	803,230
Other long-term investments (1)	119,997	106,079	67,894	293,970
Short-term investments	244,100	6,545		250,645
Total investments	2,405,890	33,489,469	2,228,475	38,123,834
Cash	379,411			379,411
Other assets	11,669			11,669
Assets related to separate accounts				
Variable annuity	13,157,429			13,157,429
Variable universal life	834,940			834,940
Total assets measured at fair value on a recurring basis	\$ 16,789,339	\$ 33,489,469	\$ 2,228,475	\$ 52,507,283
<b>Liabilities:</b>				
Annuity account balances (2)	\$	\$	\$ 97,825	\$ 97,825
Other liabilities (1)	62,146	3,741	754,852	820,739
Total liabilities measured at fair value on a recurring basis	\$ 62,146	\$ 3,741	\$ 852,677	\$ 918,564

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

**Determination of fair values**

The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity, and where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent



Table of Contents

brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Third party pricing services price approximately 90% of the Company's available-for-sale and trading fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, assigned by brokers, incorporate the issuer's credit rating, liquidity discounts, weighted-average of contracted cash flows, risk premium, if warranted, due to the issuer's industry, and the security's time to maturity. The Company uses credit ratings provided by nationally recognized rating agencies.

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

The Company has analyzed the third party pricing services' valuation methodologies and related inputs and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3. Most prices provided by third party pricing services are classified into Level 2 because the significant inputs used in pricing the securities are market observable and the observable inputs are corroborated by the Company. Since the matrix pricing of certain debt securities includes significant non-observable inputs, they are classified as Level 3.

***Asset-Backed Securities***

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of March 31, 2015 (Successor Company), the Company held \$3.5 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and

Table of Contents

6) discount margin. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

As of March 31, 2015 (Successor Company), the Company held \$770.6 million of Level 3 ABS, which included \$600.1 million of other asset-backed securities classified as available-for-sale and \$170.5 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate.

***Corporate Securities, U.S. Government-Related Securities, States, Municipals, and Political Subdivisions, and Other Government Related Securities***

As of March 31, 2015 (Successor Company), the Company classified approximately \$30.6 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

The brokers and third party pricing service utilize valuation models that consist of a hybrid income and market approach to valuation. The pricing models utilize the following inputs: 1) principal and interest payments, 2) treasury yield curve, 3) credit spreads from new issue and secondary trading markets, 4) dealer quotes with adjustments for issues with early redemption features, 5) liquidity premiums present on private placements, and 6) discount margins from dealers in the new issue market.

As of March 31, 2015 (Successor Company), the Company classified approximately \$1.3 billion of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

***Equities***

As of March 31, 2015 (Successor Company), the Company held approximately \$81.7 million of equity securities classified as Level 2 and Level 3. Of this total, \$66.0 million represents Federal Home Loan Bank ( FHLB ) stock. The Company believes that the cost of the FHLB stock

approximates fair value. The remainder of these equity securities is primarily investments in preferred stock.

***Other Long-Term Investments and Other Liabilities***

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 16, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of March 31, 2015 (Successor Company), 99.7% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which

Table of Contents

predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Derivative instruments classified as Level 1 generally include futures and options, which are traded on active exchange markets.

Derivative instruments classified as Level 2 primarily include interest rate and inflation swaps, options, and swaptions. These derivative valuations are determined using independent broker quotations, which are corroborated with observable market inputs.

Derivative instruments classified as Level 3 were embedded derivatives and include at least one significant non-observable input. A derivative instrument containing Level 1 and Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instruments may not be classified within the same fair value hierarchy level as the associated assets and liabilities. Therefore, the changes in fair value on derivatives reported in Level 3 may not reflect the offsetting impact of the changes in fair value of the associated assets and liabilities.

The embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company's consolidated condensed balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments. Refer to Note 16, *Derivative Financial Instruments* for more information related to each embedded derivatives gains and losses.

The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience, with attained age factors varying from 44.5% - 100%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified for company experience, with attained age factors varying from 49% - 80%. The present value of the cash flows is determined using the discount rate curve, which is based upon

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ( IUL ) embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and

Table of Contents

volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2008 VBT Primary Tables modified for company experience, with attained age factors varying from 37% - 74%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the statutory policy liabilities (net of policy loans) of \$2.5 billion and the fair value of the trading securities of \$2.8 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

***Annuity Account Balances***

The Company records certain of its FIA reserves at fair value. The fair value is considered a Level 3 valuation. The FIA valuation model calculates the present value of future benefit cash flows less the projected future profits to quantify the net liability that is held as a reserve. This calculation is done using multiple risk neutral stochastic equity scenarios. The cash flows are discounted using LIBOR plus a credit spread. Best estimate assumptions are used for partial withdrawals, lapses, expenses and asset earned rate with a risk margin applied to each. These assumptions are reviewed at least annually as a part of the formal unlocking process. If an event were to occur within a quarter that would make the assumptions unreasonable, the assumptions would be reviewed within the quarter.

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for March 31, 2015 (Successor Company), ranged from a one month rate of 0.31%, a 5 year rate of 2.15%, and a 30 year rate of 3.38%. A credit spread component is also included in the calculation to accommodate non-performance risk.

***Separate Accounts***

Separate account assets are invested in open-ended mutual funds and are included in Level 1.

Table of Contents*Valuation of Level 3 Financial Instruments*

The following table presents the valuation method for material financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments:

	<b>Successor Company Fair Value As of March 31, 2015 (Dollars In Thousands)</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
<b>Assets:</b>				
Other asset-backed securities	\$ 600,073	Discounted cash flow	Liquidity premium Paydown rate	0.52% - 1.50% (0.91%) 9.70% - 16.93% (12.22%)
Corporate securities	1,238,548	Discounted cash flow	Spread over treasury	0.53% - 14.07% (2.45%)
<b>Liabilities:</b>				
Embedded derivatives - GMWB(1)	\$ 72,770	Actuarial cash flow model	Mortality  Lapse  Utilization  Nonperformance risk	1994 MGDB table with company experience 0.29% - 17%, depending on product/duration/funded status of guarantee 99%. 10% of policies have a one-time over-utilization of 400% 0.14% - 0.99%
Annuity account balances(2)	97,108	Actuarial cash flow model	Asset earned rate Expenses Withdrawal rate Mortality  Lapse  Return on assets  Nonperformance risk	3.71% - 5.77% \$80 per policy 2.20% 1994 MGDB table with company experience 2.2% - 33.0%, depending on duration/surrender charge period 1.50% - 1.85% depending on duration/surrender charge period 0.14% - 0.99%
Embedded derivative - FIA	83,119	Actuarial cash flow model	Expenses Withdrawal rate  Mortality  Lapse  Nonperformance risk	\$80 per policy 1.1% - 4.5% depending on duration and tax qualification 1994 MGDB table with company experience 2.5% - 40.0%, depending on on duration/surrender charge period 0.14% - 0.99%
Embedded derivative - IUL	8,599	Actuarial cash flow model	Mortality  Lapse	44% - 137% of 2014 VBT Primary Tables 0.5% - 10.0%, depending on



	duration/distribution channel and smoking class
Nonperformance risk	0.14% - 0.99%

---

(1)The fair value for the GMWB embedded derivative is presented as a net liability. Excludes modified coinsurance arrangements.

(2)Represents liabilities related to fixed indexed annuities.

The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value.

The Company has considered all reasonably available quantitative inputs as of March 31, 2015 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$237.8 million of financial instruments being classified as Level 3 as of

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

March 31, 2015 (Successor Company). Of the \$237.8 million, \$170.6 million are other asset backed securities, \$64.2 million are corporate bonds, and \$3.0 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of March 31, 2015 (Successor Company), the Company held \$66.9 million of financial instruments where book value approximates fair value. Of the \$66.9 million, the entirety of this balance represents equity securities, which are predominantly FHLB stock.

The following table presents the valuation method for material financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments:

	Predecessor Company Fair Value As of December 31, 2014 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
<b>Assets:</b>				
Other asset-backed securities	\$ 563,752	Discounted cash flow	Liquidity premium Paydown rate	0.39% - 1.49% (0.69%) 9.70% - 15.80% (12.08%)
Corporate securities	1,282,864	Discounted cash flow	Spread over treasury	0.33% - 7.50% (2.19%)
<b>Liabilities:</b>				
Embedded derivatives - GMWB(1)	\$ 245,090	Actuarial cash flow model	Mortality  Lapse  Utilization Nonperformance risk	44.5% to 100% of 1994 MGDB table 0.25% - 17%, depending on product/duration/funded status of guarantee 97% - 101% 0.12% - 0.96%
Annuity account balances(2)	97,825	Actuarial cash flow model	Asset earned rate Expenses Withdrawal rate Mortality  Lapse  Return on assets  Nonperformance risk	3.86% - 5.92% \$88 - \$102 per policy 2.20% 49% to 80% of 1994 MGDB table 2.2% - 33.0%, depending on duration/surrender charge period 1.50% - 1.85% depending on surrender charge period 0.12% - 0.96%
Embedded derivative - FIA	124,465	Actuarial cash flow model	Expenses Withdrawal rate  Mortality  Lapse	\$83 - \$97 per policy 1.1% - 4.5% depending on duration and tax qualification 49% to 80% of 1994 MGDB table 2.5% - 40.0%, depending on duration/surrender

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

			Nonperformance risk	charge period 0.12% - 0.96%
Embedded derivative - IUL	6,691	Actuarial cash flow model	Mortality	37% - 74% of 2008 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.12% - 0.96%

(1)The fair value for the GMWB embedded derivative is presented as a net liability. Excludes modified coinsurance arrangements.

(2)Represents liabilities related to fixed indexed annuities.

Table of Contents

The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value.

The Company has considered all reasonably available quantitative inputs as of December 31, 2014 (Predecessor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$240.3 million of financial instruments being classified as Level 3 as of December 31, 2014 (Predecessor Company). Of the \$240.3 million, \$169.7 million are other asset-backed securities, \$67.6 million are corporate bonds, and \$3.0 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2014 (Predecessor Company), the Company held \$73.7 million of financial instruments where book value approximates fair value. Of the \$73.7 million, \$70.0 million represents equity securities, which are predominantly FHLB stock, and \$3.7 million of other fixed maturity securities.

The asset-backed securities classified as Level 3 are predominantly ARS. A change in the paydown rate (the projected annual rate of principal reduction) of the ARS can significantly impact the fair value of these securities. A decrease in the paydown rate would increase the projected weighted average life of the ARS and increase the sensitivity of the ARS fair value to changes in interest rates. An increase in the liquidity premium would result in a decrease in the fair value of the securities, while a decrease in the liquidity premium would increase the fair value of these securities.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding U.S. Treasury rate. This spread represents a risk premium that is impacted by company specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities. The fair values of corporate bonds are sensitive to changes in spread. When holding the treasury rate constant, the fair value of corporate bonds increases when spreads decrease, and decreases when spreads increase.

The fair value of the GMWB embedded derivative is sensitive to changes in the discount rate which includes the Company's nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it is based on market inputs. The Company's nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the fair value of the liability and conversely, if there is a decrease in the assumptions the fair value would increase. The fair value is also dependent on the assumed policyholder utilization of the GMWB where an increase in assumed utilization would result in an increase in the fair value of the liability and conversely, if there is a decrease in the assumption, the fair value would decrease.

The fair value of the FIA account balance liability is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the FIA embedded derivative is sensitive to non-performance risk, which is unobservable. The value of the liability increases with decreases in discount rate and non-performance risk and decreases with increases in the discount rate and non-performance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

The fair value of the FIA embedded derivative is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the FIA embedded derivative is sensitive to non-performance risk, which is unobservable. The value of the liability increases with decreases in the discount rate and non-performance risk and decreases with increases in the discount rate and non-performance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

The fair value of the IUL embedded derivative is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the IUL embedded derivative is sensitive to non-performance risk, which is unobservable. The value of the liability increases with decreases in the discount rate and non-performance risk and decreases with increases in the discount rate and non-performance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the period of February 1, 2015 to March 31, 2015 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
<b>Assets:</b>												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	\$ 3										\$ 3	
Commercial mortgage-backed securities												
Other asset-backed securities	603,646			(3,568)		(40)				94	600,132	
U.S. government-related securities												
States, municipals, and political subdivisions	3,675					(3,675)						
Other government-related securities												
Corporate securities	1,307,259	635	11,618		22,000	(35,787)		(20,050)	(2,533)		1,283,142	
Total fixed maturity securities - available-for-sale	1,914,583	635	11,618	(3,568)	22,000	(39,502)		(20,050)	(2,439)		1,883,277	
Fixed maturity securities - trading												
Residential mortgage-backed securities												
Commercial mortgage-backed securities												
Other asset-backed securities	169,473	3,360				(2,408)				75	170,500	(1,242)
U.S. government-related securities												
States, municipals and political												

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

subdivisions													
Other													
government-related													
securities													
Corporate securities	25,130	34		(66)		(5,423)			(61)	19,614		(1,087)	
Total fixed maturity													
securities - trading	194,603	3,394		(66)		(7,831)			14	190,114		(2,329)	
Total fixed maturity													
securities	2,109,186	4,029	11,618	(66)	(3,568)	22,000	(47,333)		(20,050)	(2,425)	2,073,391	(2,329)	
Equity securities	73,044									(3,093)	69,951		
Other long-term													
investments(1)	93,274	29,640		(20)							122,894	29,620	
Short-term													
investments													
Total investments	2,275,504	33,669	11,618	(86)	(3,568)	22,000	(47,333)		(20,050)	(5,518)	2,266,236	27,291	
Total assets													
measured at fair													
value on a recurring													
basis	\$ 2,275,504	\$ 33,669	\$ 11,618	\$ (86)	\$ (3,568)	\$ 22,000	\$ (47,333)	\$	\$ (20,050)	\$ (5,518)	\$ 2,266,236	\$ 27,291	
<b>Liabilities:</b>													
Annuity account													
balances(2)	\$ 98,279	\$	\$	\$ (632)	\$	\$	\$	\$ 14	\$ 1,817	\$	\$	\$ 97,108	\$
Other liabilities(1)	742,130	134,617		(20,002)							627,515	114,615	
Total liabilities													
measured at fair													
value on a recurring													
basis	\$ 840,409	\$ 134,617	\$	\$ (20,634)	\$	\$	\$	\$ 14	\$ 1,817	\$	\$ 724,623	\$ 114,615	

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the period of February 1, 2015 to March 31, 2015 (Successor Company), there were no transfers of securities into Level 3.

For the period of February 1, 2015 to March 31, 2015 (Successor Company), \$20.1 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were no longer available in previous periods but were priced by independent pricing services or brokers as of March 31, 2015 (Successor Company).

For the period of February 1, 2015 to March 31, 2015 (Successor Company), \$90.4 million of securities were transferred from Level 2 to Level 1.

For the period of February 1, 2015 to March 31, 2015 (Successor Company), there were no transfers from Level 1.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Included in Earnings	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
<b>Assets:</b>													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	\$ 3	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 3	\$
Commercial mortgage-backed securities													
Other asset-backed securities	563,961				(3,867)	(32)				43,205	379	603,646	
U.S. government-related securities													
States, municipals, and political subdivisions	3,675											3,675	
Other government-related securities													
Corporate securities	1,325,683		12,282		(23,029)	(7,062)					(615)	1,307,259	
Total fixed maturity securities - available-for-sale	1,893,322		12,282		(26,896)	(7,094)				43,205	(236)	1,914,583	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	169,461	586		(139)		(472)					37	169,473	447
U.S. government-related securities													
States, municipals and political subdivisions													



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Other government-related securities											
Corporate securities	24,744	602		(196)		(20)			25,130		406
Total fixed maturity securities - trading	194,205	1,188		(335)		(492)		37	194,603		853
Total fixed maturity securities	2,087,527	1,188	12,282	(335)	(26,896)	(7,586)		43,205	(199)	2,109,186	853
Equity securities	73,054					(10)				73,044	
Other long-term investments(1)	67,894	753		(25,902)						42,745	(25,149)
Short-term investments											
Total investments	2,228,475	1,941	12,282	(26,237)	(26,906)	(7,586)		43,205	(199)	2,224,975	(24,296)
Total assets measured at fair value on a recurring basis											
	\$ 2,228,475	\$ 1,941	\$ 12,282	\$ (26,237)	\$ (26,906)	\$ (7,586)	\$	\$ 43,205	\$ (199)	\$ 2,224,975	\$ (24,296)
<b>Liabilities:</b>											
Annuity account balances(2)											
	\$ 97,825	\$	\$	\$ (536)	\$	\$	\$ 7	\$ 419	\$	\$ 97,949	\$
Other liabilities(1)	754,852	61		(253,773)						1,008,564	(253,712)
Total liabilities measured at fair value on a recurring basis											
	\$ 852,677	\$ 61	\$	\$ (254,309)	\$	\$	\$ 7	\$ 419	\$	\$ 1,106,513	\$ (253,712)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), \$43.2 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of January 31, 2015 (Predecessor Company). All transfers are recognized as of the end of the period.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), there were no transfers from Level 3 to Level 2.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), there were no transfers from Level 2 to Level 1 and there were no transfers out of Level 1.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2014 (Predecessor Company), for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains Included in Comprehensive Earnings	Total Realized and Unrealized Losses Included in Comprehensive Earnings	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
(Dollars In Thousands)											
<b>Assets:</b>											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	\$ 28	\$	\$	\$	\$	\$ (11)	\$	\$	\$	\$ 17	\$
Commercial mortgage-backed securities											
Other asset-backed securities	545,808	4,137	(1,129)	(260)				249		548,805	
U.S. government-related securities											
States, municipals, and political subdivisions	3,675									3,675	
Other government-related securities											
Corporate securities	1,549,940	895	27,017	(5,015)	29,387	(37,867)		12,185	(2,832)	1,573,710	
Total fixed maturity securities - available-for-sale	2,099,451	895	31,154	(6,144)	29,387	(38,138)		12,185	(2,583)	2,126,207	
Fixed maturity securities - trading											
Residential mortgage-backed securities											
Commercial mortgage-backed securities											
Other asset-backed securities	194,977	727	(428)	(812)				200		194,664	468
U.S. government-related securities											
States, municipals and political subdivisions											

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Other government-related securities											
Corporate securities	29,199	538		(13)		(63)		1,272	13	30,946	(4)
Total fixed maturity securities - trading	224,176	1,265		(441)		(875)		1,272	213	225,610	464
Total fixed maturity securities	2,323,627	2,160	31,154	(441)	(6,144)	29,387	(39,013)	13,457	(2,370)	2,351,817	464
Equity securities	71,881		227		(166)	9,551				81,493	
Other long-term investments(1)	196,133	5		(52,330)						143,808	(52,325)
Short-term investments											
Total investments	2,591,641	2,165	31,381	(52,771)	(6,310)	38,938	(39,013)	13,457	(2,370)	2,577,118	(51,861)
Total assets measured at fair value on a recurring basis											
	\$ 2,591,641	\$ 2,165	\$ 31,381	\$ (52,771)	\$ (6,310)	\$ 38,938	\$ (39,013)	\$	\$ 13,457	\$ (2,370)	\$ 2,577,118 \$ (51,861)
<b>Liabilities:</b>											
Annuity account balances(2)											
	\$ 107,000	\$	\$	\$ (1,409)	\$	\$	\$ 112	\$ 2,928	\$	\$	\$ 105,593 \$
Other liabilities(1)	270,630	12		(100,747)						371,365	(100,735)
Total liabilities measured at fair value on a recurring basis											
	\$ 377,630	\$ 12	\$	\$ (102,156)	\$	\$	\$ 112	\$ 2,928	\$	\$	\$ 476,958 \$ (100,735)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended March 31, 2014 (Predecessor Company), \$29.7 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of March 31, 2014 (Predecessor Company). All transfers are recognized as of the end of the period.

For the three months ended March 31, 2014 (Predecessor Company), \$16.2 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were no longer available in previous periods but were priced by independent pricing services or brokers as of March 31, 2014 (Predecessor Company).

For the three months ended March 31, 2014 (Predecessor Company), there were no transfers from Level 2 to Level 1.

Table of Contents

For the three months ended March 31, 2014 (Predecessor Company), there were no transfers out of Level 1.

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the consolidated condensed statements of income (loss) or other comprehensive income (loss) within shareowner's equity based on the appropriate accounting treatment for the item.

Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturity securities and issuances and settlements of fixed indexed annuities.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. The asset transfers in the table(s) above primarily related to positions moved from Level 3 to Level 2 as the Company determined that certain inputs were observable.

The amount of total gains (losses) for assets and liabilities still held as of the reporting date primarily represents changes in fair value of trading securities and certain derivatives that exist as of the reporting date and the change in fair value of fixed indexed annuities.

***Estimated Fair Value of Financial Instruments***

The carrying amounts and estimated fair values of the Company's financial instruments as of the periods shown below are as follows:

	Fair Value Level	Successor Company As of March 31, 2015		Predecessor Company As of December 31, 2014	
		Carrying Amounts (Dollars In Thousands)	Fair Values (Dollars In Thousands)	Carrying Amounts (Dollars In Thousands)	Fair Values (Dollars In Thousands)
<b>Assets:</b>					
Mortgage loans on real estate	3	\$ 5,589,795	\$ 5,594,230	\$ 5,133,780	\$ 5,524,059
Policy loans	3	1,735,370	1,735,370	1,758,237	1,758,237
Fixed maturities, held-to-maturity(1)	3	551,320	528,828	435,000	458,422
<b>Liabilities:</b>					
Stable value product account balances	3	\$ 1,923,684	\$ 1,924,552	\$ 1,959,488	\$ 1,973,624
Annuity account balances	3	10,846,606	10,285,821	10,950,729	10,491,775
<b>Debt:</b>					

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Bank borrowings	3	\$	545,000	\$	545,000	\$	450,000	\$	450,000
Senior Notes	2		1,124,637		1,105,764		850,000		1,100,380
Subordinated debt securities	2		454,225		461,949		540,593		552,098
Non-recourse funding obligations(2)	3		641,600		621,867		582,404		578,212

Except as noted below, fair values were estimated using quoted market prices.

---

(1) Security purchased from unconsolidated subsidiary, Red Mountain LLC.

(2) Of this carrying amount, \$455.0 million, fair value of \$502.1 million, as of March 31, 2015 (Successor Company), and \$435.0 million, fair value of \$461.4 million, as of December 31, 2014 (Predecessor Company), relates to non-recourse funding obligations issued by Golden Gate V.

Table of Contents

**Fair Value Measurements**

*Mortgage loans on real estate*

The Company estimates the fair value of mortgage loans using an internally developed model. This model includes inputs derived by the Company based on assumed discount rates relative to the Company's current mortgage loan lending rate and an expected cash flow analysis based on a review of the mortgage loan terms. The model also contains the Company's determined representative risk adjustment assumptions related to credit and liquidity risks.

*Policy loans*

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by the value of the policy. Policy loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

*Fixed maturities, held-to-maturity*

The Company estimates the fair value of its fixed maturity, held-to-maturity securities using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

*Stable value product and Annuity account balances*

The Company estimates the fair value of stable value product account balances and annuity account balances using models based on discounted expected cash flows. The discount rates used in the models were based on a current market rate for similar financial instruments.

*Debt*

*Bank borrowings*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The Company believes the carrying value of its bank borrowings approximates fair value as the borrowings pay a floating interest rate plus a spread based on the rating of the Company's senior debt which the Company believes approximates a market interest rate.

### *Non-recourse funding obligations*

The Company estimates the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

### **Types of Derivative Instruments and Derivative Strategies**

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. These strategies are developed through the Company's analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into the Company's risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit risk by entering into transactions with highly rated

Table of Contents

counterparties. The Company manages the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. The Company monitors its use of derivatives in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

***Derivatives Related to Interest Rate Risk Management***

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions. The Company's inflation risk management strategy involves the use of swaps that requires the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (CPI).

***Derivatives Related to Risk Mitigation of Variable Annuity Contracts***

The Company may use the following types of derivative contracts to mitigate its exposure to certain guaranteed benefits related to VA, fixed indexed annuity, and indexed universal life contracts:

- Foreign Currency Futures
- Variance Swaps
- Interest Rate Futures
- Equity Options
- Equity Futures
- Credit Derivatives
- Interest Rate Swaps
- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps



### Accounting for Derivative Instruments

The Company records its derivative financial instruments in the consolidated condensed balance sheet in other long-term investments and other liabilities in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in other comprehensive income (loss), depending upon whether it qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists.

For a derivative financial instrument to be accounted for as an accounting hedge, it must be identified and documented as such on the date of designation. For cash flow hedges, the effective portion of their realized gain or loss is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged item impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain attributable to the hedged risk of the hedged item is recognized in current earnings. Effectiveness of the Company's hedge relationships is assessed on a quarterly basis.

The Company reports changes in fair values of derivatives that are not part of a qualifying hedge relationship through earnings in the period of change. Changes in the fair value of derivatives that are recognized in current earnings are reported in Realized investment gains (losses) Derivative financial instruments .

### Derivative Instruments Designated and Qualifying as Hedging Instruments

#### Cash-Flow Hedges

- In connection with the issuance of inflation-adjusted funding agreements, the Company has entered into swaps to essentially convert the floating CPI-linked interest rate on these agreements to a fixed

Table of Contents

rate. The Company pays a fixed rate on the swap and receives a floating rate primarily determined by the period's change in the CPI. The amounts that are received on the swaps are almost equal to the amounts that are paid on the agreements.

**Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments**

The Company uses various other derivative instruments for risk management purposes that do not qualify for hedge accounting treatment. Changes in the fair value of these derivatives are recognized in earnings during the period of change.

**Derivatives Related to Variable Annuity Contracts**

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility.
- The Company uses equity options, variance swaps, and volatility options to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity markets and overall volatility.
- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products.
- The Company markets certain VA products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

**Derivatives Related to Fixed Annuity Contracts**

- The Company used equity, futures, and options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity and overall volatility.
- The Company uses equity options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity markets.

- The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

#### **Derivatives Related to Indexed Universal Life Contracts**

- The Company uses equity, futures, and options to mitigate the risk within its indexed universal life products. In general, the cost of such benefits varies with the level of equity markets.

- The Company markets certain IUL products. The IUL component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

#### **Other Derivatives**

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. None of these positions were held as of March 31, 2015 (Successor Company).

- The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

Table of Contents

- The Company is involved in various modified coinsurance arrangements which contain embedded derivatives. Changes in their fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves had fair value changes which substantially offset the gains or losses on these embedded derivatives.

The following table sets forth realized investments gains and losses for the periods shown:

**Realized investment gains (losses) - derivative financial instruments**

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company	For The Three Months Ended March 31, 2014
Derivatives related to variable annuity contracts:				
Interest rate futures - VA	\$ (48)	\$ 1,413	\$	4,250
Equity futures - VA	(32,469)	9,221		(2,651)
Currency futures - VA	6,137	7,778		(1,278)
Variance swaps - VA				(1,850)
Equity options - VA	(21,774)	3,047		(12,341)
Interest rate swaptions - VA	(11,328)	9,268		(9,403)
Interest rate swaps - VA	(54,791)	122,710		57,368
Embedded derivative - GMWB	113,260	(207,018)		(82,287)
Total derivatives related to variable annuity contracts	(1,013)	(53,581)		(48,192)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(2,583)	1,769		1,733
Equity futures - FIA	184	(184)		345
Volatility futures - FIA	4			
Equity options - FIA	4,375	(2,617)		994
Total derivatives related to FIA contracts	1,980	(1,032)		3,072
Derivatives related to IUL contracts:				
Embedded derivative - IUL	257	(486)		
Equity futures - IUL	14	3		
Equity options - IUL	140	(115)		
Total derivatives related to IUL contracts	411	(598)		
Embedded derivative - Modco reinsurance treaties	32,191	(68,026)		(60,169)
Other derivatives	72	(37)		(61)
Total realized gains (losses) - derivatives	\$ 33,641	\$ (123,274)	\$	(105,350)

The following table sets forth realized investments gains and losses for Modco trading portfolio that is included in realized investment gains (losses) all other investments.

**Realized investment gains (losses) - all other investments**

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	<b>Successor Company</b> <b>February 1, 2015 to March 31, 2015</b> <b>(Dollars In Thousands)</b>		<b>Predecessor Company</b> <b>January 1, 2015 to January 31, 2015</b> <b>(Dollars In Thousands)</b>		<b>For The Three Months Ended March 31, 2014</b>
Modco trading portfolio(1)	\$ (33,160)	\$	73,062	\$	66,303

---

(1)The Company elected to include the use of alternate disclosures for trading activities.

Table of Contents

The following table presents the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship.

**Gain (Loss) on Derivatives in Cash Flow Hedging Relationship**

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)		Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion) Benefits and settlement expenses (Dollars In Thousands)		Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
<b>Successor Company</b>					
<b>February 1, 2015 to March 31, 2015</b>					
Inflation	\$	(36)	\$	(90)	\$ (4)
Total	\$	(36)	\$	(90)	\$ (4)
<b>Predecessor Company</b>					
<b>January 1, 2015 to January 31, 2015</b>					
Inflation	\$	13	\$	(36)	\$ (7)
Total	\$	13	\$	(36)	\$ (7)
<b>Predecessor Company</b>					
<b>For The Three Months Ended</b>					
<b>March 31, 2014</b>					
Inflation	\$	903	\$	(670)	\$ 39
Total	\$	903	\$	(670)	\$ 39

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The tables below present information about the nature and accounting treatment of the Company's primary derivative financial instruments and the location in and effect on the consolidated financial statements for the periods presented below:

	Successor Company As of March 31, 2015		Predecessor Company As of December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
<b>Other long-term investments</b>				
Derivatives not designated as hedging instruments:				
Interest rate swaps	\$ 1,725,000	\$ 99,230	\$ 1,550,000	\$ 50,743
Embedded derivative - Modco reinsurance treaties	65,609	1,572	25,760	1,051
Embedded derivative - GMWB	4,507,255	121,322	2,804,629	66,843
Interest rate futures	410,966	4,731	27,977	938
Equity futures	26,607	102	26,483	427
Currency futures	112,106	524	197,648	2,384
Equity options	2,285,482	163,491	1,921,167	163,212
Interest rate swaptions	225,000	5,690	625,000	8,012
Other	849	451	242	360
	\$ 9,358,874	\$ 397,113	\$ 7,178,906	\$ 293,970
<b>Other liabilities</b>				
Cash flow hedges:				
Inflation	\$ 19,285	\$ 55	\$ 40,469	\$ 142
Derivatives not designated as hedging instruments:				
Interest rate swaps	250,000	1,792	275,000	3,599
Embedded derivative - Modco reinsurance treaties	2,512,057	341,698	2,562,848	311,727
Embedded derivative - GMWB	5,427,085	194,098	7,038,228	311,969
Embedded derivative - FIA	790,225	83,126	749,933	124,465
Embedded derivative - IUL	18,262	8,593	12,019	6,691
Interest rate futures	8,140	54		
Equity futures	666,286	4,547	385,256	15,069
Currency futures	122,150	1,379		
Equity options	960,718	38,866	699,295	47,077
Other	609	42		
	\$ 10,774,817	\$ 674,250	\$ 11,763,048	\$ 820,739

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify the remaining balance of its derivative financial instruments out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

**17. OFFSETTING OF ASSETS AND LIABILITIES**

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 9, *Debt and Other Obligations* for details of the Company's repurchase agreement programs.



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of March 31, 2015 (Successor Company):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received	Net Amount
<b>Offsetting of Derivative Assets</b>						
Derivatives:						
Free-Standing derivatives	\$ 273,814	\$	\$ 273,814	\$ 41,440	\$ 120,634	\$ 111,740
Total derivatives, subject to a master netting arrangement or similar arrangement	273,814		273,814	41,440	120,634	111,740
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,572		1,572			1,572
Embedded derivative - GMWB	121,322		121,322			121,322
Other	405		405			405
Total derivatives, not subject to a master netting arrangement or similar arrangement	123,299		123,299			123,299
Total derivatives	397,113		397,113	41,440	120,634	235,039
<b>Total Assets</b>	<b>\$ 397,113</b>	<b>\$</b>	<b>\$ 397,113</b>	<b>\$ 41,440</b>	<b>\$ 120,634</b>	<b>\$ 235,039</b>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Paid	Net Amount
<b>Offsetting of Derivative Liabilities</b>						
Derivatives:						
Free-Standing derivatives	\$ 46,735	\$	\$ 46,735	\$ 41,440	\$ 5,295	\$
Total derivatives, subject to a master netting arrangement or similar arrangement	46,735		46,735	41,440	5,295	
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	341,698		341,698			341,698
Embedded derivative - GMWB	194,098		194,098			194,098

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Embedded derivative - FIA	83,126		83,126			83,126
Embedded derivative - IUL	8,593		8,593			8,593
Total derivatives, not subject to a master netting arrangement or similar arrangement	627,515		627,515			627,515
<b>Total derivatives</b>	<b>674,250</b>		<b>674,250</b>	<b>41,440</b>	<b>5,295</b>	<b>627,515</b>
Repurchase agreements(1)	510,123		510,123			510,123
<b>Total Liabilities</b>	<b>\$ 1,184,373</b>	<b>\$</b>	<b>\$ 1,184,373</b>	<b>\$ 41,440</b>	<b>\$ 5,295</b>	<b>\$ 1,137,638</b>

(1) Borrowings under repurchase agreements are for a term less than 90 days.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2014 (Predecessor Company):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received	Net Amount
<b>Offsetting of Derivative Assets</b>						
Derivatives:						
Free-Standing derivatives	\$ 225,716	\$	\$ 225,716	\$ 53,612	\$ 73,935	\$ 98,169
Total derivatives, subject to a master netting arrangement or similar arrangement	225,716		225,716	53,612	73,935	98,169
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,051		1,051			1,051
Embedded derivative - GMWB	66,843		66,843			66,843
Other	360		360			360
Total derivatives, not subject to a master netting arrangement or similar arrangement	68,254		68,254			68,254
Total derivatives	293,970		293,970	53,612	73,935	166,423
<b>Total Assets</b>	<b>\$ 293,970</b>	<b>\$</b>	<b>\$ 293,970</b>	<b>\$ 53,612</b>	<b>\$ 73,935</b>	<b>\$ 166,423</b>

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Cash Financial Instruments	Collateral Paid	Net Amount
<b>Offsetting of Derivative Liabilities</b>						
Derivatives:						
Free-Standing derivatives	\$ 65,887	\$	\$ 65,887	\$ 53,612	\$ 12,258	\$ 17
Total derivatives, subject to a master netting arrangement or similar arrangement	65,887		65,887	53,612	12,258	17
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	311,727		311,727			311,727
Embedded derivative - GMWB	311,969		311,969			311,969

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Embedded derivative - FIA	124,465		124,465			124,465
Embedded derivative - IUL	6,691		6,691			6,691
Total derivatives, not subject to a master netting arrangement or similar arrangement	754,852		754,852			754,852
Total derivatives	820,739		820,739	53,612	12,258	754,869
Repurchase agreements(1)	50,000		50,000			50,000
<b>Total Liabilities</b>	\$ 870,739	\$	\$ 870,739	\$ 53,612	\$ 12,258	\$ 804,869

(1) Borrowings under repurchase agreements are for a term less than 90 days.

Table of Contents

**18. OPERATING SEGMENTS**

The Company has several operating segments each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments, as prescribed in the ASC Segment Reporting Topic, and makes adjustments to its segment reporting as needed. There were no changes to the Company's operating segments made or required to be made as a result of the Merger on February 1, 2015. A brief description of each segment follows.

- The Life Marketing segment markets fixed universal life ( UL ), indexed universal life, variable universal life ( VUL ), bank-owned life insurance ( BOLI ), and level premium term insurance ( traditional ) products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.
- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.
- The Annuities segment markets fixed and VA products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the FHLB, and markets guaranteed investment contracts ( GICs ) to 401(k) and other qualified retirement savings plans. Additionally, the Company has contracts outstanding pursuant to a funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC ) which offered notes to both institutional and retail investors.
- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection ( GAP ) product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.
- The Corporate and Other segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity) and expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives net of the amortization related to deferred acquisition costs ( DAC ), value of business acquired ( VOBA ), and benefits and settlement expenses. Operating earnings exclude changes in the GMWB embedded derivatives (excluding the portion attributed to economic cost), actual GMWB incurred claims and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of the Company's business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable. The goodwill as of March 31, 2015 (Successor Company) was the result of the Dai-ichi Merger. The purchase price was allocated to the segments in proportion to the segment's respective fair value. The allocated purchase price in excess of the fair value of assets and liabilities of each segment resulted in the establishment of that segment's goodwill as of the date of the Merger.

There were no significant intersegment transactions during the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and for the three months ended March 31, 2014 (Predecessor Company).

The following tables summarize financial information for the Company's segments (Predecessor and Successor periods are not comparable):

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Revenues</b>					
Life Marketing	\$	272,176	\$	145,595	\$ 384,766
Acquisitions		258,789		139,761	426,948
Annuities		103,369		7,884	144,657
Stable Value Products		10,342		8,181	27,819
Asset Protection		44,027		21,953	66,383
Corporate and Other		33,624		17,535	39,985
Total revenues	\$	722,327	\$	340,909	\$ 1,090,558
<b>Segment Operating Income (Loss)</b>					
Life Marketing	\$	3,425	\$	(1,618)	\$ 23,485
Acquisitions		36,070		20,134	60,996
Annuities		38,185		13,164	51,643
Stable Value Products		6,115		4,529	17,397
Asset Protection		4,047		2,420	6,369
Corporate and Other		1,885		(10,144)	(14,855)
Total segment operating income		89,727		28,485	145,035
Realized investment (losses) gains - investments(1)		(42,933)		89,815	68,533
Realized investment (losses) gains - derivatives		46,033		(117,118)	(88,363)
Income tax (expense) benefit		(29,966)		327	(41,566)
Net income	\$	62,861	\$	1,509	\$ 83,639
(2)Investment gains (losses)	\$	(35,056)	\$	80,672	\$ 70,523
Less: amortization related to DAC/VOBA and benefits and settlement expenses		7,877		(9,143)	1,990
Realized investment gains (losses) - investments	\$	(42,933)	\$	89,815	\$ 68,533
(3)Derivative gains (losses)	\$	33,641	\$	(123,274)	\$ (105,350)
Less: VA GMWB economic cost		(12,392)		(6,156)	(16,987)
Realized investment gains (losses) - derivatives	\$	46,033	\$	(117,118)	\$ (88,363)

---

(1) Includes credit related other-than-temporary impairments of \$0.5 million for the period of January 1, 2015 to January 31, 2015

(Predecessor Company) and \$1.6 million for the three months ended March 31, 2014 (Predecessor Company), respectively. The Company did not recognize any other-than-temporary impairments for the period of February 1, 2015 to March 31, 2015 (Successor Company).

(2)Includes realized investment gains (losses) before related amortization.

(3)Includes realized gains (losses) on derivatives before the VA GMWB economic cost.



Table of Contents

**Operating Segment Assets**  
**As of March 31, 2015 (Successor Company)**  
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 13,568,112	\$ 20,526,268	\$ 20,469,723	\$ 1,799,982
Deferred policy acquisition costs and value of business acquired	991,539	(183,586)	462,339	
Other intangibles	333,841	41,574	206,778	9,889
Goodwill	203,543	14,524	336,677	113,813
<b>Total assets</b>	<b>\$ 15,097,035</b>	<b>\$ 20,398,780</b>	<b>\$ 21,475,517</b>	<b>\$ 1,923,684</b>

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	\$ 834,251	\$ 11,128,974	\$ 11,320	\$ 68,338,630
Deferred policy acquisition costs and value of business acquired	44,355			1,314,647
Other intangibles	84,032			676,114
Goodwill	67,155			735,712
<b>Total assets</b>	<b>\$ 1,029,793</b>	<b>\$ 11,128,974</b>	<b>\$ 11,320</b>	<b>\$ 71,065,103</b>

**Operating Segment Assets**  
**As of December 31, 2014 (Predecessor Company)**  
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 13,858,491	\$ 19,858,284	\$ 20,783,373	\$ 1,958,867
Deferred policy acquisition costs and value of business acquired	1,973,156	600,482	684,574	621
Goodwill	10,192	29,419		
<b>Total assets</b>	<b>\$ 15,841,839</b>	<b>\$ 20,488,185</b>	<b>\$ 21,467,947</b>	<b>\$ 1,959,488</b>

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	\$ 927,202	\$ 9,682,362	\$ 14,792	\$ 67,083,371
Deferred policy acquisition costs and value of business acquired	35,418	319		3,294,570
Goodwill	62,671	83		102,365
<b>Total assets</b>	<b>\$ 1,025,291</b>	<b>\$ 9,682,764</b>	<b>\$ 14,792</b>	<b>\$ 70,480,306</b>

**19. SUBSEQUENT EVENTS**

The Company has evaluated the effects of events subsequent to March 31, 2015 (Successor Company), and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.



Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2014 (Predecessor Company), included in our Annual Report on Form 10-K.

For a more complete understanding of our business and current period results, please read the following MD&A in conjunction with our latest Annual Report on Form 10-K and other filings with the United States Securities and Exchange Commission (the SEC ).

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported net income or shareholder's equity.

**FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE**

This report reviews our financial condition and results of operations, including our liquidity and capital resources. Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like believe, expect, estimate, project, budget, forecast, anticipate, plan, will, other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Part I, Item 2, *Risks and Uncertainties* and Part II, Item 1A, *Risk Factors*, of this report, as well as Part I, Item 1A, *Risk Factors*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (Predecessor Company).

**IMPORTANT INVESTOR INFORMATION**

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports as required. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer and the SEC maintains an internet site at [www.sec.gov](http://www.sec.gov) that contains these reports and other information filed electronically by us. We make available through our website, [www.protective.com](http://www.protective.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. We will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

We also make available to the public current information, including financial information, regarding the Company and our affiliates on the Financial Information page of our website, [www.protective.com](http://www.protective.com). We encourage investors, the media and others interested in us and our affiliates to review the information we post on our website. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

Table of Contents

**OVERVIEW**

*Our business*

On February 1, 2015, Protective Life Corporation (the Company) became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi Life), when DL Investment (Delaware), Inc., a wholly owned subsidiary of Dai-ichi Life, merged with and into the Company. Prior to February 1, 2015, the Company's stock was publicly traded on the New York Stock Exchange. Subsequent to the Merger, the Company remains an SEC registrant for financial reporting purposes in the United States. The Company, which is headquartered in Birmingham, Alabama, operates as a holding company for its insurance and other subsidiaries that provide financial services primarily in the United States through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company (PLICO) is our largest operating subsidiary. Unless the context otherwise requires, the Company, we, us, or our refers to the consolidated group of Protective Life Corporation and our subsidiaries.

We have several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments as prescribed in the Accounting Standards Codification (ASC) Segment Reporting Topic, and make adjustments to our segment reporting as needed. There were no changes to our operating segments made or required to be made as a result of the Merger on February 1, 2015.

Our operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, Asset Protection, and Corporate and Other.

- **Life Marketing** - We market fixed universal life (UL), indexed universal life (IUL), variable universal life (VUL), bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.
- **Acquisitions** - We focus on acquiring, converting, and servicing policies from other companies. This segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.
- **Annuities** - We market fixed and variable annuity (VA) products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- **Stable Value Products** - We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank (FHLB), and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. Additionally,

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

we have contracts outstanding pursuant to a funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC ) which offered notes to both institutional and retail investors.

- **Asset Protection** - We market extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection ( GAP ) product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.
  
- **Corporate and Other** - This segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity) and expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-

Table of Contents

strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

**RISKS AND UNCERTAINTIES**

The factors which could affect our future results include, but are not limited to, general economic conditions and the following risks and uncertainties:

*Risks Related to the Dai-ichi Merger and our Status as a Subsidiary of Dai-ichi Life*

- uncertainty following the Merger could adversely affect our business and operations;
- our debt ratings and the financial strength ratings of our insurance subsidiaries may be adversely affected by our being a subsidiary of Dai-ichi Life;
- we are controlled by Dai-ichi Life, which has the ability to make important decisions affecting our business;

*General*

- exposure to the risks of natural and man-made catastrophes, diseases, epidemics, pandemics, malicious acts, terrorist acts and climate change could adversely affect our operations and results;
- a disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect our business, financial condition and results of operations;
- confidential information maintained in the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- assets allocated to the MONY Closed Block benefit only the holders of certain policies; adverse performance of Closed Block assets or adverse experience of Closed Block liabilities may negatively affect us;
- we are dependent on the performance of others;

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;

### *Financial environment*

- interest rate fluctuations and sustained periods of low interest rates could negatively affect our interest earnings and spread income, or otherwise impact our business;
- our investments are subject to market and credit risks, which could be heightened during periods of extreme volatility or disruption in financial and credit markets;
- equity market volatility could negatively impact our business;
- our use of derivative financial instruments within our risk management strategy may not be effective or sufficient;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;
- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult general economic conditions could materially adversely affect our business and results of operations;



Table of Contents

- we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- we could be adversely affected by an inability to access FHLB lending;
- our financial condition or results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience;
- adverse actions of certain funds or their advisers could have a detrimental impact on our ability to sell our variable life and annuity products, or maintain current levels of assets in those products;
- the amount of statutory capital that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends;

*Industry*

- we are highly regulated and are subject to routine audits, examinations and actions by regulators, law enforcement agencies, and self-regulatory organizations;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- the financial services and insurance industries are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- use of reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates, terminate agreements, or be subject to adverse developments that could affect us;
- our policy claims fluctuate from period to period resulting in earnings volatility;

*Competition*

- we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and
- we may not be able to protect our intellectual property and may be subject to infringement claims.

For more information about the risks, uncertainties, and other factors that could affect our future results, please see Part II, Item 1A of this report and our Annual Report on Form 10-K.

**CRITICAL ACCOUNTING POLICIES**

Our accounting policies require the use of judgments relating to a variety of assumptions and estimates, including, but not limited to expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of securities. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2014 (Predecessor Company). Certain of our accounting policies were amended in conjunction with the Dai-ichi Merger. Please refer to Note 2, *Summary of Significant Accounting Policies*, included in this Form 10-Q for more information.

Table of Contents

**RESULTS OF OPERATIONS**

We use the same accounting policies and procedures to measure segment operating income (loss) and assets as we use to measure consolidated net income and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives, net of the amortization related to deferred acquisition costs ( DAC ), value of business acquired ( VOBA ), and benefits and settlement expenses. Segment operating income (loss) also excludes changes in the guaranteed minimum withdrawal benefits ( GMWB ) embedded derivatives (excluding the portion attributed to economic cost), actual GMWB incurred claims and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of our business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

However, segment operating income (loss) should not be viewed as a substitute for net income calculated in accordance with accounting principles generally accepted in the United States of America ( GAAP ). In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

We periodically review and update as appropriate our key assumptions on products using the ASC Financial Services-Insurance Topic, including future mortality, expenses, lapses, premium persistency, benefit utilization, investment yields, interest spreads, and equity market returns. Changes to these assumptions result in adjustments which increase or decrease DAC/VOBA amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as unlocking . When referring to DAC/VOBA amortization or unlocking on products covered under the ASC Financial Services-Insurance Topic, the reference is to changes in all balance sheet components amortized over estimated gross profits.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The following table presents a summary of results and reconciles segment operating income (loss) to consolidated net income (Predecessor and Successor periods are not comparable):

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Segment Operating Income (Loss)</b>					
Life Marketing	\$	3,425	\$	(1,618)	\$ 23,485
Acquisitions		36,070		20,134	60,996
Annuities		38,185		13,164	51,643
Stable Value Products		6,115		4,529	17,397
Asset Protection		4,047		2,420	6,369
Corporate and Other		1,885		(10,144)	(14,855)
Total segment operating income		89,727		28,485	145,035
Realized investment gains (losses) - investments(1)		(42,933)		89,815	68,533
Realized investment gains (losses) - derivatives		46,033		(117,118)	(88,363)
Income tax (expense) benefit		(29,966)		327	(41,566)
Net income	\$	62,861	\$	1,509	\$ 83,639
Investment gains (losses)(2)	\$	(35,056)	\$	80,672	\$ 70,523
Less: amortization related to DAC/VOBA and benefits and settlement expenses		7,877		(9,143)	1,990
Realized investment gains (losses) - investments	\$	(42,933)	\$	89,815	\$ 68,533
Derivative gains (losses) (3)	\$	33,641	\$	(123,274)	\$ (105,350)
Less: VA GMWB economic cost		(12,392)		(6,156)	(16,987)
Realized investment gains (losses) - derivatives	\$	46,033	\$	(117,118)	\$ (88,363)

(1) Includes credit related other-than-temporary impairments of \$0.5 million for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and \$1.6 million for the three months ended March 31, 2014 (Predecessor Company), respectively. We did not recognize any other-than-temporary impairments for the period of February 1, 2015 to March 31, 2015 (Successor Company).

(2) Includes realized investment gains (losses) before related amortization.

(3) Includes realized gains (losses) on derivatives before the VA GMWB economic cost.

***For The Period of February 1, 2015 to March 31, 2015 (Successor Company)***

Net income was \$62.9 million and operating income was \$89.7 million for the period of February 1, 2015 to March 31, 2015.

We experienced net realized losses of \$1.4 million for the period of February 1, 2015 to March 31, 2015 (Successor Company). The losses realized were primarily related to net losses of \$1.0 million of derivatives related to variable annuity contracts, \$1.0 million of losses related to the net activity of the modified coinsurance portfolio, and net losses of \$2.2 million loss related to other investment and derivative activity. Partially offsetting these losses were \$0.4 million of gains related to investment securities sale activity, net gains of \$2.0 million of derivatives related to FIA contracts, and net gains of \$0.4 million related to IUL contracts.

- Life Marketing segment operating income was \$3.4 million which consisted of universal life earnings of \$9.5 million, a traditional operating loss of \$2.9 million, and an operating loss of \$3.2 million in other lines.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

### Table of Contents

- Acquisitions segment operating income was \$36.1 million. This included expected runoff of the in force blocks of business.
- Annuities segment operating income was \$38.2 million which included \$21.0 million of fixed annuity operating earnings and \$19.9 million of variable annuity operating earnings. The fixed annuity results were primarily driven by \$8.0 million of favorable single premium immediate annuities ( SPIA ) mortality. There was no unlocking recorded by the segment during the period.
- Stable Value Products segment operating income of \$6.1 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$1.2 million and the adjusted operating spread, which excludes participating income, was 159 basis points.
- Asset Protection segment operating income was \$4.0 million which consisted of service contract earnings of \$2.5 million, GAP product earnings of \$1.1 million, and credit insurance earnings of \$0.4 million.
- The Corporate and Other segment s \$1.9 million operating income was primarily due to \$30.2 million of investment income and \$2.4 million of mortgage loan prepayment fees and participation income partially offset by corporate overhead expenses and \$13.6 million of interest expense.

### *For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

Net income was \$1.5 million and operating income was \$28.5 million for the period of January 1, 2015 to January 31, 2015.

We experienced net realized losses of \$42.6 million for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). The losses realized for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), were primarily related to \$0.5 million for other-than-temporary impairment credit-related losses, net losses of \$53.6 million of derivatives related to variable annuity contracts, net losses of \$1.0 million of derivatives related to FIA contracts, and net losses of \$0.6 million of derivatives related to IUL contracts. Partially offsetting these losses were \$6.9 million of gains related to investment securities sale activity, \$5.0 million of gains related to the net activity of the modified coinsurance portfolio, and net gains of \$1.2 million related to other investment and derivative activity.

- Life Marketing segment operating loss was \$1.6 million. Included in that amount was a traditional operating loss of \$3.4 million, universal life earnings of \$1.2 million, and operating earnings of \$0.6 million in other lines.
- Acquisitions segment operating income was \$20.1 million. This included expected runoff of the in force blocks of business.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

- Annuities segment operating income was \$13.2 million. Included in that amount was \$2.8 million of unfavorable SPIA mortality results and \$2.3 million of unfavorable unlocking, primarily related to the VA line of business.
- Stable Value Products segment operating income of \$4.5 million was primarily due activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.1 million and the adjusted operating spread, which excludes participating income, was 276 basis points.
- Asset Protection segment operating income was \$2.4 million which consisted of \$1.3 million in service contract earnings, \$0.9 million in GAP product earnings, and credit insurance earnings of \$0.2 million.
- The Corporate and Other segment's \$10.1 million operating loss was primarily due to corporate overhead expenses and \$11.1 million of interest expense partially offset by \$10.2 million of investment income and \$0.5 million of mortgage loan prepayment fees.

Table of Contents

*For The Three Months Ended March 31, 2014 (Predecessor Company)*

Net income was \$83.6 million and operating income was \$145.0 million for the three months ended March 31, 2014.

We experienced net realized losses of \$34.8 million for the three months ended March 31, 2014. The losses realized for the three months ended March 31, 2014, were primarily related to \$1.6 million for other-than-temporary impairment credit-related losses, net losses of \$48.2 million of derivatives related to variable annuity contracts, and a \$1.6 million loss related to other investment and derivative activity. Partially offsetting these losses were \$7.4 million of gains related to investment securities sale activity, \$6.1 million of gains related to the net activity of the modified coinsurance portfolio, and net gains of \$3.1 million of derivatives related to FIA contracts.

- Life Marketing segment operating income was \$23.5 million which consisted of traditional earnings of \$15.5 million, universal life earnings of \$3.9 million, and operating earnings of \$4.1 million in other lines.
- Acquisitions segment operating income was \$61.0 million. This included expected runoff of the in force blocks of business.
- Annuities segment operating income was \$51.6 million. Included in this amount was \$7.5 million of unfavorable SPIA mortality results.
- Stable Value Products segment operating income of \$17.4 million was primarily due activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.5 million and the adjusted operating spread, which excludes participating income, was 262 basis points.
- Asset Protection segment operating income was \$6.4 million which consisted of \$3.8 million in service contract earnings, \$2.5 million in GAP product earnings, and credit insurance earnings of \$0.1 million.
- The Corporate and Other segment's \$14.9 million operating loss was primarily due to corporate overhead expenses and \$35.9 million of interest expense which was partially offset by \$36.1 million of investment income and \$4.4 million of gross premiums and policies fees.



Table of Contents**Life Marketing****Segment Results of Operations**

Segment results were as follows:

	<b>Successor Company</b>		<b>Predecessor Company</b>	
	<b>February 1, 2015 to March 31, 2015</b>		<b>January 1, 2015 to January 31, 2015</b>	
	<b>(Dollars In Thousands)</b>		<b>(Dollars In Thousands)</b>	
			<b>For The Three Months Ended March 31, 2014</b>	
<b>REVENUES</b>				
Gross premiums and policy fees	\$	243,678	\$	136,068
Reinsurance ceded		(68,383)		(51,142)
Net premiums and policy fees		175,295		84,926
Net investment income		78,255		47,460
Other income		18,081		12,810
Total operating revenues		271,631		145,196
Realized gains (losses) - investments		133		997
Realized gains (losses) - derivatives		412		(598)
Total revenues		272,176		145,595
<b>BENEFITS AND EXPENSES</b>				
Benefits and settlement expenses		222,730		123,525
Amortization of deferred policy acquisition costs and value of business acquired		20,147		4,584
Other operating expenses		25,329		18,705
Operating benefits and settlement expenses		268,206		146,814
Amortization related to benefits and settlement expenses		409		(346)
Amortization of DAC/VOBA related to realized gains (losses) - investments		31		229
Total benefits and expenses		268,646		146,697
<b>INCOME (LOSS) BEFORE INCOME TAX</b>		<b>3,530</b>		<b>(1,102)</b>
Less: realized gains (losses)		545		399
Less: amortization related to benefits and settlement expenses		(409)		346
Less: related amortization of DAC/VOBA		(31)		(229)
<b>OPERATING INCOME (LOSS)</b>	<b>\$</b>	<b>3,425</b>	<b>\$</b>	<b>(1,618)</b>
			<b>\$</b>	<b>23,485</b>

Table of Contents

The following table summarizes key data for the Life Marketing segment:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Sales By Product</b>					
Traditional	\$	110	\$	42	\$ 149
Universal life		23,486		11,473	28,181
BOLI					
	\$	23,596	\$	11,515	\$ 28,330
<b>Sales By Distribution Channel</b>					
Independent agents	\$	17,910	\$	9,027	\$ 21,515
Stockbrokers / banks		4,892		2,169	6,224
BOLI / other		794		319	591
	\$	23,596	\$	11,515	\$ 28,330
<b>Average Life Insurance In-force(1)</b>					
Traditional	\$	388,673,749	\$	391,411,413	\$ 411,206,813
Universal life		157,764,363		153,317,720	124,300,639
	\$	546,438,112	\$	544,729,133	\$ 535,507,452
<b>Average Account Values</b>					
Universal life	\$	7,264,402	\$	7,250,973	\$ 7,110,461
Variable universal life		582,946		574,257	529,816
	\$	7,847,348	\$	7,825,230	\$ 7,640,277

(1) Amounts are not adjusted for reinsurance ceded.

Table of Contents*Operating expenses detail*

Other operating expenses for the segment were as follows:

	<b>Successor Company</b>		<b>Predecessor Company</b>			
	<b>February 1, 2015 to March 31, 2015</b>		<b>January 1, 2015 to January 31, 2015</b>			
	<b>(Dollars In Thousands)</b>		<b>(Dollars In Thousands)</b>			
			<b>For The Three Months Ended March 31, 2014</b>			
<b>Insurance companies:</b>						
First year commissions	\$	28,669	\$	14,109	\$	33,067
Renewal commissions		4,852		2,513		6,782
First year ceding allowances		(509)		(49)		(306)
Renewal ceding allowances		(28,853)		(12,364)		(36,843)
General & administrative		31,974		17,467		42,150
Taxes, licenses, and fees		5,175		2,508		5,777
Other operating expenses incurred		41,308		24,184		50,627
Less: commissions, allowances & expenses capitalized		(34,083)		(17,059)		(38,331)
Other insurance company operating expenses		7,225		7,125		12,296
<b>Marketing companies:</b>						
Commissions		12,887		8,233		23,021
Other operating expenses		5,217		3,347		7,929
Other marketing company operating expenses		18,104		11,580		30,950
<b>Other operating expenses</b>	<b>\$</b>	<b>25,329</b>	<b>\$</b>	<b>18,705</b>	<b>\$</b>	<b>43,246</b>

*For The Period of February 1, 2015 to March 31, 2015 (Successor Company)**Net premiums and policy fees*

Net premiums and policy fees were \$175.3 million for the period of February 1, 2015 to March 31, 2015. Included in this amount are traditional net premiums of \$99.5 million and universal life policy fees of \$75.7 million.

*Net investment income*

Net investment income was \$78.3 million for the period of February 1, 2015 to March 31, 2015. Included in this amount is traditional net investment income of \$10.0 million and universal life investment income of \$66.1 million.

*Other income*

Other income was \$18.1 million for the period of February 1, 2015 to March 31, 2015. This amount is primarily comprised of revenue in the segment's non-insurance operations.

*Benefits and settlement expenses*

Benefit and settlement expenses were \$222.7 million for the period of February 1, 2015 to March 31, 2015. This amount includes traditional benefit and settlement expenses of \$91.3 million and universal life benefit and settlement expenses of \$131.5 million, including \$53.0 million of interest on funds for universal life policies.

*Amortization of DAC and VOBA*

DAC and VOBA amortization was \$20.1 million for the period of February 1, 2015 to March 31, 2015.

Table of Contents

*Other operating expenses*

Other operating expenses were \$25.3 million for the period of February 1, 2015 to March 31, 2015. Other operating expenses for the insurance companies reflect commissions of \$33.5 million, general and administrative expenses of \$32.0 million, and taxes of \$5.2 million, partly offset by ceding allowances of \$29.4 million and capitalization of \$34.1 million. Marketing company expenses were \$18.1 million for the period of February 1, 2015 to March 31, 2015.

*Sales*

Sales for the segment were \$23.6 million for the period of February 1, 2015 to March 31, 2015, comprised primarily of universal life sales.

***For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)***

*Net premiums and policy fees*

Net premiums and policy fees were \$84.9 million for the period of January 1, 2015 to January 31, 2015. This amount is comprised of traditional net premiums of \$41.8 million and universal life policy fees of \$43.1 million.

*Net investment income*

Net investment income was \$47.5 million for the period of January 1, 2015 to January 31, 2015. Included in this amount is traditional net investment income of \$6.3 million and universal life investment income of \$40.1 million.

*Other income*

Other income was \$12.8 million for the period of January 1, 2015 to January 31, 2015. This amount is primarily comprised of revenue in the segment's non-insurance operations.

*Benefits and settlement expenses*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Benefit and settlement expenses were \$123.5 million for the period of January 1, 2015 to January 31, 2015. This amount includes traditional benefit and settlement expenses of \$44.7 million, including an elevated level of claims and universal life benefit and settlement expenses of \$77.7 million, partly comprised of \$25.7 million of interest on funds for universal life policies.

### *Amortization of DAC and VOBA*

DAC and VOBA amortization was \$4.6 million for the period of January 1, 2015 to January 31, 2015.

### *Other operating expenses*

Other operating expenses were \$18.7 million for the period of January 1, 2015 to January 31, 2015. Other operating expenses for the insurance companies reflect commissions of \$16.6 million, general and administrative expenses of \$17.5 million, and taxes of \$2.5 million, partly offset by ceding allowances of \$12.4 million and capitalization of \$17.1 million. Marketing company expenses were \$11.6 million for the period of January 1, 2015 to January 31, 2015.

### *Sales*

Sales for the segment were \$11.5 million for the period of January 1, 2015 to January 31, 2015, almost entirely comprised of universal life sales.

Table of Contents

*For The Three Months Ended March 31, 2014 (Predecessor Company)*

*Net premiums and policy fees*

Net premiums and policy fees were \$218.1 million for the three months ended March 31, 2014. This amount is comprised of traditional net premiums of \$125.3 million and universal life policy fees of \$92.6 million.

*Net investment income*

Net investment income in the segment was \$134.0 million for the three months ended March 31, 2014. Included in this amount is traditional net investment income of \$15.5 million and universal life investment income of \$115.0 million.

*Other income*

Other income was \$32.5 million for the three months ended March 31, 2014, primarily due to revenue in the segment's non-insurance operations.

*Benefits and settlement expenses*

Benefits and settlement expenses were \$293.8 for the three months ended March 31, 2014. This amount includes traditional benefit and settlement expenses of \$102.5 million and universal life benefit and settlement expenses of \$191.4 million, partly comprised of \$75.9 million of interest on funds for universal life policies. For the three months ended March 31, 2014, universal life and BOLI unlocking was largely driven by mortality and lapses. The impact of these changes decreased benefits and settlement expenses \$4.2 million.

*Amortization of DAC and VOBA*

DAC and VOBA amortization was \$24.0 million for the three months ended March 31, 2014. For the three months ended March 31, 2014, universal life and BOLI unlocking increased amortization \$4.6 million.

*Other operating expenses*

Other operating expenses were \$43.2 million for the three months ended March 31, 2014. Other operating expenses for the insurance companies reflect commissions of \$39.8 million, general and administrative expenses of \$42.2 million, and taxes of \$5.8 million, partly offset by ceding allowances of \$37.1 million and capitalization of \$38.3 million. Marketing company expenses were \$31.0 million for the period ended March 31, 2014.

*Sales*

Sales for the segment were \$28.3 million for the three months ended March 31, 2014, comprised primarily of universal life sales of \$28.2 million.

*Reinsurance*

Currently, the Life Marketing segment reinsures significant amounts of its life insurance in-force. Pursuant to the underlying reinsurance contracts, reinsurers pay allowances to the segment as a percentage of both first year and renewal premiums. Reinsurance allowances represent the amount the reinsurer is willing to pay for reimbursement of acquisition costs incurred by the direct writer of the business. A portion of reinsurance allowances received is deferred as part of DAC and a portion is recognized immediately as a reduction of other operating expenses. As the non-deferred portion of allowances reduces operating expenses in the period received, these amounts represent a net increase to operating income during that period.

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration, and investment contracts business is amortized based on the estimated gross profits of



Table of Contents

the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore, impact DAC amortization on these lines of business. Deferred reinsurance allowances on level term business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in-force. Thus, deferred reinsurance allowances may impact DAC amortization. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (Predecessor Company).

**Impact of reinsurance**

Reinsurance impacted the Life Marketing segment line items as shown in the following table:

	<b>Life Marketing Segment</b>			
	<b>Line Item Impact of Reinsurance</b>			
	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)	For The Three Months Ended March 31, 2014
<b>REVENUES</b>				
Reinsurance ceded	\$ (68,383)		\$ (51,142)	\$ (194,019)
<b>BENEFITS AND EXPENSES</b>				
Benefits and settlement expenses	(61,735)		(58,501)	(198,781)
Amortization of deferred policy acquisition costs and value of business acquired	(794)		(3,766)	(9,473)
Other operating expenses (1)	(28,038)		(11,728)	(32,293)
Total benefits and expenses	(90,567)		(73,995)	(240,547)
<b>NET IMPACT OF REINSURANCE</b>	<b>\$ 22,184</b>		<b>\$ 22,853</b>	<b>\$ 46,528</b>
Allowances received	\$ (29,362)		\$ (12,413)	\$ (37,149)
Less: Amount deferred	1,324		685	4,856
Allowances recognized (ceded other operating expenses) (1)	\$ (28,038)		\$ (11,728)	\$ (32,293)

(1) Other operating expenses ceded per the income statement are equal to reinsurance allowances recognized after capitalization.

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies' profitability on the business that we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 100% to 225%. The Life Marketing segment's reinsurance programs do not materially impact the other income line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment's operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment's traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business has been ceded due to a change in reinsurance strategy on traditional business. In addition, since 2012, a much smaller percentage of the segment's new universal life business has been ceded. As a result of that change, the relative impact of reinsurance on the Life Marketing segment's overall results is expected to decrease over time. While the significance of reinsurance is expected

Table of Contents

to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances.

***For The Period of February 1, 2015 to March 31, 2015 (Successor Company)***

The ceded premiums were primarily comprised of ceded traditional life premiums of \$5.7 million and universal life premiums of \$63.0 million. Traditional ceded premiums for the period February 1, 2015 to March 31, 2015 were impacted by runoff and a number of policies with post level period activity.

Ceded benefits and settlement expenses were \$61.7 million for the period of February 1, 2015 to March 31, 2015. This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional ceded benefits activity of \$2.0 million was due to ceded death benefits, largely offset by ceded reserves. Universal life ceded benefits of \$59.8 million were mainly comprised of \$59.7 million in ceded universal life claims during the period.

Ceded amortization of DAC and VOBA activity was \$0.8 million for the period of February 1, 2015 to March 31, 2015.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

***For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)***

The ceded premiums were primarily comprised of ceded traditional life premiums of \$22.6 million and universal life premiums of \$27.2 million. Traditional ceded premiums for the period January 1, 2015 to January 31, 2015 were impacted by runoff and a number of policies with post level activity.

Ceded benefits and settlement expenses were \$58.5 million for the period of January 1, 2015 to January 31, 2015. This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional ceded benefits activity of \$29.3 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded benefits of \$30.0 million were mainly comprised of \$30.4 million in ceded universal life claims during the period.

Ceded amortization of DAC and VOBA activity was \$3.8 million for the period of January 1, 2015 to January 31, 2015.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

*For The Three Months Ended March 31, 2014 (Predecessor Company)*

The ceded premiums for 2014 were primarily comprised of ceded traditional life premiums of \$99.0 million and universal life premiums of \$94.6 million. Traditional ceded premiums for the three months ended March 31, 2014 were impacted by runoff and a number of policies with post level activity.

Ceded benefits and settlement expenses were \$198.8 million for the three months ended March 31, 2014. This amount was primarily driven by the impact of ceded claims, with traditional ceded death benefits of \$127.3 million and universal life ceded death benefits of \$81.7 million.

Ceded amortization of DAC and VOBA costs was \$9.5 million for the three months ended March 31, 2014.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

Table of Contents**Acquisitions****Segment Results of Operations**

Segment results were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Gross premiums and policy fees	\$ 191,902	\$ 88,855	\$ 295,830
Reinsurance ceded	(48,560)	(26,512)	(100,369)
Net premiums and policy fees	143,342	62,343	195,461
Net investment income	113,692	71,088	216,102
Other income	2,191	1,240	4,061
Total operating revenues	259,225	134,671	415,624
Realized gains (losses) - investments	(32,627)	73,601	71,115
Realized gains (losses) - derivatives	32,191	(68,511)	(59,791)
Total revenues	258,789	139,761	426,948
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	205,847	100,693	308,364
Amortization of value of business acquired	(130)	4,803	18,062
Other operating expenses	17,438	9,041	28,202
Operating benefits and expenses	223,155	114,537	354,628
Amortization related to benefits and settlement expenses	2,409	1,233	7,500
Amortization of VOBA related to realized gains (losses) - investments	(10)	230	510
Total benefits and expenses	225,554	116,000	362,638
<b>INCOME BEFORE INCOME TAX</b>	<b>33,235</b>	<b>23,761</b>	<b>64,310</b>
Less: realized gains (losses)	(436)	5,090	11,324
Less: amortization related to benefits and settlement expenses	(2,409)	(1,233)	(7,500)
Less: related amortization of VOBA	10	(230)	(510)
<b>OPERATING INCOME</b>	<b>\$ 36,070</b>	<b>\$ 20,134</b>	<b>\$ 60,996</b>

Table of Contents

The following table summarizes key data for the Acquisitions segment:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Average Life Insurance In-Force(1)</b>					
Traditional	\$	180,098,499	\$	182,177,575	\$ 193,786,319
Universal life		33,071,531		33,413,557	36,169,275
	\$	213,170,030	\$	215,591,132	\$ 229,955,594
<b>Average Account Values</b>					
Universal life	\$	4,489,381	\$	4,486,843	\$ 4,596,540
Fixed annuity(2)		3,695,824		3,712,578	3,826,812
Variable annuity		1,410,627		1,396,587	1,511,562
	\$	9,595,832	\$	9,596,008	\$ 9,934,914
<b>Interest Spread - UL &amp; Fixed Annuities</b>					
Net investment income yield(3)		4.34%		5.73%	5.64%
Interest credited to policyholders		3.98		4.05	3.96
Interest spread		0.36%		1.68%	1.68%

(1) Amounts are not adjusted for reinsurance ceded.

(2) Includes general account balances held within variable annuity products and is net of coinsurance ceded.

(3) Earned rates exclude portfolios supporting modified coinsurance and crediting rates exclude 100% cessions.

**For The Period of February 1, 2015 to March 31, 2015 (Successor Company)***Operating revenues*

Operating revenues for the segment were \$259.2 million and included net premiums and policy fees of \$143.3 million, net investment income of \$113.7 million, and other income of \$2.2 million. The segment experienced expected runoff in the current period.

*Total benefits and expenses*

Total benefits and expenses were \$225.6 million, primarily due to operating benefits and expenses of \$223.2 million. Operating benefits and expenses included benefits and settlement expenses of \$205.8 million, amortization of value of business acquired of \$0.1 million, and other operating expenses of \$17.4 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

related to realized gains (losses) on investments contributed \$2.4 million to total benefits and expenses.

*For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

*Operating revenues*

Operating revenues for the segment were \$134.7 million and included net premiums and policy fees of \$62.3 million, net investment income of \$71.1 million, and other income of \$1.2 million. The segment experienced expected runoff in the current period.

*Total benefits and expenses*

Total benefits and expenses were \$116.0 million, primarily due to operating benefits and expenses of \$114.5 million. Operating benefits and expenses included benefits and settlement expenses of \$100.7 million, amortization of

Table of Contents

value of business acquired of \$4.8 million, and other operating expenses of \$9.0 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed \$1.5 million to total benefits and expenses.

***For The Three Months Ended March 31, 2014 (Predecessor Company)***

*Operating revenues*

Net premiums and policy fees were \$195.5 million for the three months ended March 31, 2014. Net investment income was \$216.1 million for the three months ended March 31, 2014. The segment experienced expected runoff.

*Total benefits and expenses*

Total benefits and expenses were \$362.6 million for the three months ended March 31, 2014. The activity was primarily due to the MONY acquisition. The MONY acquisition increased operating benefits and expenses \$158.5 million.

***Reinsurance***

The Acquisitions segment currently reinsures portions of both its life and annuity in-force. The cost of reinsurance to the segment is reflected in the chart shown below. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (Predecessor Company).

***Impact of reinsurance***

Reinsurance impacted the Acquisitions segment line items as shown in the following table:

**Acquisitions Segment**

**Line Item Impact of Reinsurance**



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Reinsurance ceded	\$ (48,560)	\$ (26,512)	\$ (100,369)
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	(34,290)	(25,832)	(89,736)
Amortization of value of business acquired	(8)	(233)	(2,979)
Other operating expenses	(8,285)	(3,647)	(10,887)
Total benefits and expenses	(42,583)	(29,712)	(103,602)
<b>NET IMPACT OF REINSURANCE (1)</b>	<b>\$ (5,977)</b>	<b>\$ 3,200</b>	<b>\$ 3,233</b>

(1) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance.

The segment's reinsurance programs do not materially impact the other income line of the income statement. In addition, net investment income generally has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming

Table of Contents

companies' profitability on business assumed from the Company. For business ceded under modified coinsurance arrangements, the amount of investment income attributable to the assuming company is included as part of the overall change in policy reserves and, as such, is reflected in benefit and settlement expenses. The net investment income impact to us and the assuming companies has not been quantified as it is not fully reflected in our consolidated financial statements.

The net impact of reinsurance activity for the period of February 1, 2015 to March 31, 2015 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

The net impact of reinsurance activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

The net impact of reinsurance activity for the three months ended March 31, 2014 (Predecessor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

Table of Contents**Annuities****Segment Results of Operations**

Segment results were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Gross premiums and policy fees	\$ 24,947	\$ 12,473	\$ 36,272
Reinsurance ceded			
Net premiums and policy fees	24,947	12,473	36,272
Net investment income	50,931	37,189	117,466
Realized gains (losses) - derivatives	(12,392)	(6,156)	(16,987)
Other income	27,129	12,980	35,430
Total operating revenues	90,615	56,486	172,181
Realized gains (losses) - investments	(605)	(145)	609
Realized gains (losses) - derivatives, net of economic cost	13,359	(48,457)	(28,133)
Total revenues	103,369	7,884	144,657
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	32,919	27,485	77,859
Amortization of deferred policy acquisition costs and value of business acquired	(2,404)	5,911	14,372
Other operating expenses	21,915	9,926	28,307
Operating benefits and expenses	52,430	43,322	120,538
Amortization related to benefits and settlement expenses	(612)	3,128	2,233
Amortization of DAC/VOBA related to realized gains (losses) - investments	5,650	(13,617)	(8,287)
Total benefits and expenses	57,468	32,833	114,484
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	45,901	(24,949)	30,173
Less: realized gains (losses) - investments	(605)	(145)	609
Less: realized gains (losses) - derivatives, net of economic cost	13,359	(48,457)	(28,133)
Less: amortization related to benefits and settlement expenses	612	(3,128)	(2,233)
Less: related amortization of DAC/VOBA	(5,650)	13,617	8,287
<b>OPERATING INCOME</b>	\$ 38,185	\$ 13,164	\$ 51,643

Table of Contents

The following table summarizes key data for the Annuities segment:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Sales</b>					
Fixed annuity	\$	42,476	\$	28,335	\$ 236,154
Variable annuity		184,147		59,115	180,205
	\$	226,623	\$	87,450	\$ 416,359
<b>Average Account Values</b>					
Fixed annuity(1)	\$	8,263,820	\$	8,171,438	\$ 8,182,141
Variable annuity		12,579,000		12,365,217	12,035,056
	\$	20,842,820	\$	20,536,655	\$ 20,217,197
<b>Interest Spread - Fixed Annuities(2)</b>					
Net investment income yield		3.48%		5.22%	5.51%
Interest credited to policyholders		2.89		3.17	3.35
Interest spread		0.59%		2.05%	2.16%

(1) Includes general account balances held within VA products.

(2) Interest spread on average general account values.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Derivatives related to variable annuity contracts:</b>					
Interest rate futures - VA	\$	(48)	\$	1,413	\$ 4,250
Equity futures - VA		(32,469)		9,221	(2,651)
Currency futures - VA		6,137		7,778	(1,278)
Variance swaps - VA					(1,850)
Equity options - VA		(21,774)		3,047	(12,341)
Interest rate swaptions - VA		(11,328)		9,268	(9,403)
Interest rate swaps - VA		(54,791)		122,710	57,368
Embedded derivative - GMWB(1)		113,260		(207,018)	(82,287)
Total derivatives related to variable annuity contracts		(1,013)		(53,581)	(48,192)
<b>Derivatives related to FIA contracts:</b>					
Embedded derivative - FIA		(2,583)		1,769	1,733
Equity futures - FIA		184		(184)	345
Volatility futures - FIA		4			
Equity options - FIA		4,375		(2,617)	994
Total derivatives related to FIA contracts		1,980		(1,032)	3,072
Economic cost - VA GMWB(2)		12,392		6,156	16,987
Realized gains (losses) - derivatives, net of economic cost	\$	13,359	\$	(48,457)	\$ (28,133)

(1) Includes impact of nonperformance risk of \$(5.9) million for the period of February 1, 2015 to March 31, 2015 (Successor Company), \$11.8 million for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and \$(3.1) million for the three months ended March 31, 2014 (Predecessor Company).

(2) Economic cost is the long-term expected average cost of providing the product benefit over the life of the policy based on product pricing assumptions. These include assumptions about the economic/market environment and elective and non-elective policy owner behavior (e.g. lapses, withdrawal timing, mortality, etc.)

	Successor Company As of March 31, 2015 (Dollars In Thousands)		Predecessor Company As of December 31, 2014 (Dollars In Thousands)	
GMDB - Net amount at risk(1)	\$	86,311	\$	93,061
GMDB Reserves		29,637		25,960
GMWB and GMAB Reserves		72,776		245,127
Account value subject to GMWB rider		9,822,111		9,738,496
GMWB Benefit Base		9,929,753		9,837,891
GMAB Benefit Base		4,587		4,967
S&P 500® Index		2,068		2,059

(1) Guaranteed benefits in excess of contract holder account balance.

*For The Period of February 1, 2015 to March 31, 2015 (Successor Company)*

*Operating revenues*

Segment operating revenues were \$90.6 million for the period of February 1, 2015 to March 31, 2015. Operating revenue consisted of \$50.9 million of net investment income, \$24.9 million of policy fees, \$27.1 million in other income, and \$12.4 million related to GMWB economic cost from the VA line of business.

Table of Contents

*Benefits and settlement expenses*

Benefits and settlement expenses were \$32.9 million for the period of February 1, 2015 to March 31, 2015. Included in that amount is \$8.0 million in favorable SPIA mortality results, which was partially offset by an increase in guaranteed benefit reserves from the VA line of business.

*Amortization of DAC and VOBA*

DAC and VOBA amortization was \$2.4 million favorable for the period of February 1, 2015 to March 31, 2015 due to the allocation of negative VOBA to some of the products within the segment.

*Other operating expenses*

Other operating expenses were \$21.9 million for the period of February 1, 2015 to March 31, 2015. Operating expenses consisted of \$5.5 million in acquisition expenses, \$7.8 million in maintenance and overhead expenses, and \$8.6 million in commission expenses.

*Sales*

Total sales were \$226.6 million for the period of February 1, 2015 to March 31, 2015. Fixed annuity sales were \$42.5 million and variable annuity sales were \$184.1 million.

*For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

*Operating revenues*

Segment operating revenue was \$56.5 million for the period of January 1, 2015 to January 31, 2015. Operating revenue consisted of \$37.2 million of investment income, \$12.5 million of policy fees, \$13.0 million in other income, and \$6.2 million related to GMWB economic cost from the VA line of business.

*Benefits and settlement expenses*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Benefits and settlement expenses were \$27.5 million for the period of January 1, 2015 to January 31, 2015. Included in that amount is \$2.8 million of unfavorable SPIA mortality results and a \$2.6 million increase in guaranteed benefit reserves from the VA line of business.

### *Amortization of DAC and VOBA*

DAC and VOBA amortization was \$5.9 million unfavorable for the period of January 1, 2015 to January 31, 2015. The segment recorded unfavorable DAC unlocking of \$2.4 million, including \$2.2 million of unfavorable unlocking from the VA line of business.

### *Other operating expenses*

Other operating expenses were \$9.9 million for the period of January 1, 2015 to January 31, 2015. Operating expenses consisted of \$2.8 million in acquisition expense, \$2.8 million in maintenance and overhead expenses, and \$4.3 million in commission expenses.

### *Sales*

Total sales were \$87.5 million for the period of January 1, 2015 to January 31, 2015. Fixed annuity sales were \$28.3 million and variable annuity sales were \$59.1 million.



Table of Contents

*For The Three Months Ended March 31, 2014 (Predecessor Company)*

*Operating revenues*

Segment operating revenues were \$172.2 million for the three months ended March 31, 2014, which consisted of \$117.5 million of net investment income, \$36.3 million of policy fees, \$35.4 million in other income, and \$17.0 million related to GMWB economic cost from the VA line of business.

*Benefits and settlement expenses*

Benefits and settlement expenses were \$77.9 million for the three months ended March 31, 2014. Included in these results are \$7.5 million of unfavorable SPIA mortality results and \$0.9 million of unfavorable unlocking.

*Amortization of DAC and VOBA*

DAC and VOBA amortization was \$14.4 million for the three months ended March 31, 2014. Included in this amount was \$1.3 million of favorable unlocking.

*Other operating expenses*

Other operating expenses were \$28.3 million for the three months ended March 31, 2014. Operating expenses consisted of \$8.3 million in acquisition expenses, \$8.0 million in maintenance and overhead expenses, and \$12.0 million in commission expenses.

*Sales*

Total sales were \$416.4 million for the three months ended March 31, 2014. Fixed annuity sales were \$236.2 million and variable annuity sales were \$180.2 million.



Table of Contents**Stable Value Products***Segment Results of Operations*

Segment results were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Net investment income	\$ 10,373	\$ 6,888	\$ 27,778
Other income			
Total operating revenues	10,373	6,888	27,778
Realized gains (losses)	(31)	1,293	41
Total revenues	10,342	8,181	27,819
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	3,919	2,255	9,808
Amortization of deferred policy acquisition costs and value of business acquired		25	100
Other operating expenses	339	79	473
Total benefits and expenses	4,258	2,359	10,381
<b>INCOME BEFORE INCOME TAX</b>	<b>6,084</b>	<b>5,822</b>	<b>17,438</b>
Less: realized gains (losses)	(31)	1,293	41
<b>OPERATING INCOME</b>	<b>\$ 6,115</b>	<b>\$ 4,529</b>	<b>\$ 17,397</b>

Table of Contents

The following table summarizes key data for the Stable Value Products segment:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Sales</b>					
GIC	\$	50,700	\$	\$	25,850
GFA - Direct Institutional		100,000			
	\$	150,700	\$	\$	25,850
<b>Average Account Values</b>					
	\$	1,863,209	\$	1,932,722	\$ 2,580,025
<b>Ending Account Values</b>					
	\$	1,923,684	\$	1,911,751	\$ 2,537,504
<b>Operating Spread</b>					
Net investment income yield		3.38%		4.28%	4.31%
Other income yield					
Interest credited		1.28		1.40	1.52
Operating expenses		0.11		0.07	0.09
Operating spread		1.99%		2.81%	2.70%
Adjusted operating spread(1)		1.59%		2.76%	2.62%

(1) Excludes participating mortgage loan income and other income.

**For The Period of February 1, 2015 to March 31, 2015 (Successor Company)**

*Segment operating income*

Operating income of \$6.1 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$1.2 million and the adjusted operating spread, which excludes participating income, was 159 basis points.

**For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)**

*Segment operating income*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Operating income of \$4.5 million was primarily due activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.1 million and the adjusted operating spread, which excludes participating income, was 276 basis points.

### *For The Three Months Ended March 31, 2014 (Predecessor Company)*

#### *Segment operating income*

Operating income of \$17.4 million was primarily due activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.5 million and the adjusted operating spread, which excludes participating income, was 262 basis points.

Table of Contents**Asset Protection***Segment Results of Operations*

Segment results were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>REVENUES</b>					
Gross premiums and policy fees	\$	45,817	\$	23,127	\$ 67,274
Reinsurance ceded		(24,458)		(12,302)	(33,324)
Net premiums and policy fees		21,359		10,825	33,950
Net investment income		3,012		1,878	5,729
Other income		19,656		9,250	26,704
Total operating revenues		44,027		21,953	66,383
<b>BENEFITS AND EXPENSES</b>					
Benefits and settlement expenses		15,791		7,592	24,620
Amortization of deferred policy acquisition costs and value of business acquired		4,603		1,820	6,645
Other operating expenses		19,586		10,121	28,749
Total benefits and expenses		39,980		19,533	60,014
<b>INCOME BEFORE INCOME TAX</b>		4,047		2,420	6,369
<b>OPERATING INCOME</b>	\$	4,047	\$	2,420	\$ 6,369

The following table summarizes key data for the Asset Protection segment:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
<b>Sales</b>					
Credit insurance	\$	3,882	\$	2,088	\$ 6,842
Service contracts		61,916		28,835	81,912
GAP		15,232		6,318	16,747
	\$	81,030	\$	37,241	\$ 105,501
<b>Loss Ratios(1)</b>					
Credit insurance		40.5%		27.9%	40.2%
Service contracts		80.4		82.4	83.5
GAP		71.9		56.6	58.3

---

(1) Incurred claims as a percentage of earned premiums

*For The Period of February 1, 2015 to March 31, 2015 (Successor Company)*

*Net premiums and policy fees*

Net premiums and policy fees were \$21.4 million which consisted of service contract premiums of \$13.9 million, GAP premiums of \$5.1 million, and credit insurance premiums of \$2.4 million.

Table of Contents

*Other income*

Other income activity consisted of \$16.5 million from the service contract line and \$3.1 million from the GAP product line.

*Benefits and settlement expenses*

Benefits and settlement expenses activity was \$11.1 million in service contract claims, \$3.7 million in GAP claims and \$1.0 million in credit insurance claims.

*Amortization of DAC and VOBA and Other operating expenses*

Amortization of DAC and VOBA consisted of \$2.5 million in the credit insurance line, \$2.0 million in the GAP line, and \$0.1 million in the service contract line, primarily resulting from amortization of VOBA activity. Other operating expenses were \$19.6 million including activity in all product lines.

*Sales*

Total segment sales consisted of \$61.9 million in the service contract line, \$15.2 million in the GAP product line, and credit insurance sales of \$3.9 million.

***For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)***

*Net premiums and policy fees*

Net premiums and policy fees consisted of service contract premiums of \$7.0 million, GAP premiums of \$2.6 million, and \$1.2 million of credit insurance premiums.

*Other income*



Other income consisted of \$7.9 million from the service contract line and \$1.4 million from the GAP product line.

*Benefits and settlement expenses*

Benefits and settlement expenses was primarily due to service contract claims of \$5.8 million, GAP claims of \$1.5 million, and credit insurance claims of \$0.3 million.

*Amortization of DAC and VOBA and Other operating expenses*

Amortization of DAC and VOBA consisted of \$1.1 million in the credit insurance line, \$0.4 million in the GAP line, and \$0.3 million in the service contract line. Other operating expenses were \$10.1 million including activity in all product lines.

*Sales*

Total segment sales consisted of \$28.8 million in the service contract line, \$6.3 million in the GAP product line and credit insurance sales of \$2.1 million.

***For The Three Months Ended March 31, 2014 (Predecessor Company)***

*Net premiums and policy fees*

Net premiums and policy fees consisted of service contract premiums of \$22.1 million, GAP premiums of \$7.9 million, and \$4.0 million of credit insurance premiums.

Table of Contents

*Other income*

Other income consisted of \$23.1 million from the service contract line and \$3.6 million from the GAP product line.

*Benefits and settlement expenses*

Benefits and settlement expenses was primarily due to service contract claims of \$18.4 million, GAP claims of \$4.6 million, and credit insurance claims of \$1.6 million.

*Amortization of DAC and VOBA and Other operating expenses*

Amortization of DAC and VOBA consisted of \$3.5 million in the credit insurance line, \$1.7 million in the service contract line and \$1.4 million in the GAP line. Other operating expenses were \$28.7 million from activity in all product lines.

*Sales*

Total segment sales consisted of \$81.9 million in the service contract line, \$16.7 million in the GAP product line and credit insurance sales of \$6.8 million.

***Reinsurance***

The majority of the Asset Protection segment's reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies ( PARCs ). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (Predecessor Company).

Table of Contents

Reinsurance impacted the Asset Protection segment line items as shown in the following table:

**Asset Protection Segment**

**Line Item Impact of Reinsurance**

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Reinsurance ceded	\$ (24,458)	\$ (12,302)	\$ (33,324)
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	(10,281)	(4,659)	(14,429)
Amortization of deferred policy acquisition costs and value of business acquired	(8)	(520)	(1,779)
Other operating expenses	(740)	(531)	(1,575)
Total benefits and expenses	(11,029)	(5,710)	(17,783)
<b>NET IMPACT OF REINSURANCE (1)</b>	<b>\$ (13,429)</b>	<b>\$ (6,592)</b>	<b>\$ (15,541)</b>

(1) Assumes no investment income on reinsurance. Foregone investment income would substantially change the impact of reinsurance.

***For The Period of February 1, 2015 to March 31, 2015 (Successor Company)***

Reinsurance premiums ceded of \$24.5 million consisted of ceded premiums in all product lines.

Benefits and settlement expenses ceded of \$10.3 million was primarily due to losses on ceded business in the service contract and GAP product lines.

Other operating expenses ceded of \$0.7 million was mainly due to ceded activity in the credit product line.

Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated condensed financial statements.

*For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

Reinsurance premiums ceded of \$12.3 million consisted of ceded premiums in all product lines.

Benefits and settlement expenses ceded of \$4.7 million was primarily due to losses on ceded business in the service contract and GAP product lines.

Amortization of DAC and VOBA ceded of \$0.5 million was primarily the result of ceded activity in the GAP product line. Other operating expenses ceded of \$0.5 million was mainly due to ceded activity in the credit product line.

Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated condensed financial statements.

Table of Contents

*For The Three Months Ended March 31, 2014 (Predecessor Company)*

Reinsurance premiums ceded of \$33.3 million consisted of ceded premiums in all product lines.

Benefits and settlement expenses ceded of \$14.4 million was primarily due to losses on ceded business in all product lines.

Amortization of DAC and VOBA ceded of \$1.8 million was primarily the result of ceded activity in the service contract and credit product lines. Other operating expenses ceded of \$1.6 million was mainly due to ceded activity in the credit product line.

Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated condensed financial statements.

Table of Contents**Corporate and Other****Segment Results of Operations**

Segment results were as follows:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands)	Predecessor Company For The Three Months Ended March 31, 2014
<b>REVENUES</b>			
Gross premiums and policy fees	\$ 2,664	\$ 1,343	\$ 4,409
Reinsurance ceded			(1)
Net premiums and policy fees	2,664	1,343	4,408
Net investment income	32,609	10,677	37,125
Realized gains (losses) - derivatives			
Other income	206	141	331
Total operating revenues	35,479	12,161	41,864
Realized gains (losses) - investments	(1,930)	4,919	(1,401)
Realized gains (losses) - derivatives	75	455	(478)
Total revenues	33,624	17,535	39,985
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	2,887	1,722	4,325
Amortization of deferred policy acquisition costs and value of business acquired	10	87	119
Other operating expenses	30,697	20,496	52,275
Total benefits and expenses	33,594	22,305	56,719
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	30	(4,770)	(16,734)
Less: realized gains (losses) - investments	(1,930)	4,919	(1,401)
Less: realized gains (losses) - derivatives	75	455	(478)
<b>OPERATING INCOME (LOSS)</b>	\$ 1,885	\$ (10,144)	\$ (14,855)

**For The Period of February 1, 2015 to March 31, 2015 (Successor Company)***Operating revenues*

Operating revenues of \$35.5 million were primarily due to \$30.2 million of investment income and \$2.4 million of mortgage loan prepayment fees and participation income.

*Total benefits and expenses*

Total benefits and expenses of \$33.6 million were primarily due to \$30.7 million of other operating expenses which included corporate overhead expenses and \$13.6 million of interest expense.

*For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

*Operating revenues*

Net investment income of \$10.7 million was primarily due to \$10.2 million of investment income and \$0.5 million of mortgage loan prepayment fees.

Table of Contents

*Total benefits and expenses*

Total benefits and expenses of \$22.3 million were primarily due to \$20.5 million of other operating expenses which included \$11.1 million of interest expense, corporate overhead expenses, and \$2.8 million of charitable contributions.

***For The Three Months Ended March 31, 2014 (Predecessor Company)***

*Operating revenues*

Operating revenues of \$41.9 million were primarily due to \$36.1 million of investment income, \$4.4 million of premiums and policy fees, and \$1.0 million of mortgage loan prepayment fees.

*Total benefits and expenses*

Total benefits and expenses of \$56.7 million were primarily due to \$52.3 million of other operating expenses which included corporate overhead expenses and \$35.9 million of interest expense.



Table of Contents**CONSOLIDATED INVESTMENTS**

Certain reclassifications have been made in the previously reported financial statements and accompanying tables to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income, shareowner's equity, or the totals reflected in the accompanying tables.

**Portfolio Description**

As of March 31, 2015 (Successor Company), our investment portfolio was approximately \$47.1 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

The following table presents the reported values of our invested assets:

	Successor Company As of March 31, 2015 (Dollars In Thousands)		Predecessor Company As of December 31, 2014 (Dollars In Thousands)			
Publicly issued bonds (amortized cost: 2015 Successor Company - \$29,947,201; 2014 Predecessor Company - \$26,374,714)	\$	29,487,084	62.5%	\$	28,850,812	63.1%
Privately issued bonds (amortized cost: 2015 Successor Company - \$8,702,020; 2014 Predecessor Company - \$7,798,528)		8,634,757	18.3		8,360,177	18.3
Preferred stock (amortized cost: 2015 Successor Company - \$72,704)		72,086	0.2			
Fixed maturities		38,193,927	81.0		37,210,989	81.4
Equity securities (cost: 2015 Successor Company - \$739,207; 2014 Predecessor Company - \$778,744)		741,532	1.6		803,230	1.8
Mortgage loans		5,589,795	11.9		5,133,780	11.2
Investment real estate		7,435			5,918	
Policy loans		1,735,370	3.7		1,758,237	3.8
Other long-term investments		618,546	1.3		514,639	1.1
Short-term investments		256,303	0.5		250,645	0.7
Total investments	\$	47,142,908	100.0%	\$	45,677,438	100.0%

Included in the preceding table are \$2.9 billion and \$2.8 billion of fixed maturities and \$71.5 million and \$95.1 million of short-term investments classified as trading securities as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively. The trading portfolio includes invested assets of \$2.9 billion and \$2.8 billion as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively, held pursuant to modified coinsurance (Modco) arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are \$551.3 million and \$435.0 million of securities classified as held-to-maturity as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively. The preferred

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

stock shown above as of March 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

Table of Contents**Fixed Maturity Investments**

As of March 31, 2015 (Successor Company), our fixed maturity investment holdings were approximately \$38.2 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

<b>Rating</b>	<b>Successor Company As of March 31, 2015</b>	<b>Predecessor Company As of December 31, 2014</b>
AAA	12.8%	12.3%
AA	7.5	7.3
A	32.1	33.1
BBB	40.9	40.9
Below investment grade	5.2	5.2
Not rated	1.5	1.2
	100.0%	100.0%

We use various Nationally Recognized Statistical Rating Organizations ( NRSRO ) ratings when classifying securities by quality ratings. When the various NRSRO ratings are not consistent for a security, we use the second-highest convention in assigning the rating. When there are no such published ratings, we assign a rating based on the statutory accounting rating system if such ratings are available.

We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio.

Changes in fair value for our available-for-sale portfolio, net of related DAC, VOBA, and policyholder dividend obligation, are charged or credited directly to shareowner's equity, net of tax. Declines in fair value that are other-than-temporary are recorded as realized losses in the consolidated condensed statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income (loss).

The distribution of our fixed maturity investments by type is as follows:

<b>Type</b>	<b>Successor Company As of March 31, 2015 (Dollars In Millions)</b>	<b>Predecessor Company As of December 31, 2014 (Dollars In Millions)</b>
Corporate securities	\$ 29,282.3	\$ 28,857.6
Residential mortgage-backed securities	1,863.3	1,706.4
Commercial mortgage-backed securities	1,352.5	1,328.4
Other asset-backed securities	1,095.8	1,114.0
U.S. government-related securities	1,895.3	1,679.3
Other government-related securities	77.5	77.2

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

States, municipals, and political subdivisions		2,003.8		2,013.1
Preferred stock		72.1		
Other		551.3		435.0
Total fixed income portfolio	\$	38,193.9	\$	37,211.0

The preferred stock shown above as of March 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

Within our fixed maturity investments, we maintain portfolios classified as available-for-sale , trading , and held-to-maturity . We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified \$34.8 billion, or 91.1%, of

Table of Contents

our fixed maturities as available-for-sale as of March 31, 2015 (Successor Company). These securities are carried at fair value on our consolidated condensed balance sheets.

Fixed maturities with respect to which we have both the positive intent and ability to hold to maturity are classified as held-to-maturity. We classified \$551.3 million, or 1.4%, of our fixed maturities as held-to-maturity as of March 31, 2015 (Successor Company). These securities are carried at amortized cost on our consolidated condensed balance sheets.

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounted for \$2.9 billion, or 7.5%, of our fixed maturities and \$71.5 million of short-term investments as of March 31, 2015 (Successor Company). Changes in fair value on the Modco trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	Successor Company		Predecessor Company	
	As of March 31, 2015 (Dollars In Thousands)		As of December 31, 2014 (Dollars In Thousands)	
AAA	\$	528,423	\$	478,632
AA		300,162		290,255
A		899,048		910,669
BBB		818,153		824,143
Below investment grade		317,301		312,594
Total Modco trading fixed maturities	\$	2,863,087	\$	2,816,293

A portion of our bond portfolio is invested in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS). ABS are securities that are backed by a pool of assets. These holdings as of March 31, 2015 (Successor Company) were approximately \$4.3 billion. Mortgage-backed securities (MBS) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

Table of Contents

**Residential Mortgage-Backed Securities** - As of March 31, 2015 (Successor Company), our RMBS portfolio was approximately \$1.9 billion. As of December 31, 2014 (Predecessor Company), our RMBS portfolio was approximately \$1.7 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities ( PACs ) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

The tables below include a breakdown of these holdings by type and rating as of March 31, 2015 (Successor Company).

Type	Percentage of Residential Mortgage-Backed Securities
Sequential	32.1%
PAC	34.3
Pass Through	9.1
Other	24.5
	100.0%

Rating	Percentage of Residential Mortgage-Backed Securities
AAA	70.5%
AA	0.1
A	0.5
BBB	0.6
Below investment grade	28.3
	100.0%

Table of Contents*Alt-A Collateralized Holdings*

As of March 31, 2015 (Successor Company), we held securities with a fair value of \$344.3 million, or 0.7% of invested assets, supported by collateral classified as Alt-A. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$351.6 million supported by collateral classified as Alt-A. We included in this classification certain whole loan securities where such securities had underlying mortgages with a high level of limited loan documentation. As of March 31, 2015 (Successor Company), these securities had a fair value of \$127.5 million and an unrealized loss of \$0.2 million.

The following table includes the percentage of our collateral classified as Alt-A, grouped by rating category, as of March 31, 2015 (Successor Company):

Rating	Percentage of Alt-A Securities
A	1.5%
BBB	0.3
Below investment grade	98.2
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of March 31, 2015 (Successor Company):

**Alt-A Collateralized Holdings**

Rating	Estimated Fair Value of Security by Year of Security Origination					Total
	2011 and Prior	2012	2013	2014	2015	
	(Dollars In Millions)					
A	\$ 5.0	\$	\$	\$	\$	\$ 5.0
BBB	1.2					1.2
Below investment grade	338.1					338.1
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 344.3	\$	\$	\$	\$	\$ 344.3

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					Total
	2011 and Prior	2012	2013	2014	2015	
	(Dollars In Millions)					
A	\$	\$	\$	\$	\$	\$
BBB						
Below investment grade	(1.2)					(1.2)
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ (1.2)	\$	\$	\$	\$	\$ (1.2)





Table of Contents***Sub-prime Collateralized Holdings***

As of March 31, 2015 (Successor Company), we held securities with a total fair value of \$1.6 million that were supported by collateral classified as sub-prime. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$1.7 million that were supported by collateral classified as sub-prime.

***Prime Collateralized Holdings***

As of March 31, 2015 (Successor Company), we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of \$1.5 billion, or 3.2%, of total invested assets. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$1.4 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

The following table includes the percentage of our collateral classified as prime, grouped by rating category, as of March 31, 2015 (Successor Company):

<b>Rating</b>	<b>Percentage of Prime Securities</b>
AAA	86.6%
AA	0.1
A	0.3
BBB	0.7
Below investment grade	12.3
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of March 31, 2015 (Successor Company):

**Prime Collateralized Holdings**

<b>Rating</b>	<b>Estimated Fair Value of Security by Year of Security Origination</b>					<b>Total</b>
	<b>2011 and Prior</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	
			<b>(Dollars In Millions)</b>			
AAA	\$ 800.5	\$ 27.6	\$ 155.7	\$ 159.5	\$ 170.9	\$ 1,314.2
AA	0.1			2.0		2.1
A	3.9					3.9
BBB	10.5					10.5
Below investment grade	186.7					186.7

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Total mortgage-backed securities collateralized by prime mortgage loans	\$	1,001.7	\$	27.6	\$	155.7	\$	161.5	\$	170.9	\$	1,517.4
---	----	---------	----	------	----	-------	----	-------	----	-------	----	---------

Estimated Unrealized Gain (Loss) of Security by Year of Security Origination

Rating	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ 3.6	\$ (0.4)	\$ (0.6)	\$ (1.5)	\$	\$ 1.1
AA						
A						
BBB						
Below investment grade	(0.1)					(0.1)
Total mortgage-backed securities collateralized by prime mortgage loans	\$ 3.5	\$ (0.4)	\$ (0.6)	\$ (1.5)	\$	\$ 1.0

Table of Contents

**Commercial Mortgage-Backed Securities** - Our CMBS portfolio consists of commercial mortgage-backed securities issued in securitization transactions. As of March 31, 2015 (Successor Company), the CMBS holdings were approximately \$1.4 billion. As of December 31, 2014 (Predecessor Company), the CMBS holdings were approximately \$1.3 billion.

The following table includes the percentages of our CMBS holdings, grouped by rating category, as of March 31, 2015 (Successor Company):

Rating	Percentage of Commercial Mortgage-Backed Securities
AAA	70.6%
AA	15.6
A	12.2
BBB	1.6
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our CMBS as of March 31, 2015 (Successor Company):

**Commercial Mortgage-Backed Securities**

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2011 and Prior	2012	2013	2014	2015	(Dollars In Millions)	
AAA	\$ 323.1	\$ 324.3	\$ 154.2	\$ 149.9	\$ 3.1	\$ 954.6	
AA	72.7	44.6	31.0	62.1		210.4	
A	129.7	14.6	20.8			165.1	
BBB	22.4					22.4	
Total commercial mortgage-backed securities	\$ 547.9	\$ 383.5	\$ 206.0	\$ 212.0	\$ 3.1	\$ 1,352.5	

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2011 and Prior	2012	2013	2014	2015	(Dollars In Millions)	
AAA	\$ (1.2)	\$ (0.9)	\$ (0.6)	\$ (0.5)	\$	\$ (3.2)	
AA	(0.4)	0.2		(0.9)		(1.1)	
A	(0.2)	(0.2)	(0.1)			(0.5)	
BBB	(0.1)					(0.1)	
Total commercial mortgage-backed securities	\$ (1.9)	\$ (0.9)	\$ (0.7)	\$ (1.4)	\$	\$ (4.9)	

Table of Contents

**Other Asset-Backed Securities** Other asset-backed securities pay down based on cash flow received from the underlying pool of assets, such as receivables on auto loans, student loans, credit cards, etc. As of March 31, 2015 (Successor Company), these holdings were approximately \$1.1 billion. As of December 31, 2014 (Predecessor Company), these holdings were approximately \$1.1 billion.

The following table includes the percentages of our other asset-backed holdings, grouped by rating category, as of March 31, 2015 (Successor Company):

Rating	Percentage of Other Asset-Backed Securities
AAA	53.0%
AA	19.4
A	15.4
BBB	0.9
Below investment grade	11.3
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our asset-backed securities as of March 31, 2015 (Successor Company):

**Other Asset-Backed Securities**

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2011 and Prior	2012	2013	2014	2015	(Dollars In Millions)	
AAA	\$ 499.1	\$ 36.7	\$ 19.5	\$ 25.1	\$	\$	\$ 580.4
AA	156.1	56.5					212.6
A	74.1	48.6	36.1	10.4			169.2
BBB	10.0						10.0
Below investment grade	123.6						123.6
Total other asset-backed securities	\$ 862.9	\$ 141.8	\$ 55.6	\$ 35.5	\$	\$	\$ 1,095.8

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2011 and Prior	2012	2013	2014	2015	(Dollars In Millions)	
AAA	\$ (4.7)	\$ (0.7)	\$ (0.7)	\$ (0.4)	\$	\$	\$ (6.5)
AA	1.1	0.4					1.5
A	(2.7)	0.2	2.3	(0.1)			(0.3)
BBB	0.1						0.1
Below investment grade	(0.4)						(0.4)
Total other asset-backed securities	\$ (6.6)	\$ (0.1)	\$ 1.6	\$ (0.5)	\$	\$	\$ (5.6)



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

We obtained ratings of our fixed maturities from Moody's Investors Service, Inc. ( Moody's ), Standard & Poor's Corporation ( S&P ), and/or Fitch Ratings ( Fitch ). If a fixed maturity is not rated by Moody's, S&P, or Fitch, we use ratings from the National Association of Insurance Commissioners ( NAIC ), or we rate the fixed maturity based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of March 31, 2015 (Successor Company), 98.5% of our fixed maturities were rated by Moody's, S&P, Fitch, and/or the NAIC.

The industry segment composition of our fixed maturity securities is presented in the following table:

	Successor Company		Predecessor Company	
	As of March 31, 2015	% Fair Value	As of December 31, 2014	% Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Banking	\$ 3,357,106	8.8%	\$ 2,933,212	7.9%
Other finance	460,207	1.2	666,403	1.8
Electric	4,061,013	10.6	4,062,991	10.9
Energy and natural gas	4,706,126	12.3	4,598,633	12.4
Insurance	3,044,875	8.0	2,972,363	8.0
Communications	1,526,033	4.0	1,504,581	4.0
Basic industrial	1,795,314	4.7	1,764,175	4.7
Consumer noncyclical	3,274,312	8.6	3,247,522	8.7
Consumer cyclical	1,840,658	4.8	1,989,115	5.3
Finance companies	186,925	0.5	242,081	0.7
Capital goods	1,435,952	3.8	1,371,046	3.7
Transportation	1,025,636	2.7	995,112	2.7
Other industrial	311,872	0.8	338,285	0.9
Brokerage	579,117	1.5	607,445	1.6
Technology	1,222,723	3.2	1,079,840	2.9
Real estate	212,103	0.6	246,712	0.7
Other utility	242,278	0.6	238,088	0.6
Commercial mortgage-backed securities	1,352,472	3.5	1,328,363	3.6
Other asset-backed securities	1,095,863	2.9	1,113,955	3.0
Residential mortgage-backed non-agency securities	892,473	2.3	779,612	2.1
Residential mortgage-backed agency securities	970,902	2.5	926,760	2.5
U.S. government-related securities	1,895,277	5.0	1,679,356	4.5
Other government-related securities	77,503	0.2	77,204	0.2
State, municipals, and political divisions	2,003,781	5.2	2,013,135	5.4
Preferred stock	72,086	0.2		
Other	551,320	1.5	435,000	1.2
Total	\$ 38,193,927	100.0%	\$ 37,210,989	100.0%

The preferred stock shown above as of March 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

Our investments classified as available-for-sale and trading in debt and equity securities are reported at fair value. Our investments classified as held-to-maturity are reported at amortized cost. As of March 31, 2015 (Successor Company), our fixed maturity investments (bonds and

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

redeemable preferred stocks) had a fair value of \$38.2 billion, which was 1.5% below amortized cost of \$38.8 billion. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

Fair values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate fair value based upon a comparison to quoted issues of the same issuer or issues

Table of Contents

of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to fair value, management makes a determination as to the appropriate valuation amount.

**Mortgage Loans**

We invest a portion of our investment portfolio in commercial mortgage loans. As of March 31, 2015 (Successor Company), our mortgage loan holdings were approximately \$5.6 billion. We have specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). We believe that these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history. The majority of our mortgage loans portfolio was underwritten and funded by us. From time to time, we may acquire loans in conjunction with an acquisition.

Our commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income.

Certain of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately \$168.8 million would become due for the remainder of 2015 (Successor Company), \$950.4 million in 2016 through 2020, \$381.2 million in 2021 through 2025, and \$119.6 million thereafter.

We also offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), approximately \$536.0 million and \$553.6 million, respectively, of our mortgage loans had this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the period of February 1, 2015 to March 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the three months ended March 31, 2014 (Predecessor Company), we recognized \$1.8 million, \$0.1 million, and \$3.0 million of participating mortgage loan income, respectively.

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), our allowance for mortgage loan credit losses was \$1.2 million and \$5.7 million, respectively. While our mortgage loans do not have quoted market values, as of March 31, 2015 (Successor Company), we estimated the fair value of our mortgage loans to be \$5.6 billion (using discounted cash flows from the next call date), which was approximately 3.0% greater than the amortized cost, less any related loan loss reserve.



## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

At the time of origination, our mortgage lending criteria targets that the loan-to-value ratio on each mortgage is 75% or less. We target projected rental payments from credit anchors (i.e., excluding rental payments from smaller local tenants) of 70% of the property's projected operating expenses and debt service.

As of March 31, 2015 (Successor Company), approximately \$20.5 million, or 0.04%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we entered into certain mortgage loan transactions that

Table of Contents

were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included either the acceptance of assets in satisfaction of principal during the respective periods or at a future date, and were the result of agreements between the creditor and the debtor. During the period of February 1, 2015 to March 31, 2015 (Successor Company), we accepted or agreed to accept assets of \$10.6 million in satisfaction of \$13.2 million of principal and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we accepted or agreed to accept assets of \$11.3 million in satisfaction of \$13.8 million of principal. These transactions resulted in no material realized losses in our investment in mortgage loans net of existing allowances for mortgage loans losses for the period of February 1, 2015 to March 31, 2015 (Successor Company). In the third quarter of 2014, we also identified one loan whose principal of \$12.6 million was permanently impaired to a value of \$7.3 million. This transaction resulted in realized losses of \$5.3 million and a decrease in our investment in mortgage loans net of existing allowances for mortgage loan losses. Of the mortgage loan transactions accounted for as troubled debt restructurings, \$13.6 million remain on our balance sheet as of March 31, 2015 (Successor Company).

Our mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of March 31, 2015 (Successor Company), \$20.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured. None of the restructured loans were nonperforming during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. We did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

As of March 31, 2015 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming. We did not foreclose on any nonperforming loans subject to pooling and servicing agreement during the periods of February 1, 2015 to March 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company).

We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities.

It is our policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is our general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status.

Table of Contents**Risk Management and Impairment Review**

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of March 31, 2015 (Successor Company):

Rating	Fair Value (Dollars In Thousands)		Percent of Fair Value
AAA	\$	4,358,112	12.5 %
AA		2,560,939	7.4
A		11,361,457	32.7
BBB		14,814,942	42.6
Investment grade		33,095,450	95.2
BB		1,161,523	3.3
B		122,531	0.4
CCC or lower		400,016	1.1
Below investment grade		1,684,070	4.8
Total	\$	34,779,520	100.0%

Not included in the table above are \$2.5 billion of investment grade and \$317.3 million of below investment grade fixed maturities classified as trading securities and \$551.3 million of fixed maturities classified as held-to-maturity.

Limiting bond exposure to any creditor group is another way we manage credit risk. We held no credit default swaps on the positions listed below as of March 31, 2015 (Successor Company). The following table summarizes our ten largest maturity exposures to an individual creditor group as of March 31, 2015 (Successor Company):

Creditor	Fair Value of		Total Fair Value
	Funded Securities	Unfunded Exposures (Dollars In Millions)	
Berkshire Hathaway Inc.	\$ 220.3	\$	\$ 220.3
Federal National Mortgage Association	215.8		215.8
Wells Fargo & Co.	206.3	0.8	207.1
Duke Energy Corp.	193.7		193.7
Bank of America Corp.	192.1	0.3	192.4
Comcast Corp.	181.9		181.9
Nextera Energy Inc.	178.3		178.3
General Electric	177.5		177.5
JP Morgan Chase and Company	154.3	22.9	177.2
Exelon Corp.	169.0		169.0

Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. We review our positions on a monthly basis for possible credit concerns and review our current exposure, credit enhancement, and

delinquency experience.

Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Since it is possible for the impairment of one investment to affect other investments, we engage in ongoing risk management to safeguard against and limit any further risk to our investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets.

Table of Contents

For certain securitized financial assets with contractual cash flows, including RMBS, CMBS, and other asset-backed securities (collectively referred to as asset-backed securities or ABS), GAAP requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the expected cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of our intent to sell the security (including a more likely than not assessment of whether we will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, along with an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the period of February 1, 2015 to March 31, 2015 (Successor Company), we concluded that we did not have any investment securities in an unrealized loss position which would have resulted in an other-than-temporarily impairment. For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we concluded that approximately \$0.5 million of investment securities in an unrealized loss position were other-than-temporarily impaired, due to credit-related factors, resulting in a charge to earnings. The \$0.5 million of credit losses included \$0.1 million of non-credit losses previously recorded in other comprehensive income.

There are certain risks and uncertainties associated with determining whether declines in fair values are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions, commission of fraud, and legislative actions. We continuously monitor these factors as they relate to the investment portfolio in determining the status of each investment.

During 2014, the energy and natural gas sector experienced increased volatility due to the decline in oil prices. A prolonged decline in oil prices could have a broad economic impact and put financial stress on companies in this sector. We continue to monitor our exposure to companies within and exposed to this sector closely. Our current exposure is predominantly with investment grade securities of companies with ample liquidity to weather a prolonged decline in oil prices. Many of these companies have displayed financial discipline by reducing capital expenditures to conserve cash and maintain their credit ratings. As of March 31, 2015 (Successor Company), we have determined that no other-than-temporary impairments exist with our current investments within this industry.

We have deposits with certain financial institutions which exceed federally insured limits. We have reviewed the creditworthiness of these financial institutions and believe that there is minimal risk of a material loss.

Certain European countries have experienced varying degrees of financial stress. Risks from the debt crisis in Europe could continue to disrupt the financial markets, which could have a detrimental impact on global economic conditions and on sovereign and non-sovereign obligations. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on financial markets.



Table of Contents

The chart shown below includes our non-sovereign fair value exposures in these countries as of March 31, 2015 (Successor Company). As March 31, 2015 (Successor Company), we had no unfunded exposure and had no direct sovereign fair value exposure.

Financial Instrument and Country	Non-sovereign Debt		Total Gross Funded Exposure
	Financial	Non-financial (Dollars In Millions)	
<b>Securities:</b>			
United Kingdom	\$ 552.4	\$ 822.3	\$ 1,374.7
Netherlands	160.8	184.0	344.8
France	109.2	223.1	332.3
Switzerland	166.6	162.7	329.3
Germany	110.2	118.2	228.4
Spain	42.4	152.7	195.1
Sweden	133.5	37.5	171.0
Norway	12.3	96.9	109.2
Italy		105.0	105.0
Belgium		89.8	89.8
Ireland	12.0	68.0	80.0
Luxembourg		65.5	65.5
Portugal		15.9	15.9
Denmark	13.8		13.8
Total securities	1,313.2	2,141.6	3,454.8
<b>Derivatives:</b>			
Germany	35.8		35.8
United Kingdom	24.1		24.1
Switzerland	10.6		10.6
France	4.2		4.2
Total derivatives	74.7		74.7
Total securities	\$ 1,387.9	\$ 2,141.6	\$ 3,529.5

Table of Contents**Realized Gains and Losses**

The following table sets forth realized investment gains and losses for the periods shown:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Thousands)		Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands)		For The Three Months Ended March 31, 2014
Fixed maturity gains - sales	\$	1,507	\$	6,920	\$ 7,627
Fixed maturity losses - sales		(1,134)		(29)	(257)
Equity gains - sales					
Impairments on fixed maturity securities					(1,591)
Impairments on equity securities				(481)	
Modco trading portfolio		(33,160)		73,062	66,303
Other		(2,269)		1,200	(1,559)
Total realized gains (losses) - investments	\$	(35,056)	\$	80,672	\$ 70,523
Derivatives related to variable annuity contracts:					
Interest rate futures - VA	\$	(48)	\$	1,413	\$ 4,250
Equity futures - VA		(32,469)		9,221	(2,651)
Currency futures - VA		6,137		7,778	(1,278)
Variance swaps - VA					(1,850)
Equity options - VA		(21,774)		3,047	(12,341)
Interest rate swaptions - VA		(11,328)		9,268	(9,403)
Interest rate swaps - VA		(54,791)		122,710	57,368
Embedded derivative - GMWB		113,260		(207,018)	(82,287)
Total derivatives related to variable annuity contracts		(1,013)		(53,581)	(48,192)
Derivatives related to FIA contracts:					
Embedded derivative - FIA		(2,583)		1,769	1,733
Equity futures - FIA		184		(184)	345
Volatility futures - FIA		4			
Equity options - FIA		4,375		(2,617)	994
Total derivatives related to FIA contracts		1,980		(1,032)	3,072
Derivatives related to IUL contracts:					
Embedded derivative - IUL		257		(486)	
Equity futures - IUL		14		3	
Equity options - IUL		140		(115)	
Total derivatives related to IUL contracts		411		(598)	
Embedded derivative - Modco reinsurance treaties		32,191		(68,026)	(60,169)
Other derivatives		72		(37)	(61)
Total realized gains (losses) - derivatives	\$	33,641	\$	(123,274)	\$ (105,350)

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments and Modco trading portfolio activity during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), primarily reflects the normal operation of our asset/liability program within the context of the



## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

changing interest rate and spread environment, as well as tax planning strategies designed to utilize capital loss carryforwards.

Realized losses are comprised of both write-downs of other-than-temporary impairments and actual sales of investments. For the period of February 1, 2015 to March 31, 2015 (Successor Company), we did not recognize any pre-tax other-than-temporary impairments and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we recognized pre-tax other-than-temporary impairments of \$0.5 million due to credit-related factors,

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

resulting in a charge to earnings. Of the credit losses, \$0.1 million were non-credit losses previously recorded in other comprehensive income. For the three months ended March 31, 2014 (Predecessor Company), we recognized pre-tax other-than-temporary impairments of \$1.6 million. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments, net of Modco recoveries, are presented in the chart below:

	Successor Company February 1, 2015 to March 31, 2015 (Dollars In Millions)	January 1, 2015 to January 31, 2015 (Dollars In Millions)	Predecessor Company	For The Three Months Ended March 31, 2014
Alt-A MBS	\$	\$	0.3	\$ 1.0
Other MBS			0.2	0.6
Corporate securities				
Sub-prime bonds				
Equities				
Total	\$	\$	0.5	\$ 1.6

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold them until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the period of February 1, 2015 to March 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized loss position with a fair value of \$20.7 million and \$0.4 million, respectively. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below for the period of February 1, 2015 to March 31, 2015 (Successor Company) and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company):

Successor Company

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 20,682	100.0%	\$ (1,134)	100.0%
>90 days but <= 180 days				
>180 days but <= 270 days				
>270 days but <= 1 year				
>1 year				
Total	\$ 20,682	100.0%	\$ (1,134)	100.0%

Predecessor Company

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 87	20.1%	\$ (6)	20.8%

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

>90 days but <= 180 days					
>180 days but <= 270 days					
>270 days but <= 1 year		4	0.9		1.5
>1 year		344	79.0	(23)	77.7
Total	\$	435	100.0%	\$ (29)	100.0%

For the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized loss position with a fair value (proceeds) of \$20.7 million and \$0.4 million, respectively. The loss realized on the sale of these securities was

Table of Contents

\$1.1 million for the period of February 1, 2015 to March 31, 2015 (Successor Company). We had an immaterial loss for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized gain position with a fair value of \$282.9 million and \$172.6 million, respectively. The gain realized on the sale of these securities was \$1.5 million and \$6.9 million, respectively.

The \$2.3 million of other realized losses recognized for the period of February 1, 2015 to March 31, 2015 (Successor Company), primarily consisted of an increase in the mortgage loan reserves of \$1.0 million, mortgage loan losses of \$1.1 million, and partnership losses of \$0.1 million.

The \$1.2 million of other realized gains recognized for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), primarily consisted of a decrease in the mortgage loan reserves of \$2.3 million, mortgage loan losses of \$1.0 million, and partnership losses of \$0.1 million.

For the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), net losses of \$33.2 million and net gains of \$73.1 million, respectively, primarily related to changes in fair value on our Modco trading portfolios were included in realized gains and losses. Of this amount, approximately \$2.2 million of losses and \$1.3 million of gains, respectively, were realized through the sale of certain securities, which will be reimbursed to our reinsurance partners over time through the reinsurance settlement process for this block of business. The Modco embedded derivative associated with the trading portfolios had realized pre-tax gains of \$32.2 million and pre-tax losses of \$68.0 million, respectively, during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company). These losses were due to lower treasury yields.

Realized investment gains and losses related to derivatives represent changes in their fair value during the period and termination gains/(losses) on those derivatives that were closed during the period.

We use various derivative instruments to manage risks related to certain life insurance and annuity products. We can use these derivatives as economic hedges against risks inherent in the products. These risks have a direct impact on the cost of these products and are correlated with the equity markets, interest rates, foreign currency levels, and overall volatility. The hedged risks are recorded through the recognition of embedded derivatives associated with the products. These products include the GMWB rider associated with the variable annuity, fixed indexed annuity products as well as indexed universal life products. During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we experienced net realized losses on derivatives related to VA contracts of approximately \$1.0 million and \$53.6 million, respectively. These net losses were impacted by changes in the policyholder behavior assumptions, primarily the lowering of assumed lapses and increased utilization rates, used to value the GMWB embedded derivatives.

We also use various swaps and other types of derivatives to mitigate risk related to other exposures. These contracts generated net pre-tax gains of \$0.1 million and immaterial losses for the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1,

2015 to January 31, 2015 (Predecessor Company).

**Unrealized Gains and Losses Available-for-Sale Securities**

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after December 31, 2014 (Predecessor Company), the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a bright line test to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized

Table of Contents

gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. We had an overall net unrealized loss of \$525.7 million, prior to tax, DAC, VOBA, and policyholder dividend obligation offsets, as of March 31, 2015 (Successor Company), and an overall net unrealized gain of \$3.1 billion as of December 31, 2014 (Predecessor Company).

For fixed maturity and equity securities held that are in an unrealized loss position as of March 31, 2015 (Successor Company), the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position are presented in the table below:

	Fair Value	% Fair Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
<= 90 days	\$ 27,017,282	100.0%	\$ 27,662,729	100.0%	\$ (645,447)	100.0%
>90 days but <= 180 days						
>180 days but <= 270 days						
>270 days but <= 1 year						
>1 year but <= 2 years						
>2 years but <= 3 years						
>3 years but <= 4 years						
>4 years but <= 5 years						
>5 years						
Total	\$ 27,017,282	100.0%	\$ 27,662,729	100.0%	\$ (645,447)	100.0%

The book value of our investment portfolio was marked to fair value as of February 1, 2015 (Successor Company), in conjunction with the Dai-ichi Merger which resulted in the elimination of previously unrealized gains and losses from accumulated other comprehensive income. The level of interest rates as of February 1, 2015 (Successor Company) resulted in an increase in the fair value of our investments. Since February 1, 2015 (Successor Company) interest rates have increased resulting in net unrealized losses in our investment portfolio.

As of March 31, 2015 (Successor Company), the Barclays Investment Grade Index was priced at 129.0 bps versus a 10 year average of 167.0 bps. Similarly, the Barclays High Yield Index was priced at 501.0 bps versus a 10 year average of 611.0 bps. As of March 31, 2015 (Successor Company), the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 1.371%, 1.924%, and 2.537%, as compared to 10 year averages of 2.457%, 3.262%, and 3.994%, respectively.

As of March 31, 2015 (Successor Company), 97.5% of the unrealized loss was associated with securities that were rated investment grade. We have examined the performance of the underlying collateral and cash flows and expect that our investments will continue to perform in accordance with their contractual terms. Factors such as credit enhancements within the deal structures and the underlying collateral performance/characteristics support the recoverability of the investments. Based on the factors discussed, we do not consider these unrealized loss positions to be other-than-temporary. However, from time to time, we may sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield enhancement, asset/liability management, and liquidity requirements.

Expectations that investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions that a market participant would use in determining the current fair value. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such an event may lead to adverse changes in the cash flows on our holdings of these types of securities. This could lead to potential future write-downs within our portfolio of mortgage-backed and asset-backed securities. Expectations that our investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize potential future write-downs within our portfolio of corporate securities. It is also possible that such unanticipated events would

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

lead us to dispose of those certain holdings and recognize the effects of any such market movements in our financial statements.

As of March 31, 2015 (Successor Company), there were estimated gross unrealized losses of \$1.4 million related to our mortgage-backed securities collateralized by Alt-A mortgage loans. Gross unrealized losses in our securities collateralized by Alt-A residential mortgage loans as of March 31, 2015 (Successor Company), were primarily the result of continued widening spreads, representing marketplace uncertainty arising from higher defaults in Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by Alt-A residential mortgage loans.

We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of March 31, 2015 (Successor Company) is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost (Dollars In Thousands)	% Amortized Cost	Unrealized Loss	% Unrealized Loss
Banking	\$ 2,274,215	8.4%	\$ 2,301,713	8.3%	\$ (27,498)	4.3%
Other finance	273,905	1.0	278,332	1.0	(4,427)	0.7
Electric	3,471,007	12.8	3,578,360	12.9	(107,353)	16.6
Energy and natural gas	2,803,475	10.4	2,877,093	10.4	(73,618)	11.4
Insurance	2,510,007	9.3	2,587,878	9.4	(77,871)	12.1
Communications	1,194,984	4.4	1,237,385	4.4	(42,401)	6.6
Basic industrial	1,221,310	4.5	1,259,121	4.6	(37,811)	5.9
Consumer noncyclical	2,529,411	9.4	2,599,264	9.4	(69,853)	10.8
Consumer cyclical	1,229,816	4.6	1,254,757	4.5	(24,941)	3.9
Finance companies	145,980	0.5	148,453	0.5	(2,473)	0.4
Capital goods	1,076,949	4.0	1,106,424	4.0	(29,475)	4.6
Transportation	805,133	3.0	825,066	3.0	(19,933)	3.1
Other industrial	257,726	1.0	266,775	1.0	(9,049)	1.4
Brokerage	436,922	1.6	444,617	1.6	(7,695)	1.2
Technology	950,860	3.5	973,125	3.5	(22,265)	3.4
Real estate	154,346	0.7	155,761	0.5	(1,415)	0.2
Other utility	177,333	0.7	183,515	0.7	(6,182)	1.0
Commercial mortgage-backed securities	941,676	3.5	947,107	3.4	(5,431)	0.8
Other asset-backed securities	724,228	2.7	734,510	2.7	(10,282)	1.6
Residential mortgage-backed non-agency securities	486,747	1.8	490,722	1.8	(3,975)	0.6
Residential mortgage-backed agency securities	347,893	1.3	349,664	1.3	(1,771)	0.3
U.S. government-related securities	1,303,006	4.8	1,316,982	4.8	(13,976)	2.2
Other government-related securities	19,204	0.1	19,516	0.1	(312)	
States, municipals, and political divisions	1,650,969	5.9	1,695,719	6.1	(44,750)	6.8



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Preferred stock		30,180	0.1		30,870	0.1	(690)	0.1
Total	\$	27,017,282	100.0%	\$	27,662,729	100.0%	\$ (645,447)	100.0%

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Table of Contents

The percentage of our unrealized loss positions, segregated by industry segment, is presented in the following table:

	Successor Company As of March 31, 2015	Predecessor Company As of December 31, 2014
Banking	4.3%	9.2%
Other finance	0.7	0.8
Electric	16.6	0.6
Energy and natural gas	11.4	22.9
Insurance	12.1	4.0
Communications	6.6	2.6
Basic industrial	5.9	18.4
Consumer noncyclical	10.8	3.8
Consumer cyclical	3.9	4.4
Finance companies	0.4	0.4
Capital goods	4.6	1.0
Transportation	3.1	0.1
Other industrial	1.4	0.6
Brokerage	1.2	0.2
Technology	3.4	2.8
Real estate	0.2	
Other utility	1.0	
Commercial mortgage-backed securities	0.8	1.1
Other asset-backed securities	1.6	16.8
Residential mortgage-backed non-agency securities	0.6	5.4
Residential mortgage-backed agency securities	0.3	0.4
U.S. government-related securities	2.2	4.3
Other government-related securities		
States, municipals, and political divisions	6.8	0.2
Preferred stock	0.1	
Total	100.0%	100.0%

The range of maturity dates for securities in an unrealized loss position as of March 31, 2015 (Successor Company), varies, with 13.4% maturing in less than 5 years, 23.8% maturing between 5 and 10 years, and 62.8% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of March 31, 2015 (Successor Company):

S&P or Equivalent Designation	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
AAA/AA/A	\$ 15,431,896	57.1%	\$ 15,784,552	57.1%	\$ (352,656)	54.6%
BBB	10,883,487	40.3	11,160,675	40.3	(277,188)	42.9
Investment grade	26,315,383	97.4	26,945,227	97.4	(629,844)	97.5
BB	364,351	1.4	369,438	1.4	(5,087)	0.9
B	38,922	0.1	39,656	0.1	(734)	0.1
CCC or lower	298,626	1.1	308,408	1.1	(9,782)	1.5
Below investment grade	701,899	2.6	717,502	2.6	(15,603)	2.5
Total	\$ 27,017,282	100.0%	\$ 27,662,729	100.0%	\$ (645,447)	100.0%



Table of Contents

As of March 31, 2015 (Successor Company), we held a total of 2,070 positions that were in an unrealized loss position. Included in that amount were 107 positions of below investment grade securities with a fair value of \$701.9 million that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were \$15.6 million, none of which had been in an unrealized loss position for more than twelve months. Below investment grade securities in an unrealized loss position were 1.5% of invested assets.

As of March 31, 2015 (Successor Company), securities in an unrealized loss position that were rated as below investment grade represented 2.6% of the total fair value and 2.5% of the total unrealized loss. We have the ability and intent to hold these securities to maturity. After a review of each security and its expected cash flows, we believe the decline in market value to be temporary.

The majority of our RMBS holdings as of March 31, 2015 (Successor Company), were super senior or senior bonds in the capital structure. Our total non-agency portfolio has a weighted-average life of 7.53 years. The following table categorizes the weighted-average life for our non-agency portfolio, by category of material holdings, as of March 31, 2015 (Successor Company):

Non-agency portfolio	Weighted-Average Life
Prime	8.49
Alt-A	5.56
Sub-prime	4.12

The following table includes the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position for all below investment grade securities as of March 31, 2015 (Successor Company):

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
<= 90 days	\$ 701,899	100.0%	\$ 717,502	100.0%	\$ (15,603)	100.0%
>90 days but <= 180 days						
>180 days but <= 270 days						
>270 days but <= 1 year						
>1 year but <= 2 years						
>2 years but <= 3 years						
>3 years but <= 4 years						
>4 years but <= 5 years						
>5 years						
Total	\$ 701,899	100.0%	\$ 717,502	100.0%	\$ (15,603)	100.0%

**LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity**

Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. We meet our liquidity requirements primarily through positive cash flows from our operating subsidiaries. Primary sources of cash from the operating subsidiaries are premiums, deposits for policyholder accounts, investment sales and maturities, and investment income. Primary uses of cash include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, interest payments, and other operating expenses. We believe that we have sufficient liquidity to fund our cash needs under normal operating scenarios.

In the event of significant unanticipated cash requirements beyond our normal liquidity needs, we have additional sources of liquidity available depending on market conditions and the amount and timing of the liquidity

Table of Contents

need. These additional sources of liquidity include cash flows from operations, the sale of liquid assets, accessing our credit facility, and other sources described herein.

Our decision to sell investment assets could be impacted by accounting rules, including rules relating to the likelihood of a requirement to sell securities before recovery of our cost basis. Under stressful market and economic conditions, liquidity may broadly deteriorate, which could negatively impact our ability to sell investment assets. If we require on short notice significant amounts of cash in excess of normal requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

While we anticipate that the cash flows of our operating subsidiaries will be sufficient to meet our investment commitments and operating cash needs in a normal credit market environment, we recognize that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, we have established repurchase agreement programs for certain of our insurance subsidiaries to provide liquidity when needed. We expect that the rate received on our investments will equal or exceed our borrowing rate. Under this program, we may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of March 31, 2015 (Successor Company), the fair value of securities pledged under the repurchase program was \$560.2 million and the repurchase obligation of \$510.1 million was included in our consolidated condensed balance sheets (at an average borrowing rate of 15 basis points). During the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the maximum balance outstanding at any one point in time related to these programs was \$607.6 million and \$175.0 million, respectively. The average daily balance was \$381.3 million and \$77.4 million (at an average borrowing rate of 15 and 16 basis points, respectively) during the period of February 1, 2015 to March 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. As of December 31, 2014 (Predecessor Company), we had a \$50.0 million outstanding balance related to such borrowings. During 2014, the maximum balance outstanding at any one point in time related to these programs was \$633.7 million. The average daily balance was \$470.4 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2014 (Predecessor Company).

Additionally, we may, from time to time, sell short-duration stable value products to complement our cash management practices. Depending on market conditions, we may also use securitization transactions involving our commercial mortgage loans to increase liquidity for the operating subsidiaries.

**Credit Facility**

Under a revolving line of credit arrangement that was in effect until February 2, 2015 (the Credit Facility), we had the ability to borrow on an unsecured basis up to an aggregate principal amount of \$750 million. We had the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.0 billion. Balances outstanding under the Credit Facility accrued interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of our senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The Credit Facility also provided for a facility fee at a rate, 0.175%, that could vary with the ratings of our Senior Debt and that was calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The Credit Facility provided that we were liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date of the Credit Facility was July 17, 2017. We were not aware of any non-compliance with the financial debt covenants of the Credit Facility as of December 31, 2014 (Predecessor Company). There was an outstanding balance of \$450.0 million bearing interest at a rate of LIBOR plus 1.20% under the Credit

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Facility as of December 31, 2014 (Predecessor Company). As of December 31, 2014 (Predecessor Company), PLICO had used \$55.0 million of borrowing capacity by executing a Letter of Credit under the Credit Facility for the benefit of an affiliated captive reinsurance subsidiary of the Company. This Letter of Credit had not been drawn upon as of December 31, 2014 (Predecessor Company).

Table of Contents

On February 2, 2015, we amended and restated the Credit Facility (the 2015 Credit Facility). Under the 2015 Credit Facility, we have the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. We have the right in certain circumstances to request that the commitment under the 2015 Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the 2015 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of our Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The 2015 Credit Facility also provided for a facility fee at a rate that varies with the ratings of our Senior Debt and that is calculated on the aggregate amount of commitments under the 2015 Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon our subsequent ratings upgrade on February 2, 2015. The 2015 Credit Facility provides that we are liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the 2015 Credit Facility. The maturity date of the 2015 Credit Facility is February 2, 2020. We are not aware of any non-compliance with the financial debt covenants of the Credit Facility as of February 2, 2015 or the 2015 Credit Facility as of March 31, 2015 (Successor Company). There was an outstanding balance of \$545.0 million bearing interest at a rate of LIBOR plus 1.00% as of March 31, 2015 (Successor Company). As of March 31, 2015 (Successor Company), PLICO had used \$55.0 million of borrowing capacity by executing a Letter of Credit under the Credit Facility for the benefit of an affiliated captive reinsurance subsidiary of the Company. This Letter of Credit had not been drawn upon as of March 31, 2015 (Successor Company).

**Sources and Use of Cash**

Our primary sources of funding are dividends from our operating subsidiaries; revenues from investments, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These sources of cash support our general corporate needs including our common stock dividends and debt service. The states in which our insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay us dividends. These restrictions are based in part on the prior year's statutory income and/or surplus. Generally, these restrictions pose no short-term liquidity concerns. We plan to retain portions of the earnings of our insurance subsidiaries in those companies primarily to support their future growth.

We are a member of the FHLB of Cincinnati and FHLB of New York. FHLB advances provide an attractive funding source for short-term borrowing and for the sale of funding agreements. Membership in the FHLB requires that we purchase FHLB capital stock based on a minimum requirement and a percentage of the dollar amount of advances outstanding. Our borrowing capacity is determined by criteria established by each respective bank.

We held \$66.0 million of FHLB common stock as of March 31, 2015 (Successor Company), which is included in equity securities. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of March 31, 2015 (Successor Company), we had \$671.8 million of funding agreement-related advances and accrued interest outstanding under the FHLB program.

As of March 31, 2015 (Successor Company), we reported approximately \$600.1 million (fair value) of Auction Rate Securities (ARS) in non-Modco portfolios. As of March 31, 2015 (Successor Company), 100% of these ARS were rated Aaa/AA+. While the auction rate market has experienced liquidity constraints, we believe that based on our current liquidity position and our operating cash flows, any lack of liquidity in the ARS market will not have a material impact on our liquidity, financial condition, or cash flows. For information on how we determine the fair value of these securities refer to Note 15, *Fair Value of Financial Instruments*, of the consolidated condensed financial statements.



## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The liquidity requirements of our regulated insurance subsidiaries primarily relate to the liabilities associated with their various insurance and investment products, operating expenses, and income taxes. Liabilities arising from insurance and investment products include the payment of policyholder benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans, and obligations to redeem funding agreements.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits and expected surrenders, withdrawals, loans, and redemption obligations without forced sales of investments. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund our expected operating expenses, surrenders, and withdrawals. As of

Table of Contents

March 31, 2015 (Successor Company), our total cash and invested assets were \$47.6 billion. The life insurance subsidiaries were committed as of March 31, 2015 (Successor Company), to fund mortgage loans in the amount of \$756.2 million.

Our positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. Our insurance subsidiaries held approximately \$595.2 million in cash and short-term investments as of

March 31, 2015 (Successor Company), and we held approximately \$58.7 million in cash available for general corporate purposes.

The following chart includes the cash flows provided by or used in operating, investing, and financing activities for the following periods:

	Successor Company		Predecessor Company	
	February 1, 2015 to March 31, 2015	January 1, 2015 to January 31, 2015	For The Three Months Ended March 31, 2014	
	(Dollars In Thousands)		(Dollars In Thousands)	
Net cash (used in) provided by operating activities	\$ (46,645)	\$ 191,223	\$	68,736
Net cash (used in) provided by investing activities	(477,239)	22,994		(301,032)
Net cash provided by (used in) financing activities	515,947	(130,918)		173,286
Total	\$ (7,937)	\$ 83,299	\$	(59,010)

*For The Period of February 1, 2015 to March 31, 2015 (Successor Company) and For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)*

**Net cash provided by operating activities** - Cash flows from operating activities are affected by the timing of premiums received, fees received, investment income, and expenses paid. Principal sources of cash include sales of our products and services. During the period from February 1, 2015 to March 31, 2015 (Successor Company), we experienced net operating cash outflows due to the payment of certain merger related costs. We typically generate positive cash flows from operating activities, as premiums and deposits collected from our insurance and investment products exceed benefit payments and redemptions, and we invest the excess. Accordingly, in analyzing our cash flows we focus on the change in the amount of cash available and used in investing and financing activities.

**Net cash used in investing activities** - Changes in cash from investing activities primarily related to the activity in our investment portfolio.

**Net cash provided by financing activities** - Changes in cash from financing activities included \$460.1 million of inflows from repurchase program borrowings for the period of February 1, 2015 to March 31, 2015 (Successor Company) and \$8.5 million outflows of investment product and universal life net activity. Net activity related to credit facility resulted in inflows of \$44.3 million for the period of February 1, 2015 to March 31, 2015 (Successor Company). Net issuance of non-recourse funding obligations was \$20.0 million during the period of February 1, 2015 to March 31, 2015 (Successor Company).

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

Changes in cash from financing activities included \$70.9 million outflows of investment product and universal life net activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). Net activity related to credit facility resulted in \$60.0 million of outflows for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

### **Capital Resources**

Our primary sources of capital are through retained income from our operating subsidiaries, capital infusions from our parent, Dai-ichi Life, as well as our ability to access debt financing markets. Additionally, we have access to the Credit Facility discussed above.

Table of Contents

**Captive Reinsurance Companies**

Our life insurance subsidiaries are subject to a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX. The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves either through the issuance of non-recourse funding obligations by the captives or obtaining Letters of Credit from third-party financial institutions. For more information regarding our use of captives and their impact on our financial statements, please refer to Note 9, *Debt and Other Obligations*.

Our captive reinsurance companies assume business from affiliates only. Our captives are capitalized to a level we believe is sufficient to support the contractual risks and other general obligations of the respective captive entity. All of our captive reinsurance companies are wholly owned subsidiaries and are located domestically. The captive insurance companies are subject to regulations in the state of domicile.

The National Association of Insurance Commissioners ( NAIC ), through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers. The Financial Condition (E) Committee of the NAIC recently established a Variable Annuity Issues Working Group to examine company use of variable annuity captives.

The Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, adopted the conceptual framework contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the Rector Report ), that contains numerous recommendations pertaining to the regulation and use of certain captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in various stages of discussions regarding recommendations. One recommendation of the Rector Report has been adopted as Actuarial Guideline XXXXVIII ( AG48 ). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. Other recommendations in the Rector Report are subject to ongoing comment and revision. It is unclear at this time to what extent the recommendations in the Rector Report, or additional or revised recommendations relating to captive transactions or reinsurance transactions in general, will be adopted by the NAIC. If the recommendations proposed in the Rector Report are implemented, it will likely be difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Rector Report, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. Additionally, in some circumstances AG48 and the implementation of the recommendations in the Rector Report could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

We also use a captive reinsurance company to reinsure risks associated with GMWB and GMDB riders which helps us to manage those risks on an economic basis. In an effort to mitigate the equity market risks relative to our RBC ratio, in the fourth quarter of 2012, we established an indirect wholly owned insurance subsidiary, Shades Creek Captive Insurance Company ( Shades Creek ), to which PLICO has reinsured GMWB and GMDB riders related to its VA contracts. The purpose of Shades Creek is to reduce the volatility in RBC due to non-economic variables included within the RBC calculation.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

During 2012, we entered into an intercompany capital support agreement with Shades Creek. The agreement provides through a guarantee that we will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek's regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. Under this support agreement, PLICO issued a \$55 million Letter of Credit on December 31, 2014 (Predecessor Company). No borrowings under this Letter of Credit were outstanding as of March 31, 2015 (Successor Company). The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the

Table of Contents

performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

A life insurance company's statutory capital is computed according to rules prescribed by the NAIC, as modified by state law. Generally speaking, other states in which a company does business defer to the interpretation of the domiciliary state with respect to NAIC rules, unless inconsistent with the other state's regulations. Statutory accounting rules are different from GAAP and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as an ordinary dividend to us from our insurance subsidiaries in 2015 is approximately to be \$588.2 million.

State insurance regulators and the NAIC have adopted risk-based capital (RBC) requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense, and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to RBC. We manage our capital consumption by using the ratio of our total adjusted capital, as defined by the insurance regulators, to our company action level RBC (known as the RBC ratio), also as defined by insurance regulators.

Statutory reserves established for VA contracts are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees and product design. As a result, the relationship between reserve changes and equity market performance may be non-linear during any given reporting period. Market conditions greatly influence the capital required due to their impact on the valuation of reserves and derivative investments mitigating the risk in these reserves. Risk mitigation activities may result in material and sometimes counterintuitive impacts on statutory surplus and RBC ratio. Notably, as changes in these market and non-market factors occur, both our potential obligation and the related statutory reserves and/or required capital can vary at a non-linear rate.

Our statutory surplus is impacted by credit spreads as a result of accounting for the assets and liabilities on our fixed MVA annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase or decrease sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value gains or losses. As actual credit spreads are not fully reflected in current crediting rates based on U.S. Treasuries, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in a change in statutory surplus.

We cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations that it assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. For the period of February 1, 2015 to March 31, 2015 (Successor Company) and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we ceded premiums to third party reinsurers amounting to \$141.4 million and \$90.0 million, respectively. In addition, we had receivables from reinsurers amounting

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

to \$5.7 billion as of March 31, 2015 (Successor Company). We review reinsurance receivable amounts for collectability and establish bad debt reserves if deemed appropriate.

Table of Contents*Ratings*

Various Nationally Recognized Statistical Rating Organizations ( rating organizations ) 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 an insurer's products, its ability to market its products and its competitive position. The following table summarizes the current financial strength ratings of our significant member companies from the major independent rating organizations:

<b>Ratings</b>	<b>A.M. Best</b>	<b>Fitch</b>	<b>Standard &amp; Poor's</b>	<b>Moody's</b>
<b>Insurance company financial strength rating:</b>				
Protective Life Insurance Company	A+	A	AA-	A2
West Coast Life Insurance Company	A+	A	AA-	A2
Protective Life and Annuity Insurance Company	A+	A	AA-	
Lyndon Property Insurance Company	A-			
MONY Life Insurance Company	A+	A	A+	A2

The Company's ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company's insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. The rating agencies may take various actions, positive or negative, with respect to our debt and financial strength ratings, including as a result of our status as a subsidiary of Dai-ichi Life.

On April 28, 2015, Fitch announced a one-notch downgrade of the insurance financial strength ratings of PLICO, West Coast Life Insurance Company, Protective Life and Annuity Insurance Company and MONY Life Insurance Company to A from A+ following the downgrade of Japan's Long-Term Local Currency Issuer Default Rating (IDR) to A from A+. Fitch stated that such life insurance companies cannot be rated above the sovereign currency rating applicable to their ultimate parent company, Dai-ichi Life, based in Japan. The Company's credit rating was not affected by these actions. The ratings downgrades announced by Fitch did not trigger any requirements for the Company or its subsidiaries to post collateral or otherwise negatively impact current obligations.

Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. 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 in the debt issuer's overall ability to access credit markets and other types of liquidity. Ratings are not recommendations to buy the Company's securities or products. A downgrade or other negative action by a ratings organization with respect to our credit rating could limit the Company's access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require the Company to post collateral.

**LIABILITIES**

Many of our products contain surrender charges and other features that are designed to reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are



higher at the time of surrender than at the time of issue.

As of March 31, 2015 (Successor Company), we had policy liabilities and accruals of approximately \$30.8 billion. Our interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.50%.

Table of Contents

**Contractual Obligations**

We enter into various obligations to third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed solely based upon an analysis of these obligations. The most significant factors affecting our future cash flows are our ability to earn and collect cash from our customers, and the cash flows arising from our investment program. Future cash outflows, whether they are contractual obligations or not, will also vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates, market performance, or surrender provisions. Many of our obligations are linked to cash-generating contracts. In addition, our operations involve significant expenditures that are not based upon contractual obligations. These include expenditures for income taxes and payroll.

As of March 31, 2015 (Successor Company), we carried a \$168.0 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

Table of Contents

The table below sets forth future maturities of our contractual obligations:

	Total	Less than 1 year	Payments due by period		More than 5 years
			1-3 years	3-5 years	
	(Dollars In Thousands)				
Debt(1)	\$ 2,192,648	\$ 70,881	\$ 830,207	\$ 496,179	\$ 795,381
Non-recourse funding obligations(2)	2,057,056	32,385	76,581	90,010	1,858,080
Subordinated debt securities(3)	1,171,652	26,969	53,938	53,938	1,036,807
Stable value products(4)	1,965,555	626,418	893,968	384,509	60,660
Operating leases(5)	30,127	5,893	7,502	5,559	11,173
Home office lease(6)	79,646	1,245	2,484	75,917	
Mortgage loan and investment commitments	763,787	763,787			
Repurchase program borrowings(7)	510,125	510,125			
Policyholder obligations(8)	41,696,394	1,484,633	2,983,609	3,382,300	33,845,852
<b>Total(9)</b>	<b>\$ 50,466,990</b>	<b>\$ 3,522,336</b>	<b>\$ 4,848,289</b>	<b>\$ 4,488,412</b>	<b>\$ 37,607,953</b>

- (1) Debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.
- (2) Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, \$1.8 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.
- (3) Subordinated debt securities includes all principal amounts and interest payments due over the term of the obligations.
- (4) Anticipated stable value products cash flows including interest.
- (5) Includes all lease payments required under operating lease agreements.
- (6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreement, which was entered in December 2013.
- (7) Represents secured borrowings as part of our repurchase program as well as related interest.
- (8) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.
- (9) Excluded from this table are certain pension obligations.

**FAIR VALUE OF FINANCIAL INSTRUMENTS**

FASB guidance defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term fair value in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 15, *Fair Value of Financial Instruments*.



Table of Contents

**OFF-BALANCE SHEET ARRANGEMENTS**

We have entered into indemnity agreements with each of our directors as well as operating leases that do not result in an obligation being recorded on the balance sheet. Refer to Note 10, *Commitments and Contingencies*, of the consolidated financial statements for more information on our indemnity agreements.

**MARKET RISK EXPOSURES**

Our financial position and earnings are subject to various market risks including changes in interest rates, the yield curve, spreads between risk-adjusted and risk-free interest rates, foreign currency rates, used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. See Note 9, *Derivative Financial Instruments*, to the consolidated condensed financial statements included in this report for additional information on our financial instruments.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one year of one another, although, from time to time, a broader interval may be allowed.

We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us, net of collateral held, based upon current market conditions. In addition, we periodically assess exposure related to potential payment obligations between us and our counterparties. We minimize the credit risk in derivative financial instruments by entering into transactions with high quality counterparties, (A-rated or higher at the time we enter into the contract), and we maintain credit support annexes with certain of those counterparties.

We utilize a risk management strategy that includes the use of derivative financial instruments. Derivative instruments expose us to credit market and basis risk. Such instruments can change materially in value from period-to-period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market and basis risks by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures. In addition, all derivative programs are monitored by our risk management department.

Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate options. Our inflation risk management strategy involves the use of swaps that require us to pay a fixed rate and

receive a floating rate that is based on changes in the Consumer Price Index ( CPI ).

We may use the following types of derivative contracts to mitigate our exposure to certain guaranteed benefits related to variable annuity, fixed indexed annuity, and indexed universal life contracts:

- Foreign Currency Futures
- Variance Swaps
- Interest Rate Futures
- Equity Options
- Equity Futures
- Credit Derivatives

Table of Contents

- Interest Rate Swaps
- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps

We believe that our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements, implied volatility, policyholder behavior, and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

In the ordinary course of our commercial mortgage lending operations, we may commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates. As of March 31, 2015 (Successor Company), we had outstanding mortgage loan commitments of \$756.2 million at an average rate of 4.5%.

**Impact of continued low interest rate environment**

Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between the interest rate earned on investments and the interest rate credited to in-force policies and contracts. In addition, certain of our insurance and investment products guarantee a minimum guaranteed interest rate ( MGIR ). In periods of prolonged low interest rates, the interest spread earned may be negatively impacted to the extent our ability to reduce policyholder crediting rates is limited by the guaranteed minimum credited interest rates. Additionally, those policies without account values may exhibit lower profitability in periods of prolonged low interest rates due to reduced investment income.

Table of Contents

The table below presents account values by range of current minimum guaranteed interest rates and current crediting rates for our universal life and deferred fixed annuity products as of March 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company):

**Credited Rate Summary**

**As of March 31, 2015 (Successor Company)**

Minimum Guaranteed Interest Rate Account Value	At MGIR	1-50 bps above MGIR	More than 50 bps above MGIR	Total
		(Dollars In Millions)		
<b>Universal Life Insurance</b>				
>2% - 3%	\$ 189	\$ 974	\$ 2,022	\$ 3,185
>3% - 4%	3,669	1,557	89	5,315
>4% - 5%	2,021	14		2,035
>5% - 6%	222			222
Subtotal	6,101	2,545	2,111	10,757
<b>Fixed Annuities</b>				
1%	\$ 629	\$ 175	\$ 200	\$ 1,004
>1% - 2%	578	522	173	1,273
>2% - 3%	1,938	448	117	2,503
>3% - 4%	292			292
>4% - 5%	294			294
>5% - 6%	3			3
Subtotal	3,734	1,145	490	5,369
Total	\$ 9,835	\$ 3,690	\$ 2,601	\$ 16,126
Percentage of Total	61%	23%	16%	100%



Table of Contents**Credited Rate Summary****As of December 31, 2014 (Predecessor Company)**

<b>Minimum Guaranteed Interest Rate Account Value</b>	<b>At MGIR</b>	<b>1-50 bps above MGIR</b>	<b>More than 50 bps above MGIR</b>	<b>Total</b>
	<b>(Dollars In Millions)</b>			
<b>Universal Life Insurance</b>				
>2% - 3%	\$ 188	\$ 958	\$ 2,018	\$ 3,164
>3% - 4%	3,526	1,670	138	5,334
>4% - 5%	2,035	15		2,050
>5% - 6%	224			224
Subtotal	5,973	2,643	2,156	10,772
<b>Fixed Annuities</b>				
1%	\$ 602	\$ 179	\$ 239	\$ 1,020
>1% - 2%	597	516	197	1,310
>2% - 3%	2,005	368	203	2,576
>3% - 4%	297			297
>4% - 5%	295			295
>5% - 6%	3			3
Subtotal	3,799	1,063	639	5,501
Total	\$ 9,772	\$ 3,706	\$ 2,795	\$ 16,273
Percentage of Total	60%	23%	17%	100%

We are active in mitigating the impact of a continued low interest rate environment through product design, as well as adjusting crediting rates on current in-force policies and contracts. We also manage interest rate and reinvestment risks through our asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations; cash flow testing under various interest rate scenarios; and the regular rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk.

**IMPACT OF INFLATION**

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising

interest rates. During the periods covered by this report, we believe inflation has not had a material impact on our business.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 2, *Summary of Significant Accounting Policies*, to the consolidated condensed financial statements for information regarding recently issued accounting standards.

Table of Contents

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

See Part I, Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Liquidity and Capital Resources, and Part II, Item 1A, *Risk Factors* of this Report for market risk disclosures.

**Item 4. Controls and Procedures**

**(a) Disclosure controls and procedures**

In order to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), except as otherwise noted below. Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

**(b) Changes in internal control over financial reporting**

During the period from February 1, 2015 through March 31, 2015 (Successor Company) the Company updated its internal controls over financial reporting to ensure the accuracy of information disclosed as a result of the Merger, including but not limited to internal controls over reporting of goodwill and intangible assets. Other than the updates mentioned, there have been no changes in the Company's internal control over financial reporting during the period of January 1, 2015 to January 31, 2015 (Predecessor Company) or the period of February 1, 2015 to March 31, 2015 (Successor Company), that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's internal controls exist within a dynamic environment and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

**Part II**

**Item 1. Legal Proceedings**

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

After the entry into the Merger Agreement on June 3, 2014, four lawsuits were filed against the Company, our then current directors, Dai-ichi Life and DL Investment (Delaware), Inc. on behalf of alleged Company shareowners. On June 11, 2014, a putative class action lawsuit styled *Edelman, et al. v. Protective Life Corporation, et al.*, Civil Action No. 01-CV-2014-902474.00, was filed in the Circuit Court of Jefferson County, Alabama. On July 30, 2014, the plaintiff in *Edelman* filed an amended complaint. Three putative class action lawsuits were filed in the Court of Chancery of the State of Delaware, *Martin, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9794-CB, filed June 19, 2014, *Leyendecker, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9931-CB, filed July 22, 2014 and *Hilburn, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9937-CB, filed July 23, 2014. The Delaware Court of Chancery consolidated the *Martin, Leyendecker*, and *Hilburn* actions under the caption *In re Protective Life Corp. Stockholders Litigation*, Consolidated Civil Action No. 9794-CB, designated the *Hilburn* complaint as the operative consolidated complaint (the Delaware Action ) and appointed Charlotte Martin, Samuel J. Leyendecker, Jr., and Deborah J. Hilburn to serve as co-lead plaintiffs. These lawsuits allege that our Board of Directors breached its fiduciary duties to our shareowners, that the Merger involves an unfair price, an inadequate sales process, and unreasonable deal protection devices that purportedly preclude competing offers, and that the preliminary proxy statement filed with the SEC on July 10, 2014 failed to disclose purportedly material information. The complaints also alleged that the Company, Dai-ichi Life and DL Investment (Delaware), Inc. aided and abetted those alleged breaches of fiduciary duties. The complaints seek injunctive relief, including enjoining or rescinding the Merger, and attorneys' and other fees and costs, in addition to other relief. The Delaware Action also seeks an award of unspecified damages.

Table of Contents

With respect to the *Edelman* lawsuit, on September 5, 2014, the court held a hearing to address motions to dismiss the lawsuit filed on behalf of the Company, the members of the Company's Board, and DL Investment (Delaware), Inc. On September 19, 2014, the court granted those motions and dismissed the *Edelman* lawsuit in its entirety and with prejudice, pending a possible appeal by the plaintiff. With respect to the Delaware Action, on September 24, 2014, the Company, each of the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. entered into a Memorandum of Understanding (the "MOU") with the plaintiffs in that case, which sets forth the parties' agreement in principle for a settlement of the Delaware Action. As set forth in the MOU, the Company, the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. agreed to the settlement solely to eliminate the burden, expense, distraction, and uncertainties inherent in further litigation, and without admitting any liability or wrongdoing. The MOU contemplates that the parties will seek to enter into a stipulation of settlement providing for the certification of a mandatory non opt-out class, for settlement purposes only, to include any and all record and beneficial owners of shares (excluding the members of the Company's Board and their immediate family members, any entity in which any member of the Company's Board has a controlling interest, and any successors in interest thereto) that held shares at any time during the period beginning on June 3, 2014, through the date of consummation or termination of the Merger, including any and all of their respective successors in interest, successors, predecessors in interest, representatives, trustees, executors, administrators, heirs, assigns, or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, together with their predecessors, successors and assigns, and a global release of claims relating to the Merger as set forth in the MOU. As part of the settlement, the Company agreed to make certain additional disclosures related to the Merger which are set forth in the Company's Form 8-K filed on September 25, 2014 and which supplement the information contained in the Company's definitive proxy statement filed with the SEC on August 25, 2014, as amended on August 27, 2014. Nothing in the Form 8-K or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality of any of the disclosures set forth in the Form 8-K. The claims in the Delaware Action will not be released until the stipulation of settlement is approved by the Court of Chancery of the State of Delaware. The proposed settlement would have no effect on the consideration received by Company stockholders in connection with the completion of the Merger. There can be no assurance, however, that the court will approve the proposed settlement, nor can there be any assurance as to the size of any award of attorneys' fees and expenses to the plaintiffs' counsel. The Company cannot provide assurances as to the ultimate settlement of the Delaware Action or with respect to any lawsuits regarding the Merger that may be filed in the future.

For additional information regarding legal proceedings see Item 1A, *Risk Factors* and Note 10, *Commitments and Contingencies* of the Notes to the Consolidated Condensed Financial Statements, each included herein.

**Item 1A. Risk Factors**

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company's future results include, but are not limited to, general economic conditions and known trends and uncertainties. In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A, *Risk Factors* in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (Successor Company), which could materially affect the Company's business, financial condition, or future results of operations.

**Industry Related Risks**

*The business of the Company is highly regulated and is subject to routine audits, examinations and actions by regulators, law enforcement agencies and self-regulatory organizations.*

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The Company is subject to government regulation in each of the states in which it conducts business. In many instances, the regulatory models emanate from the National Association of Insurance Commissioners ( NAIC ). Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company s business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, insurer use of captive reinsurance companies, acquisitions, mergers, capital adequacy, claims practices and the remittance of unclaimed property. In addition, some state insurance departments may enact rules or regulations with extra-territorial application, effectively extending their jurisdiction to areas such as

Table of Contents

permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator.

At any given time, a number of financial, market conduct, or other examinations or audits of the Company's subsidiaries may be ongoing. It is possible that any examination or audit may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures, any of which could have a material adverse effect on the Company's financial condition or results of operations. The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products. The Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations.

The NAIC and the Company's state regulators may be influenced by the initiatives of international regulatory bodies, and those initiatives may not translate readily into the legal system under which U.S. insurers must operate. There is increasing pressure to conform to international standards due to the globalization of the business of insurance and the most recent financial crisis.

In addition to developments at the NAIC and in the United States, the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated.

The International Association of Insurance Supervisors (IAIS), at the direction of the FSB, has published a methodology for identifying global systemically important insurers (G-SIIs) and high level policy measures that will apply to G-SIIs. The FSB, working with national authorities and the IAIS, has designated nine insurance groups as G-SIIs. The IAIS is working on the policy measures which include higher capital requirements and enhanced supervision. Although neither the Company nor Dai-ichi Life has been designated a G-SII, the list of designated insurers will be updated annually by the FSB. It is possible that the greater size and reach of the combined group as a result of the Company becoming a subsidiary of Dai-ichi Life, or a change in the methodologies or their application, could lead to the combined group's designation as a G-SII.

The IAIS is also in the process of developing a common framework for the supervision of internationally active insurance groups (IAIGs), which is targeted to be implemented in 2019. Under the proposed framework, insurance groups deemed to be IAIGs may be required by their regulators to comply with new global capital requirements, which may exceed the sum of state or other local capital requirements. In addition, the IAIS is developing a model framework for the supervision of IAIGs that contemplates group wide supervision across national boundaries, which requires each IAIG to conduct its own risk and solvency assessment to monitor and manage its overall solvency. It is possible that, as a result of the Merger, the combined group may be deemed an IAIG, in which case it may be subject to supervision and capital requirements beyond those applicable to any competitors who are not designated as an IAIG.

While it is not yet known how or if these actions will impact the Company, such regulation could result in increased costs of compliance, increased disclosure, less flexibility in capital management and more burdensome regulation and capital requirements for specific lines of business, and could impact the Company and its reserve and capital requirements, financial condition or results of operations.

Although some NAIC pronouncements, particularly as they affect accounting, reserving and risk-based capital issues, may take effect automatically without affirmative action taken by the states, the NAIC is not a governmental entity and its processes and procedures do not comport with those to which governmental entities typically adhere. Therefore, it is possible that actions could be taken by the NAIC that become effective without the procedural safeguards that would be present if governmental action was required. In addition, with respect to some financial regulations and guidelines, states sometimes defer to the interpretation of the insurance department of a non-domiciliary



Table of Contents

state. Neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a state could choose to follow a different interpretation. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal, accounting or actuarial issue may result in non-compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal, accounting or actuarial issue may change over time to the Company's detriment, or that changes to the overall legal or market environment may cause the Company to change its practices in ways that may, in some cases, limit its growth or profitability. Statutes, regulations, interpretations, and instructions may be applied with retroactive impact, particularly in areas such as accounting, reserve and risk-based capital requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products.

The NAIC has announced more focused inquiries on certain matters that could have an impact on the Company's financial condition and results of operations. Such inquiries concern, for example, examination of statutory accounting disclosures for separate accounts, insurer use of captive reinsurance companies, certain aspects of insurance holding company reporting and disclosure, reserving for universal life products with secondary guarantees, reinsurance, and risk-based capital calculations. In addition, the NAIC continues to consider various initiatives to change and modernize its financial and solvency requirements and regulations. It is considering changing to, or has considered and passed, a principles-based reserving method for life insurance and annuity reserves, changes to the accounting and risk-based capital regulations, changes to the governance practices of insurers, and other items. Some of these proposed changes, including implementing a principles-based reserving methodology, would require the approval of state legislatures. The Company cannot provide any estimate as to what impact these more focused inquiries or proposed changes, if they occur, will have on its product mix, product profitability, reserve and capital requirements, financial condition or results of operations.

With respect to reserving requirements for universal life policies with secondary guarantees ( ULSG ), in 2012 the NAIC adopted revisions to Actuarial Guideline XXXVIII ( AG38 ) addressing those requirements. Some of the regulatory participants in the AG38 revision process appeared to believe that one of the purposes of the revisions was to calculate reserves for ULSG similarly to reserves for guaranteed level term life insurance contracts with the same guarantee period. The effect of the revisions was to increase the level of reserves that must be held by insurers on ULSG with certain product designs that are issued on and after January 1, 2013, and to cause insurers to test the adequacy of reserves, and possibly increase the reserves, on ULSG with certain product designs that were issued before January 1, 2013. The Company developed and introduced a new ULSG product for sales in 2013. The Company cannot predict future regulatory actions that could negatively impact the Company's ability to market this or other products. Such regulatory reactions could include, for example, withdrawal of state approvals of the product, or adoption of further changes to AG38 or other adverse action including retroactive regulatory action that could negatively impact the Company's product. A disruption of the Company's ability to sell financially viable life insurance products or an increase in reserves on ULSG policies issued either before or after January 1, 2013, could have a material adverse impact on the Company's financial condition or results of operations.

The Company currently uses affiliated captive reinsurance companies in various structures to finance certain statutory reserves based on a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX, which are associated with term life insurance and universal life insurance with secondary guarantees, respectively, as well as to reduce the volatility in statutory risk based capital associated with certain guaranteed minimum withdrawal and death benefit riders associated with the Company's variable annuity products. The NAIC, through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers (including traditional reinsurers) (the Affected Business ). The Financial Condition (E) Committee of the NAIC recently established a Variable Annuity Issues Working Group to examine company use of variable annuity captives. In addition, the Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, adopted the conceptual framework contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the Rector Report ), that contains numerous recommendations pertaining to the regulation and use of certain captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in



Table of Contents

various stages of discussions regarding recommendations. One recommendation of the Rector Report has been adopted as Actuarial Guideline XL VIII ( AG48 ). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. Other recommendations in the Rector Report are subject to ongoing comment and revision. It is unclear at this time to what extent the recommendations in the Rector Report, or additional or revised recommendations relating to captive transactions or reinsurance transactions in general, will be adopted by the NAIC. If the recommendations proposed in the Rector Report are implemented, it will likely be difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Rector Report, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. Additionally, in some circumstances AG48 and the implementation of the recommendations in the Rector Report could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

The NAIC's Financial Regulation Standards and Accreditation (F) Committee is considering a proposal to include insurer-owned captives and special purpose vehicles that are single-state licensed but assume reinsurance from cedants operating in multiple states within the definition of multi-state insurer found in the preambles to Parts A and B of the NAIC Financial Regulation Standards and Accreditation Program. If adopted, the revised definition would subject certain captives to all of the Accreditation Standards applicable to other traditional multi-state insurers, including standards related to capital and surplus requirements, risk-based capital requirements, investment laws and credit for reinsurance laws. Such application would likely have a significant and adverse impact on the Company's ability to engage in captive transactions on the same or a similar basis as in past periods.

Any regulatory action or changes in interpretation that materially adversely affects the Company's use or materially increases the Company's cost of using captives or reinsurers for the Affected Business, either retroactively or prospectively, could have a material adverse impact on the Company's financial condition or results of operations. If the Company were required to discontinue its use of captives for intercompany reinsurance transactions on a retroactive basis, adverse impacts would include early termination fees payable with respect to certain structures, diminished capital position and higher cost of capital. Additionally, finding alternative means to support policy liabilities efficiently is an unknown factor that would be dependent, in part, on future market conditions and the Company's ability to obtain required regulatory approvals. On a prospective basis, discontinuation of the use of captives could impact the types, amounts and pricing of products offered by the Company's insurance subsidiaries.

Recently, new laws and regulations have been adopted in certain states that require life insurers to search for unreported deaths. The National Conference of Insurance Legislators ( NCOIL ) has adopted the Model Unclaimed Life Insurance Benefits Act (the Unclaimed Benefits Act ) and legislation has been enacted in various states that is similar to the Unclaimed Benefits Act, although each state's version differs in some respects. The Unclaimed Benefits Act would impose new requirements on insurers to periodically compare their in-force life insurance and annuity contracts and retained asset accounts against a Death Database, investigate any potential matches to confirm the death and determine whether benefits are due, and to attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. Other states in which the Company does business may also consider adopting legislation similar to the Unclaimed Benefits Act. The Company cannot predict whether such legislation will be proposed or enacted in additional states. Additionally, the NAIC Unclaimed Life Insurance Benefits (A) Working Group recently undertook to develop a model unclaimed property law that overlaps with the NCOIL-based laws already adopted in several states. Other life insurance industry associations and regulatory associations are also considering these matters.

A number of state treasury departments and administrators of unclaimed property have audited life insurance companies for compliance with unclaimed property laws. The focus of the audits has been to determine whether there have been maturities of policies or contracts, or policies that have exceeded limiting age with respect to which death benefits or other payments under the policies should be treated as unclaimed property that should be escheated to the state. In addition, the audits have sought to identify unreported deaths of insureds. There is no clear basis in previously existing law for treating an unreported death as giving rise to a policy benefit that would be subject to unclaimed property procedures. A number of life insurers, however, have entered into resolution agreements with state treasury departments under which the life insurers agreed to procedures for comparing their previously issued life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the

benefits and interest, and escheating the

Table of Contents

benefits and interest to the state if the beneficiary could not be found. The amounts publicly reported to have been paid to beneficiaries and/or escheated to the states have been substantial.

The NAIC has established an Investigations of Life/Annuity Claims Settlement Practices (D) Task Force to coordinate targeted multi-state examinations of life insurance companies on claims settlement practices. The state insurance regulators on the Task Force have initiated targeted multi-state examinations of life insurance companies with respect to the companies' claims paying practices and use of a Death Database to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement systems and procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest to the state if the beneficiary could not be found. It has been publicly reported that the life insurers have paid substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements.

Certain of the Company's subsidiaries as well as certain other insurance companies from whom the Company has coinsured blocks of life insurance and annuity policies are subject to unclaimed property audits and/or targeted multistate examinations by insurance regulators similar to those described above. It is possible that the audits, examinations and/or the enactment of state laws similar to the Unclaimed Benefits Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, payment of administrative penalties and/or examination fees to state authorities, and changes to the Company's procedures for identifying unreported deaths and escheatment of abandoned property. It is possible any such additional payments and any costs related to changes in Company procedures could materially impact the Company's financial results from operations. It is also possible that life insurers, including the Company, may be subject to claims, regulatory actions, law enforcement actions, and civil litigation arising from their prior business practices. Any resulting liabilities, payments or costs, including initial and ongoing costs of changes to the Company's procedures or systems, could be significant and could have a material adverse effect on the Company's financial condition or results of operations.

During December 2012, the West Virginia Treasurer filed actions against the Company's subsidiaries Protective Life Insurance Company and West Coast Life Insurance Company in West Virginia state court (*State of West Virginia ex rel. John D. Perdue v. Protective Life Insurance Company, State of West Virginia ex rel. John D. Perdue v. West Coast Life Insurance Company; Defendants' Motions to Dismiss granted on December 27, 2013; Notice of Appeal filed on January 27, 2014*). The actions, which also name numerous other life insurance companies, allege that the companies violated the West Virginia Uniform Unclaimed Property Act, seek to compel compliance with the Act, and seek payment of unclaimed property, interest, and penalties. While the legal theory or theories that may give rise to liability in the West Virginia Treasurer litigation are uncertain, it is possible that other jurisdictions may pursue similar actions. The Company does not currently believe that losses, if any, arising from the West Virginia Treasurer litigation will be material. The Company cannot, however, predict whether other jurisdictions will pursue similar actions or, if they do, whether such actions will have a material impact on the Company's financial results from operations. Additionally, the California Controller has recently sued several insurance carriers for alleged failure to comply with audit requests from an appointed third party auditor. The Company cannot predict whether California might pursue a similar action against the Company and further cannot predict whether other jurisdictions might pursue similar actions. The Company does not believe however that any such action would have a material impact on the Company's financial condition or results of operations.

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. The Company cannot predict the amount or timing of any future assessments.

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

The purchase of life insurance products is limited by state insurable interest laws, which in most jurisdictions require that the purchaser of life insurance name a beneficiary that has some interest in the sustained life of the insured. To some extent, the insurable interest laws present a barrier to the life settlement, or stranger-owned industry, in which a financial entity acquires an interest in life insurance proceeds, and efforts have been made in some states to

Table of Contents

liberalize the insurable interest laws. To the extent these laws are relaxed, the Company's lapse assumptions may prove to be incorrect.

At the federal level, bills are routinely introduced in both chambers of the United States Congress ( Congress ) that could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, whether the enacted legislation will positively or negatively affect the Company or whether any effects will be material.

The Company's sole stockholder, Dai-ichi Life, is subject to regulation by the Japanese Financial Services Authority ( JFSA ). Under applicable laws and regulations, Dai-ichi Life is required to provide notice to or obtain the consent of the JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company and its consolidated subsidiaries.

The Company is subject to various conditions and requirements of the Healthcare Act. The Healthcare Act makes significant changes to the regulation of health insurance and may affect the Company in various ways. The Healthcare Act may affect the small blocks of business the Company has offered or acquired over the years that are, or are deemed to constitute, health insurance. The Healthcare Act may also affect the benefit plans the Company sponsors for employees or retirees and their dependents, the Company's expense to provide such benefits, the tax liabilities of the Company in connection with the provision of such benefits, and the Company's ability to attract or retain employees. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. The Company cannot predict the effect that the Healthcare Act, or any regulatory pronouncement made thereunder, will have on its results of operations or financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ) enacted in July 2010 made sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to the following: the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker-dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareowners, and the imposition of additional regulation over credit rating agencies.

Dodd-Frank also created the Financial Stability Oversight Council (the FSOC ), which has issued a final rule and interpretive guidance setting forth the methodology by which it will determine whether a non-bank financial company is a systemically important financial institution ( SIFI ). A non-bank financial company, such as the Company, that is designated as a SIFI by the FSOC will become subject to supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve ). The Company is not currently supervised by the Federal Reserve. Such supervision could impact the Company's requirements relating to capital, liquidity, stress testing, limits on counterparty credit exposure, compliance and governance, early remediation in the event of financial weakness and other prudential matters, and in other ways the Company currently cannot anticipate. FSOC-designated non-bank financial companies will also be required to prepare resolution plans, so-called living wills, that set out how they could most efficiently be liquidated if they endangered the U.S. financial system or the broader economy. The FSOC has conducted two rounds of SIFI designation consideration. However, this process is still very new, and the FSOC continues to make changes to its process for designating a company as a SIFI. The FSOC has made its initial SIFI designations, and the Company was not designated as such. However, the Company could be considered and designated at any time. Because the process is in its initial stages, the Company is at this time unable to predict the impact on an entity that is supervised as a SIFI by the Federal Reserve Board. The Company is not able to predict whether the capital requirements or other requirements imposed on SIFIs may impact the requirements applicable to the Company even if it is not designated as a SIFI. The uncertainty about regulatory requirements could influence the Company's product line or other business decisions with respect to some product lines. There is a similarly uncertain international designation process. The Financial Stability Board, appointed by the G-20 Summit, recently designated nine insurers as G-SIIs, or global systemically-important insurers. As with the designation of SIFI's, it is

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

unclear at this time how additional capital and other requirements affect the insurance and financial industries. The insurers designated as G-SIIs to date represent organizations larger than the Company, but the possibility remains that the Company could be so designated.



Table of Contents

Additionally, Dodd-Frank created the Consumer Financial Protection Bureau ( CFPB ), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the United States Securities and Exchange Commission (the SEC ) or the U.S. Commodity Futures Trading Commission. CFPB has issued a rule to bring under its supervisory authority certain non-banks whose activities or products it determines pose risks to consumers. It is unclear at this time which activities or products will be covered by this rule. Certain of the Company's subsidiaries sell products that may be regulated by the CFPB. CFPB continues to bring enforcement actions involving a growing number of issues, including actions using state Attorney's General, which could directly or indirectly affect the Company or use any of its subsidiaries. Additionally, the CFPB is exploring the possibility of helping Americans manage their retirement savings and is considering the extent of its authority in that area. The Company is unable at this time to predict the impact of these activities on the Company.

Dodd-Frank includes a new framework of regulation of over-the-counter ( OTC ) derivatives markets which requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The types of transactions to be cleared are expected to increase in the future. The new framework could potentially impose additional costs, including increased margin requirements and additional regulation on the Company. Increased margin requirements on the Company's part, combined with restrictions on securities that will qualify as eligible collateral, could continue to reduce its liquidity and require an increase in its holdings of cash and government securities with lower yields causing a reduction in income. The Company uses derivative financial instruments to mitigate a wide range of risks in connection with its businesses, including those arising from its variable annuity products with guaranteed benefit features. The derivative clearing requirements of Dodd-Frank could continue to increase the cost of the Company's risk mitigation and expose it to the risk of a default by a clearinghouse with respect to the Company's cleared derivative transactions.

Numerous provisions of Dodd-Frank require the adoption of implementing rules and/or regulations. The process of adopting such implementing rules and/or regulations have in some instances been delayed beyond the timeframes imposed by Dodd-Frank. Until the various final regulations are promulgated pursuant to Dodd-Frank, the full impact of the regulations on the Company will remain unclear. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, the Company, its competitors or the entities with which the Company does business. Legislative or regulatory requirements imposed by or promulgated in connection with Dodd-Frank may impact the Company in many ways, including but not limited to the following: placing the Company at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for the Company to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, causing historical market behavior or statistics utilized by the Company in connection with its efforts to manage risk and exposure to no longer be predictive of future risk and exposure or otherwise have a material adverse effect on the overall business climate as well as the Company's financial condition and results of operations.

The Company may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans and individual investors that are governed by the Employee Retirement Income Security Act ( ERISA ). The Department of Labor has proposed a rule that would change the circumstances under which one who works with employee benefit plans and Individual Retirement Accounts would be considered a fiduciary under ERISA. Severe penalties are imposed for breach of duties under ERISA and the Company cannot predict the impact that the Department of Labor's proposed rule may have on its operations.

Certain life insurance policies, contracts, and annuities offered by the Company's subsidiaries are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority ( FINRA ) examine or investigate the activities of broker-dealers and investment advisors, including the Company's affiliated broker-dealers and investment advisors. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisors doing business through such entities and the entities' supervision of those persons. It is possible that any examination or investigation could lead to enforcement action by the regulator and/or may result in payments of fines and penalties,



Table of Contents

payments to customers, or both, as well as changes in systems or procedures of such entities, any of which could have a material adverse effect on the Company's financial condition or results of operations.

In addition, the SEC is reviewing the standard of conduct applicable to brokers, dealers, and investment advisers when those entities provide personalized investment advice about securities to retail customers. FINRA has also issued a report addressing how its member firms might identify and address conflicts of interest including conflicts related to the introduction of new products and services and the compensation of the member firms' associated persons. These regulatory initiatives could have an impact on Company operations and the manner in which broker-dealers and investment advisers distribute the Company's products.

The Company may also be subject to regulation by governments of the countries in which it currently does, or may in the future, do, business, as well as regulation by the U.S. Government with respect to its operations in foreign countries, such as the Foreign Corrupt Practices Act. Penalties for violating the various laws governing the Company's business in other countries may include restrictions upon business operations, fines and imprisonment, both within the U.S. and abroad. U.S. enforcement of anti-corruption laws continues to increase in magnitude, and penalties may be substantial.

The Company is subject to conditions and requirements set forth in the Telephone Consumer Protection Act ( TCPA ) which places restrictions on the use of automated telephone and facsimile machines. Class action lawsuits alleging violations of the act have been filed against a number of companies, including life insurance carriers. These class action lawsuits contain allegations that defendant carriers were vicariously liable for the alleged wrongful conduct of agents who violated the TCPA. Some of the class actions have resulted in substantial settlements against other insurers. Any such actions against the Company could result in a material adverse effect upon our financial condition or results of operations.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting and reserving practices, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws (including laws in Alabama where over half of the Company's employees are located), and because the Company owns and operates real property, state, federal, and local environmental laws. Under some circumstances, severe penalties may be imposed for breach of these laws.

The Company cannot predict what form any future changes to laws and/or regulations affecting participants in the financial services sector and/or insurance industry, including the Company and its competitors or those entities with which it does business, may take, or what effect, if any, such changes may have.

***New accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact the Company.***

The Company is required to comply with accounting principles generally accepted in the United States ( GAAP ). A number of organizations are instrumental in the development and interpretation of GAAP such as the SEC, the Financial Accounting Standards Board ( FASB ), and the American Institute of Certified Public Accountants ( AICPA ). GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. The Company can give no assurance that future changes to GAAP will not have a negative impact on the Company. GAAP includes the requirement to carry certain assets and liabilities

## Edgar Filing: PROTECTIVE LIFE CORP - Form 10-Q

at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in the Company's financial statements.

The FASB and the International Accounting Standards Board are working on several projects that could result in significant changes to GAAP and International Financial Reporting Standards ( IFRS ). Furthermore, the SEC is considering whether and how to incorporate IFRS into the U.S. financial reporting system. The changes to GAAP and potential incorporation of IFRS into the U.S. financial reporting system will impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure and will likely affect how we manage our business, as it will likely affect other business processes such as design of compensation plans, product

Table of Contents

design, etc. The Company is unable to predict whether, and if so, when these projects and ultimately convergence with IFRS will be adopted and/or implemented.

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles (SAP). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals either are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect the Company. The NAIC is also currently working to reform model regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and, if so, whether the enacted reforms will positively or negatively affect the Company. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. The Company cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of the Company's insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. The Company can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on the Company. For additional information regarding pending NAIC reforms, please see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

During the quarter ended March 31, 2015, the Company sold no securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act).

***Purchases of Equity Securities by the Issuer***

During the period of February 1, 2015 to March 31, 2015 (Successor Company) 100% of the Company's stock was owned by Dai-ichi Life Insurance Company and was not available for repurchase by the Company. For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not repurchase any of its common stock.

Table of Contents

**Item 6. Exhibit Index**

**Exhibit  
Number**

- 3(a) Certificate of Incorporation of the Company effective as of February 1, 2015, incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K filed February 26, 2015.
- 3(b) Amended and Restated Bylaws of the Company effective as of February 1, 2015, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 3, 2015.
- 10(a) Amended and Restated Credit Agreement, dated as of February 2, 2015, among Protective Life Corporation and Protective Life Insurance Company, as borrowers, the several lenders from time to time a party thereto, Regions Bank, as Administrative Agent, and Wells Fargo Bank, National Association, as Syndication Agent, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 3, 2015 (No. 001-11339).
- 31(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31(b) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32(a) Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32(b) Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Financial statements from the quarterly report on Form 10-Q of Protective Life Corporation for the quarter ended March 31, 2015, filed on May 8, 2015, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Statements of Comprehensive Income (Loss), (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statements of Shareowner's Equity, (v) the Consolidated Condensed Statements of Cash Flows, and (iv) the Notes to Consolidated Condensed Financial Statements.

---

Management contract or compensatory plan or arrangement

Table of Contents

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTIVE LIFE CORPORATION

Date: May 8, 2015

By:

/s/ Steven G. Walker

Steven G. Walker  
Senior Vice President, Controller  
and Chief Accounting Officer