PROTECTIVE LIFE CORP
Form 10-Q
November 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2014

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(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 **x** No o

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 **x** No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **x** Accelerated Filer o Non-accelerated filer o Smaller Reporting Company o

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of October 27, 2014: 79,288,518

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 759,038	$ 657,218	$ 2,426,736	$ 2,140,396
Reinsurance ceded	(277,136)	(270,730)	(947,817)	(996,570)
Net of reinsurance ceded	481,902	386,488	1,478,919	1,143,826
Net investment income	558,174	454,275	1,647,153	1,378,129
Realized investment gains (losses):				
Derivative financial instruments	3,781	41,326	(191,495)	192,592
All other investments	1,194	(19,508)	153,456	(133,631)
Other-than-temporary impairment losses	(1,142)	(6,635)	(2,026)	(9,764)
Portion recognized in other comprehensive income (before taxes)	(1,212)	(2,046)	(3,379)	(7,501)
Net impairment losses recognized in earnings	(2,354)	(8,681)	(5,405)	(17,265)
Other income	105,389	98,794	311,359	278,213
Total revenues	1,148,086	952,694	3,393,987	2,841,864
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2014 - $217,641; 2013 - $204,065; nine months: 2014 - $851,028; 2013 - $882,123)	630,285	624,577	2,106,620	1,764,323
Amortization of deferred policy acquisition costs and value of business acquired	134,918	22,446	242,031	149,631
Other operating expenses, net of reinsurance ceded: (three months: 2014 - $49,196; 2013 - $47,506; nine months: 2014 - $139,507; 2013 - $138,901)	198,000	163,550	573,038	511,149
Total benefits and expenses	963,203	810,573	2,921,689	2,425,103
Income before income tax	184,883	142,121	472,298	416,761
Income tax expense	65,974	49,060	161,773	142,210
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Net income - basic	$ 1.48	$ 1.17	$ 3.88	$ 3.46
Net income - diluted	$ 1.46	$ 1.15	$ 3.82	$ 3.39
Cash dividends paid per share	$ 0.24	$ 0.20	$ 0.68	$ 0.58
Average shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Average shares outstanding - diluted	81,458,870	80,852,078	81,261,249	80,882,552

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2014 - $(44,766); 2013 - $(145,224); nine months: 2014 - $431,299; 2013 - $(641,532))	(83,138)	(269,703)	800,982	(1,191,416)
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2014 - $(7,446); 2013 - $(653); nine months: 2014 - $(16,027); 2013 - $(9,488))	(13,827)	(1,212)	(29,763)	(17,621)
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: (three months: 2014 - $561; 2013 - $(1,543) nine months: 2014 - $2,419; 2013 - $1,383)	1,044	(2,865)	4,494	2,570
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2014 - $(22); 2013 - $8; nine months: 2014 - $(31); 2013 - $(55))	(41)	14	(58)	(103)
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2014 - $103; 2013 - $200; nine months: 2014 - $552; 2013 - $577)	190	372	1,025	1,072
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2014 - $631; 2013 - $(922); nine months: 2014 - $1,895; 2013 - $(2,766))	1,173	(1,712)	3,520	(5,136)
Total other comprehensive income (loss)	(94,599)	(275,106)	780,200	(1,210,634)
Total comprehensive income (loss)	$ 24,310	$ (182,045)	$ 1,090,725	$ (936,083)

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	September 30, 2014	**December 31, 2013**
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2014 - $34,222,620; 2013 - $33,668,770)	$ 36,922,395	$ 34,823,093
Fixed maturities, at amortized cost (fair value: 2014 - $453,741; 2013 - $335,676)	415,000	365,000
Equity securities, at fair value (cost: 2014 - $791,964; 2013 - $675,758)	809,648	646,027
Mortgage loans (2014 and 2013 includes $489,667 and $627,731 related to securitizations)	5,232,463	5,493,492
Investment real estate, net of accumulated depreciation (2014 - $376; 2013 - $1,066)	13,998	20,413
Policy loans	1,767,228	1,815,744
Other long-term investments	470,174	521,811
Short-term investments	183,411	134,146
Total investments	45,814,317	43,819,726
Cash	328,487	466,542
Accrued investment income	491,864	465,333
Accounts and premiums receivable, net of allowance for uncollectible amounts (2014 - $3,839; 2013 - $4,283)	123,136	101,039
Reinsurance receivables	6,132,550	6,175,115
Deferred policy acquisition costs and value of business acquired	3,263,299	3,570,215
Goodwill	103,139	105,463
Property and equipment, net of accumulated depreciation (2014 - $116,986; 2013 - $111,579)	52,939	52,403
Other assets	371,233	426,471
Income tax receivable	18,257	
Assets related to separate accounts		
Variable annuity	13,040,828	12,791,438
Variable universal life	813,178	783,618
Total assets	$ 70,553,227	$ 68,757,363

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(continued)

(Unaudited)

	As of	
	September 30, 2014	December 31, 2013
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$ 29,876,778	$ 29,772,325
Unearned premiums	1,521,330	1,549,815
Total policy liabilities and accruals	31,398,108	31,322,140
Stable value product account balances	2,261,546	2,559,552
Annuity account balances	11,083,763	11,125,253
Other policyholders funds	1,377,504	1,214,380
Other liabilities	1,469,374	1,144,853
Income tax payable		12,761
Deferred income taxes	1,476,749	1,050,533
Non-recourse funding obligations	594,066	562,448
Repurchase program borrowings	359,804	350,000
Debt	1,380,000	1,585,000
Subordinated debt securities	540,593	540,593
Liabilities related to separate accounts		
Variable annuity	13,040,828	12,791,438
Variable universal life	813,178	783,618
Total liabilities	65,795,513	65,042,569
Commitments and contingencies - Note 10		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2014 and 2013 - 160,000,000 shares issued: 2014 and 2013 - 88,776,960	$ 44,388	$ 44,388
Additional paid-in-capital	599,199	606,934
Treasury stock, at cost (2014 - 9,490,513; 2013 - 10,199,514)	(186,818)	(200,416)
Retained earnings	3,026,679	2,769,822
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2014 - $705,180; 2013 - $289,908)	1,309,619	538,400
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2014 - $2,744; 2013 - $325)	5,097	603
Accumulated loss - derivatives, net of income tax: (2014 - $(145); 2013 - $(666))	(268)	(1,235)
Postretirement benefits liability adjustment, net of income tax: (2014 - $(21,637); 2013 - $(23,532))	(40,182)	(43,702)
Total shareowners equity	4,757,714	3,714,794
Total liabilities and shareowners equity	$ 70,553,227	$ 68,757,363

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareowners Equity
			(Dollars In Thousands)			
Balance, December 31, 2013	$ 44,388	$ 606,934	$ (200,416)	$ 2,769,822	$ 494,066	$ 3,714,794
Net income for the nine months ended September 30, 2014				310,525		310,525
Other comprehensive income					780,200	780,200
Comprehensive income for the nine months ended September 30, 2014						1,090,725
Cash dividends ($0.68 per share)				(53,668)		(53,668)
Stock-based compensation		(7,735)	13,598			5,863
Balance, September 30, 2014	$ 44,388	$ 599,199	$ (186,818)	$ 3,026,679	$ 1,274,266	$ 4,757,714

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30, 2014	2013
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 310,525	$ 274,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	43,444	(41,696)
Amortization of deferred policy acquisition costs and value of business acquired	242,031	149,631
Capitalization of deferred policy acquisition costs	(215,616)	(240,398)
Depreciation expense	5,687	6,731
Deferred income tax	8,390	154,457
Accrued income tax	(11,220)	6,857
Interest credited to universal life and investment products	663,117	532,396
Policy fees assessed on universal life and investment products	(729,929)	(659,058)
Change in reinsurance receivables	42,565	60,600
Change in accrued investment income and other receivables	(28,297)	7,370
Change in policy liabilities and other policyholders funds of traditional life and health products	12,184	261,691
Trading securities:		
Maturities and principal reductions of investments	71,646	152,948
Sale of investments	187,829	220,711
Cost of investments acquired	(160,134)	(297,558)
Other net change in trading securities	(43,699)	(9,069)
Change in other liabilities	220,160	(48,694)
Other income - gains on repurchase of non-recourse funding obligations	(4,587)	(3,359)
Other, net	(8,593)	(85,008)
Net cash provided by operating activities	605,503	443,103
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	941,989	752,754
Sale of investments, available-for-sale	1,465,632	1,718,810
Cost of investments acquired, available-for-sale	(3,056,904)	(3,076,555)
Change in investments, held-to-maturity	(50,000)	(50,000)
Mortgage loans:		
New lendings	(649,125)	(392,883)
Repayments	908,364	543,297
Change in investment real estate, net	6,048	1,300
Change in policy loans, net	48,516	9,058
Change in other long-term investments, net	(69,778)	(169,668)
Change in short-term investments, net	(26,392)	(10,912)
Net unsettled security transactions	8,243	31,686
Purchase of property and equipment	(6,223)	(17,983)
Sales of property and equipment		86
Payments for business acquisitions	(906)	
Net cash used in investing activities	(480,536)	(661,010)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	190,000	430,000
Principal payments on line of credit arrangement and debt	(395,000)	(380,000)
Issuance (repayment) of non-recourse funding obligations	31,651	33,900

Repurchase program borrowings	9,804	(50,000)
Dividends to shareowners	(53,668)	(45,474)
Investment product deposits and change in universal life deposits	2,415,424	2,413,676
Investment product withdrawals	(2,461,200)	(2,198,547)
Other financing activities, net	(33)	
Net cash (used in) provided by financing activities	(263,022)	203,555
Change in cash	(138,055)	(14,352)
Cash at beginning of period	466,542	368,801
Cash at end of period	$ 328,487	$ 354,449

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 three and nine month periods ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The year-end consolidated condensed financial data was derived from audited financial statements but does not include all disclosures required by GAAP. 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, 2013.

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 shareowners equity.

Entities Included

The consolidated condensed financial statements 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, 2013. Although there were no significant changes to the Company s accounting policies during the nine months ended September 30, 2014, the Company has clarified the disclosures related to its reinsurance accounting methodology as follows:

Reinsurance Accounting Methodology Ceded premiums of the Company s traditional life insurance products are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable financial reporting period. Expense allowances paid by the assuming companies which are allocable to the current period are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances representing recovery of acquisition costs is treated as an offset to direct amortization of DAC or VOBA.

Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest.

The Company utilizes reinsurance on certain short duration insurance contracts (primarily issued through the Asset Protection segment). As part of these reinsurance transactions the Company receives reinsurance allowances which reimburse the Company for acquisition costs such as commissions and premium taxes. A ceding fee is also collected to cover other administrative costs and profits for the Company. As a component of reinsurance costs, reinsurance allowances are accounted for in accordance with the relevant provisions of ASC Financial Services Insurance Topic, which state that reinsurance costs should be amortized over the contract period of the reinsurance if the contract is short-duration. Accordingly, reinsurance allowances received related to short-duration contracts are capitalized and charged to expense in proportion to premiums earned. Ceded unamortized acquisition costs are netted with direct unamortized acquisition costs in the balance sheet.

Ceded premiums and policy fees on the Company s universal life (UL), VUL, bank-owned life insurance (BOLI), and annuity products reduce premiums and policy fees recognized by the Company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable valuation period.

Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances are amortized based on future expected gross profits. Assumptions regarding mortality, lapses, and interest rates are continuously reviewed and may be periodically changed. These changes will result in unlocking that changes the balance in the ceded deferred acquisition cost and can affect the amortization of DAC and VOBA. Ceded unearned revenue liabilities are also amortized based on expected gross profits. Assumptions are based on the best current estimate of expected mortality, lapses and interest spread.

The Company has also assumed certain policy risks written by other insurance companies through reinsurance agreements. *Premiums and policy fees* as well as *Benefits and settlement expenses* include amounts assumed under reinsurance agreements and are net of reinsurance ceded. Assumed reinsurance is accounted for in accordance with ASC Financial Services Insurance Topic.

Reinsurance Allowances Long-Duration Contracts Reinsurance allowances are intended to reimburse the ceding company for some portion of the ceding company s commissions, expenses, and taxes. The amount and timing of reinsurance allowances (both first year and renewal allowances) are contractually determined by the applicable reinsurance contract and do not necessarily bear a relationship to the amount and incidence of expenses actually paid by the ceding company in any given year.

Ultimate reinsurance allowances are defined as the lowest allowance percentage paid by the reinsurer in any policy duration over the lifetime of a universal life policy (or through the end of the level term period for a traditional life policy). Ultimate reinsurance allowances are determined during the negotiation of each reinsurance agreement and will differ between agreements.

The Company determines its cost of reinsurance to include amounts paid to the reinsurer (ceded premiums) net of amounts reimbursed by the reinsurer (in the form of allowances). As noted within ASC Financial Services Insurance Topic, The difference, if any, between amounts paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts is part of the

estimated cost to be amortized. The Company s policy is to amortize the cost of reinsurance over the life of the underlying reinsured contracts (for long-duration policies) in a manner consistent with the way in which benefits and expenses on the underlying contracts are recognized. For the Company s long-duration contracts, it is the Company s practice to defer reinsurance allowances as a component of the cost of reinsurance and recognize the portion related to the recovery of acquisition costs as a reduction of applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. The remaining balance of reinsurance allowances are included as a component of the cost of reinsurance and those allowances which are allocable to the current period are recorded as an offset to operating expenses in the current period consistent with the recognition of benefits and expenses on the underlying reinsured contracts. This practice is consistent with the Company s practice of

capitalizing direct expenses (e.g. commissions), and results in the recognition of reinsurance allowances on a systematic basis over the life of the reinsured policies on a basis consistent with the way in which acquisition costs on the underlying reinsured contracts would be recognized. In some cases reinsurance allowances allocable to the current period may exceed non-deferred direct costs, which may cause net other operating expenses (related to specific contracts) to be negative.

Amortization of Reinsurance Allowances Reinsurance allowances do not affect the methodology used to amortize DAC and VOBA, or the period over which such DAC and VOBA are amortized. Reinsurance allowances offset the direct expenses capitalized, reducing the net amount that is capitalized. DAC and VOBA on traditional life policies are amortized based on the pattern of estimated gross premiums of the policies in force. Reinsurance allowances do not affect the gross premiums, so therefore they do not impact traditional life amortization patterns. DAC and VOBA on universal life products are amortized based on the pattern of estimated gross profits of the policies in force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore do impact amortization patterns.

Reinsurance 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. 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.

Components of Reinsurance Cost The following income statement lines are affected by reinsurance cost:

Premiums and policy fees (reinsurance ceded on the Company s financial statements) represent consideration paid to the assuming company for accepting the ceding company s risks. Ceded premiums and policy fees increase reinsurance cost.

Benefits and settlement expenses include incurred claim amounts ceded and changes in ceded policy reserves. Ceded benefits and settlement expenses decrease reinsurance cost.

Amortization of deferred policy acquisition cost and VOBA reflects the amortization of capitalized reinsurance allowances representing recovery of acquisition costs. Ceded amortization decreases reinsurance cost.

Other expenses include reinsurance allowances paid by assuming companies to the Company less amounts representing recovery of acquisition costs. Reinsurance allowances decrease reinsurance cost.

The Company s reinsurance programs do not materially impact the other income line of the Company s income statement. In addition, net investment income generally has no direct impact on the Company s reinsurance cost. However, it should be noted that by ceding business to the assuming companies, the Company forgoes 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 companies profitability on business assumed from the Company.

Accounting Pronouncements Not Yet 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

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

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, 2016. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

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 is not anticipated to impact the Company s financial position or results of operations. The Company is reviewing its policies and processes to ensure compliance with the additional disclosure requirements in this Update.

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.

3. SIGNIFICANT ACQUISITIONS

On October 1, 2013 Protective Life Insurance Company (PLICO) completed the acquisition contemplated by the master agreement (the Master Agreement) dated April 10, 2013. Pursuant to that Master Agreement with AXA Financial, Inc. (AXA) and AXA Equitable Financial Services, LLC (AEFS), PLICO acquired the stock of MONY Life Insurance Company (MONY) from AEFS and entered into a reinsurance agreement (the Reinsurance Agreement) pursuant to which it reinsured on a 100% indemnity reinsurance basis certain business (the MLOA Business) of MONY Life Insurance Company of America (MLOA). The final aggregate purchase price of MONY was $689 million. The ceding commission for the reinsurance of the MLOA Business was $370 million. Together, the purchase of MONY and reinsurance of the MLOA Business are hereto referred to as (the MONY acquisition). The MONY acquisition allowed the Company to invest its capital and increase the scale of its Acquisitions segment. The MONY acquisition business is comprised of traditional and universal life insurance policies and fixed and variable annuities, most of which were written prior to 2004.

The MONY acquisition was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. During the nine months ended September 30, 2014, as a result of new information obtained about facts and circumstances that existed as of the acquisition date, the Company recorded certain measurement period adjustments to fixed maturities, mortgage loans, cash, accounts and premiums receivable, VOBA, other assets, deferred income taxes, future policy benefits and claims, other policyholders funds, and other liabilities. These were customary adjustments that occurred during the normal course of reviewing and integrating the MONY acquisition. The net result on the amount of VOBA recorded by the Company in relation to the MONY acquisition was to decrease VOBA by approximately $14.0 million. This impact has been revised in the comparative consolidated balance sheet presented as

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of December 31, 2013. The Company has determined that the impact on amortization and other related amounts within the comparative interim and annual periods from that previously presented in the annual or interim consolidated condensed statements of income is immaterial. The amounts presented in the following table related to the MONY acquisition (presented as of the acquisition date of October 1, 2013) have been retrospectively revised for the aforementioned measurement period adjustments.

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

	Fair Value As of October 1, 2013 (Dollars In Thousands)
Assets	
Fixed maturities, at fair value	$ 6,557,853
Equity securities, at fair value	108,413
Mortgage loans	830,415
Policy loans	967,534
Short-term investments	130,963
Total investments	8,595,178
Cash	216,164
Accrued investment income	114,695
Accounts and premiums receivable, net of allowance for uncollectible amounts	26,055
Reinsurance receivable	422,692
Value of business acquired	205,767
Other assets	5,104
Income tax receivables	21,197
Deferred income taxes	188,142
Separate account assets	195,452
Total assets	$ 9,990,446
Liabilities	
Future policy benefits and claims	$ 7,645,969
Unearned premiums	3,066
Total policy liabilities and accruals	7,649,035
Annuity account balances	752,163
Other policyholders funds	636,448
Other liabilities	66,124
Non-recourse funding obligation	2,548
Separate account liabilities	195,344
Total liabilities	9,301,662
Net assets acquired	$ 688,784

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The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned acquisition was completed as of January 1, 2012:

	Unaudited	
	For The Three Months Ended September 30, 2013	For The Nine Months Ended September 30, 2013
	(Dollars In Thousands)	
Revenue	$ 1,166,516	$ 3,482,582
Net income	$ 128,036	$ 333,552
EPS - basic	$ 1.61	$ 4.20
EPS - diluted	$ 1.58	$ 4.12

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 as discussed in Note 3, *Significant Acquisitions*.

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 acquisition 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 has developed an actuarial calculation of the expected timing of MONY s Closed Block s earnings as of October 1, 2013.

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 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.

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Summarized financial information for the Closed Block from December 31, 2013 through September 30, 2014 is as follows:

	As of			
	September 30, 2014		December 31, 2013	
	(Dollars In Thousands)			
Closed block liabilities				
Future policy benefits, policyholders account balances and other	$	6,172,310	$	6,261,819
Policyholder dividend obligation		301,215		190,494
Other liabilities		28,102		1,259
Total closed block liabilities		6,501,627		6,453,572
Closed block assets				
Fixed maturities, available-for-sale, at fair value	$	4,441,257	$	4,113,829
Equity securities, available-for-sale, at fair value		5,384		5,223
Mortgage loans on real estate		483,836		601,959
Policy loans		780,450		802,013
Cash and other invested assets		16,411		140,577
Other assets		214,785		206,938
Total closed block assets		5,942,123		5,870,539
Excess of reported closed block liabilities over closed block assets		559,504		583,033
Portion of above representing accumulated other comprehensive income:				
Net unrealized investment gains (losses) net of deferred tax benefit of $0 and $1,074 net of policyholder dividend obligation of $69,409 and $12,720				(1,994)
Future earnings to be recognized from closed block assets and closed block liabilities	$	559,504	$	581,039

Reconciliation of the policyholder dividend obligation from December 31, 2013 through September 30, 2014 is as follows:

	For The Nine Months Ended September 30, 2014 (Dollars In Thousands)	
Policyholder dividend obligation, at December 31, 2013	$	190,494
Applicable to net revenue (losses)		(8,781)
Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation		119,502
Policyholder dividend obligation, end of period	$	301,215

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Closed Block revenues and expenses were as follows:

	For The Three Months Ended September 30, 2014	For The Nine Months Ended September 30, 2014
	(Dollars In Thousands)	
Revenues		
Premiums and other income	$ 48,596	$ 151,442
Net investment income	63,847	176,470
Net investment gains	223	6,328
Total revenues	112,666	334,240
Benefits and other deductions		
Benefits and settlement expenses	101,200	300,735
Other operating expenses	286	376
Total benefits and other deductions	101,486	301,111
Net revenues before income taxes	11,180	33,129
Income tax expense	3,913	11,595
Net revenues	$ 7,267	$ 21,534

5. PROPOSED DAI-ICHI MERGER

On June 3, 2014, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi) and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi which provides for the merger of DL Investment (Delaware), Inc. with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi.

The Company s Board of Directors unanimously (1) determined that the Merger and the other transactions contemplated by the Merger Agreement are fair to, advisable and in the best interests of, the Company and its shareowners, (2) approved the execution, delivery and performance of the Merger Agreement by the Company and the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and (3) resolved to recommend the approval and adoption of the Merger Agreement and the transactions contemplated by the Merger Agreement by the shareowners of the Company. The Board of Directors received an opinion as to the fairness of the Merger consideration to be received by the shareowners of the Company from its financial advisor, Morgan Stanley & Co. LLC related to the terms of the Merger Agreement.

If the proposed Merger is completed, at the effective time of the Merger (the Effective Time), each share of the Company s common stock, par value $0.50 per share, issued and outstanding immediately prior to the Effective Time, other than certain excluded shares, will be converted into the right to receive $70 in cash, without interest (the Per Share Merger Consideration). Shares of common stock held by Dai-ichi or the Company or their respective direct or indirect wholly-owned subsidiaries will not be entitled to receive the Merger Consideration. Stock appreciation rights, restricted stock units and performance shares issued under various benefit plans will be paid out as described below under Treatment of Benefit Plans .

Completion of the Merger is subject to various closing conditions, including, but not limited to, (1) adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of all outstanding shares of the Company s common stock, which adoption was approved at a

Special Meeting of Shareholders held on October 6, 2014, (2) requisite approval of the Japan Financial Services Agency of an application and notification filing by Dai-ichi and its affiliates, (3) the receipt of certain insurance regulatory approvals, (4) the absence of any laws that have been adopted or promulgated, or any order, injunction, decision or decree issued or remaining in effect, that would prohibit the Merger or make the Merger illegal, and (5) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which waiting period terminated on July 25, 2014, pursuant to a grant of early termination by the Federal Trade Commission. Each party s obligation to consummate the Merger also is subject to certain additional conditions that include the accuracy of the other party s representations and warranties contained in the Merger Agreement (subject to certain materiality qualifiers) and the

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other party s compliance with its covenants and agreements contained in the Merger Agreement in all material respects. The Merger Agreement does not contain a financing condition.

The Merger Agreement contains representations and warranties customary for transactions of this type. The Company has agreed to various customary covenants and agreements, including, among others, agreements to conduct its business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, and not to engage in certain kinds of transactions during this period. In addition, and subject to certain limitations, either party may terminate the Merger Agreement if the Merger is not consummated by February 28, 2015, which date is extended until April 30, 2015 in the event of delays in obtaining regulatory approval.

Treatment of Benefit Plans

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a SAR) that is outstanding and unexercised immediately prior to the Effective Time and that has a base price per share of Common Stock underlying such SAR (the Base Price) that is less than the Per Share Merger Consideration (each such SAR, an In-the-Money SAR), whether or not exercisable or vested, will be cancelled and converted into the right to receive an amount in cash, without interest, 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 the Effective Time, each SAR that has a Base Price that is equal to or greater than the Per Share Merger Consideration, whether or not exercisable or vested, will be cancelled and the holder of such SAR will not be entitled to receive any payment in exchange for such cancellation.

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, each restricted share unit with respect to a share of Common Stock granted under any Stock Plan (each, a RSU) that is outstanding immediately prior to the Effective Time, whether or not vested, will be cancelled and converted into the right to receive an amount in cash, without interest, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of RSUs.

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, the number of performance shares earned for each award of performance shares granted under any Stock Plan will be 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 Effective Time (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 will not be less than the aggregate number of performance shares at the target performance level, and provided further that with respect to awards granted in the year in which the Effective Time occurs, performance shares will be earned at the same percentage as awards granted in the year preceding the year in which the Effective Time occurs. At or immediately prior to the Effective Time, each performance share so earned (each, a Performance Share) that is outstanding immediately prior to the Effective Time, whether or not vested, will be cancelled and converted into the right to receive an amount in cash, without interest, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of Performance Shares.

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6. INVESTMENT OPERATIONS

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Fixed maturities	$ 22,329	$ 10,546	$ 49,897	$ 42,007
Equity securities	1,298		1,298	2,367
Impairments on fixed maturity securities	(2,354)	(7,421)	(5,405)	(13,918)
Impairments on equity securities		(1,260)		(3,347)
Modco trading portfolio	(17,225)	(25,960)	110,067	(167,982)
Other investments	(5,208)	(4,094)	(7,806)	(10,023)
Total realized gains (losses) - investments	$ (1,160)	$ (28,189)	$ 148,051	$ (150,896)

For the three and nine months ended September 30, 2014, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.9 million and $51.9 million and gross realized losses were $2.5 million and $5.9 million, including $2.3 million and $5.1 million of impairment losses, respectively.

For the three and nine months ended September 30, 2013, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $11.7 million and $48.5 million and gross realized losses were $9.6 million and $20.8 million, including $8.5 million and $16.7 million of impairment losses, respectively.

For the three and nine months ended September 30, 2014, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $497.1 million and $1.1 billion, respectively. The gain realized on the sale of these securities was $23.9 million and $51.9 million, respectively.

For the three and nine months ended September 30, 2013, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $332.1 million and $1.1 billion, respectively. The gain realized on the sale of these securities was $11.7 million and $48.5 million, respectively.

For the three and nine months ended September 30, 2014, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $2.3 million and $6.7 million, respectively. The losses realized on the sale of these securities were $0.3 million and $0.8 million, respectively. These securities were sold in conjunction with the Company s overall asset liability management process.

For the three and nine months ended September 30, 2013, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $7.0 million and $64.2 million, respectively. The losses realized on the sale of these securities were $1.1 million and $4.1 million, respectively. These securities were sold in conjunction with the Company s overall asset liability management process.

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The amortized cost and fair value of the Company s investments classified as available-for-sale as of September 30, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (Dollars In Thousands)	Fair Value	Total OTTI Recognized in OCI(1)
2014					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,405,720	$ 51,253	$ (14,134)	$ 1,442,839	$ 7,945
Commercial mortgage-backed securities	1,137,642	43,744	(5,863)	1,175,523	
Other asset-backed securities	869,175	13,437	(34,273)	848,339	(105)
U.S. government-related securities	1,563,337	43,178	(22,305)	1,584,210	
Other government-related securities	19,004	3,016		22,020	1
States, municipals, and political subdivisions	1,371,113	243,943	(2,349)	1,612,707	
Corporate bonds	25,026,858	2,497,515	(117,387)	27,406,986	
	31,392,849	2,896,086	(196,311)	34,092,624	7,841
Equity securities	767,889	34,209	(16,525)	785,573	
Short-term investments	108,088			108,088	
	$ 32,268,826	$ 2,930,295	$ (212,836)	$ 34,986,285	$ 7,841
2013					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,435,477	$ 34,155	$ (24,564)	$ 1,445,068	$ 979
Commercial mortgage-backed securities	963,461	26,900	(19,705)	970,656	
Other asset-backed securities	926,396	15,135	(69,548)	871,983	(51)
U.S. government-related securities	1,529,818	32,150	(54,078)	1,507,890	
Other government-related securities	49,171	2,257	(1)	51,427	
States, municipals, and political subdivisions	1,315,457	103,663	(8,291)	1,410,829	
Corporate bonds	24,650,500	1,508,317	(392,067)	25,766,750	
	30,870,280	1,722,577	(568,254)	32,024,603	928
Equity securities	654,579	6,631	(36,362)	624,848	
Short-term investments	81,703			81,703	
	$ 31,606,562	$ 1,729,208	$ (604,616)	$ 32,731,154	$ 928

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

The amortized cost and fair value of the Company s investments classified as held-to-maturity as of September 30, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (Dollars In Thousands)	Fair Value	Total OTTI Recognized in OCI
2014					

Fixed maturities:									
Other	$	415,000	$	38,741	$		$	453,741	$
	$	415,000	$	38,741	$		$	453,741	$
2013									
Fixed maturities:									
Other	$	365,000	$		$	(29,324)	$	335,676	$
	$	365,000	$		$	(29,324)	$	335,676	$

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During the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company did not record any other-than-temporary impairments on held-to-maturity securities. The Company s held-to-maturity securities had no gross unrecognized holding losses for the period ended September 30, 2014 and $29.3 million for the year ended December 31, 2013. 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.

As of September 30, 2014 and December 31, 2013, the Company had an additional $2.8 billion and $2.8 billion of fixed maturities, $24.1 million and $21.2 million of equity securities, and $75.3 million and $52.4 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 September 30, 2014, 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.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Due in one year or less	$ 1,043,275	$ 1,057,236	$	$
Due after one year through five years	4,538,893	4,831,128		
Due after five years through ten years	8,886,075	9,347,371		
Due after ten years	16,924,606	18,856,889	415,000	453,741
	$ 31,392,849	$ 34,092,624	$ 415,000	$ 453,741

During the three and nine months ended September 30, 2014, the Company recorded pre-tax other-than-temporary impairments of investments of $1.1 million and $2.0 million, all of which related to fixed maturities, respectively. Credit impairments recorded in earnings during the three and nine months ended September 30, 2014 were $2.3 million and $5.4 million, respectively. During the three and nine months ended September 30, 2014, $1.2 million and $3.4 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. For the three and nine months ended September 30, 2014, 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.

During the three and nine months ended September 30, 2013, the Company recorded pre-tax other-than-temporary impairments of investments of $6.7 million and $9.8 million, of which $5.4 million and $6.4 million related to fixed maturities and $1.3 million and $3.4 million related to equity securities, respectively. Credit impairments recorded in earnings during the three and nine months ended September 30, 2013 were $8.7 million and $17.3 million, respectively. During the three and nine months ended September 30, 2013, $2.0 million and $7.5 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. For the three and nine months ended September 30, 2013, 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.

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Beginning balance	$ 17,985	$ 51,832	$ 41,692	$ 122,121
Additions for newly impaired securities		1,663		3,278
Additions for previously impaired securities	626	4,840	1,653	7,894
Reductions for previously impaired securities due to a change in expected cash flows	(3,672)	(6,537)	(28,406)	(74,007)
Reductions for previously impaired securities that were sold in the current period				(7,488)
Ending balance	$ 14,939	$ 51,798	$ 14,939	$ 51,798

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 September 30, 2014:

	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	$ 149,282	$ (7,781)	$ 88,374	$ (6,353)	$ 237,656	$ (14,134)
Commercial mortgage-backed securities	123,244	(1,534)	124,578	(4,329)	247,822	(5,863)
Other asset-backed securities	109,657	(5,537)	551,045	(28,736)	660,702	(34,273)
U.S. government-related securities	374,160	(7,835)	348,900	(14,470)	723,060	(22,305)
Other government-related securities						
States, municipalities, and political subdivisions	880	(6)	40,936	(2,343)	41,816	(2,349)
Corporate bonds	2,218,594	(54,117)	995,498	(63,270)	3,214,092	(117,387)
Equities	90,797	(1,305)	128,465	(15,220)	219,262	(16,525)
	$ 3,066,614	$ (78,115)	$ 2,277,796	$ (134,721)	$ 5,344,410	$ (212,836)

RMBS have a gross unrealized loss greater than twelve months of $6.4 million as of September 30, 2014. 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 have a gross unrealized loss greater than twelve months of $4.3 million as of September 30, 2014. 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 have a gross unrealized loss greater than twelve months of $28.7 million as of September 30, 2014. 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 has gross unrealized losses greater than twelve months of $14.5 million as of September 30, 2014. These declines were entirely related to changes in interest rates.

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The corporate bonds category has gross unrealized losses greater than twelve months of $63.3 million as of September 30, 2014. These declines were primarily related to changes in interest rates during the period. 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 has a gross unrealized loss greater than twelve months of $15.2 million as of September 30, 2014. 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 factors discussed 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, 2013:

	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	$ 333,235	$ (14,051)	$ 210,486	$ (10,513)	$ 543,721	$ (24,564)
Commercial mortgage-backed securities	429,228	(18,467)	13,840	(1,238)	443,068	(19,705)
Other asset-backed securities	175,846	(14,555)	497,512	(54,993)	673,358	(69,548)
U.S. government-related securities	891,698	(53,508)	6,038	(570)	897,736	(54,078)
Other government-related securities	10,161	(1)			10,161	(1)
States, municipalities, and political subdivisions	172,157	(8,113)	335	(178)	172,492	(8,291)
Corporate bonds	7,484,010	(353,211)	272,423	(38,856)	7,756,433	(392,067)
Equities	376,776	(27,861)	21,974	(8,501)	398,750	(36,362)
	$ 9,873,111	$ (489,767)	$ 1,022,608	$ (114,849)	$ 10,895,719	$ (604,616)

RMBS had a gross unrealized loss greater than twelve months of $10.5 million as of December 31, 2013. 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 $1.2 million as of December 31, 2013. 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 $55.0 million as of December 31, 2013. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company s 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 corporate bonds category had gross unrealized losses greater than twelve months of $38.9 million as of December 31, 2013. 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 $8.5 million as of December 31, 2013. 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.

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The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed 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 September 30, 2014, 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 $1.6 billion. In addition, included in the Company s trading portfolio, the Company held $322.6 million of securities which were rated below investment grade. Approximately $786.5 million of the below investment grade securities were not publicly traded.

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:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Fixed maturities	$ (143,367)	$ (156,636)	$ 1,004,990	$ (1,175,458)
Equity securities	(2,184)	(12,791)	30,820	(17,393)

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 FASB ASC (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 continued to be classified as a VIE as of September 30, 2014 and December 31, 2013. 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 holding company (PLC) has guaranteed the VIE s payment obligation for the credit enhancement fee to the unrelated third party provider. As of September 30, 2014, no payments have been made or required related to this guarantee.

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7. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2014, the Company s mortgage loan holdings were approximately $5.2 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, professional office buildings, and warehouses). The Company believes 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.

Certain of the Company s mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options or increase the interest rates on its existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are with these options called at their next call dates, approximately $29.9 million would become due for the remainder of 2014, $1.1 billion in 2015 through 2019, $510.0 million in 2020 through 2024, and $129.3 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 September 30, 2014 and December 31, 2013, approximately $583.4 million and $666.6 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 three and nine month periods ended September 30, 2014 and 2013, the Company recognized $8.0 million, $13.8 million, $3.7 million and $12.9 million, respectively, of participating mortgage loan income.

As of September 30, 2014, approximately $34.0 million, or 0.07%, 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 nine months ended September 30, 2014, certain mortgage loan transactions occurred 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 our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the quarter included either the acceptance of assets in satisfaction of principal at a future date or the recognition of permanent impairments to principal, and were the result of agreements between the creditor and the debtor. During the three and nine month periods ending September 30, 2014, the Company accepted or agreed to accept assets of $11.2 million and $26.3 million in satisfaction of $14.6 million and $30.6 million of principal, respectively. The Company also identified one loan whose principal of $12.6 million was permanently impaired to a value of $7.3 million. These transactions resulted in a $5.3 million and $6.2 million decrease in the Company s investment in mortgage loans net of existing allowances for mortgage loans losses. Of the mortgage loan transactions accounted

for as troubled debt restructurings, $21.8 million remain on the Company s balance sheet as of September 30, 2014.

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 September 30,

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2014, $34.0 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured; $21.8 million of these nonperforming loans were restructured during the nine months ended September 30, 2014. The Company did not foreclose on any loans during the nine months ended September 30, 2014.

As of September 30, 2014, none of the loans subject to a pooling and servicing agreement were nonperforming. The Company did not foreclose on any nonperforming loans during the nine months ended September 30, 2014.

As of September 30, 2014 and December 31, 2013, the Company had an allowance for mortgage loan credit losses of $3.7 million and $3.1 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:

	As of	
	September 30, 2014	December 31, 2013
	(Dollars In Thousands)	
Beginning balance	$ 3,130	$ 2,875
Charge offs	(416)	(6,838)
Recoveries	(2,600)	(1,016)
Provision	3,536	8,109
Ending balance	$ 3,650	$ 3,130

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 September 30, 2014.

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
		(Dollars In Thousands)		
Commercial mortgage loans	$ 15,104	$ 1,659	$ 10,502	$ 27,265
Number of delinquent commercial mortgage loans	5	1	5	11

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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 September 30, 2014 and December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
			(Dollars In Thousands)			
2014						
Commercial mortgage loans:						
With no related allowance recorded	$ 6,045	$ 7,558	$	$ 1,511	$	$
With an allowance recorded	16,054	16,043	3,650	3,211	187	187
2013						
Commercial mortgage loans:						
With no related allowance recorded	$ 2,208	$ 2,208	$	$ 2,208	$ 31	$
With an allowance recorded	21,288	21,281	3,130	5,322	304	304

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

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars In Thousands)	
2014			
Troubled debt restructuring:			
Commercial mortgage loans	5	$ 27,164	$ 21,848

8. GOODWILL

During the nine months ended September 30, 2014, the Company decreased its goodwill balance by approximately $2.3 million. The decrease was due to an adjustment in the Acquisitions segment related to tax benefits realized during 2014 on the portion of tax goodwill in excess of GAAP basis goodwill. As of September 30, 2014, the Company had an aggregate goodwill balance of $103.1 million.

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 testing 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

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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. As of December 31, 2013, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the nine months ended September 30, 2014, no events occurred which indicate an impairment should be recorded or which would invalidate the previous results of the Company s impairment assessment.

9. DEBT AND OTHER OBLIGATIONS

The Company has access to a Credit Facility that provides the ability to borrow on an unsecured basis up to an aggregate principal amount of $750 million. The Company has 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 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 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 the Company s Senior Debt. The Credit Facility also provides 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 Credit Facility, whether used or unused. The maturity date on the Credit Facility is July 17, 2017. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of September 30, 2014. There was an outstanding balance of $280.0 million at an interest rate of LIBOR plus 1.20% under the Credit Facility as of September 30, 2014.

Non-Recourse Funding Obligations

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 September 30, 2014. 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 September 30, 2014, securities related to $176.6 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $398.4 million of the non-recourse funding obligations were held by our 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 September 30, 2014, no payments have been made under these 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 AXXX 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, 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

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of September 30, 2014, the principal balance of the Red Mountain note was $415 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 $144.3 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 September 30, 2014, no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a $415 million outstanding non-recourse funding obligation as of September 30, 2014. 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 September 30, 2014, on a consolidated basis, are shown in the following table:

Issuer		Balance	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
		(Dollars In Thousands)		
Golden Gate II Captive Insurance Company	$	176,551	2052	1.12%
Golden Gate V Vermont Captive Insurance Company(1)		415,000	2037	6.25%
MONY Life Insurance Company(1)		2,515	2024	6.63%
Total	$	594,066		

(1) Fixed rate obligations

During the nine months ended September 30, 2014, the Company repurchased $18.3 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $4.6 million pre-tax gain for the Company. During the nine months ended September 30, 2013, the Company repurchased $16.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $3.4 million pre-tax gain for the Company. These gains are recorded in other income in the consolidated statements of income.

Letters of Credit

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, the Company 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 $610 million to $720 million in 2015 if certain conditions are met. On June 25, 2014, the Company 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

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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 $925 million as of September 30, 2014. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of $935 million in 2015. 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 September 30, 2014, 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 the third quarter of 2014 and was $740 million as of September 30, 2014. 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 September 30, 2014, 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 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 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

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September 30, 2014, the fair value of securities pledged under the repurchase program was $402.0 million and the repurchase obligation of $359.8 million was included in the Company s consolidated condensed balance sheets (at an average borrowing rate of 8 basis points). During the nine months ended September 30, 2014, the maximum balance outstanding at any one point in time related to these programs was $633.7 million. The average daily balance was $511.3 million (at an average borrowing rate of 10 basis points) during the nine months ended September 30, 2014. As of December 31, 2013, the Company had a $350.0 million outstanding balance related to such borrowings. During 2013, the maximum balance outstanding at any one point in time related to these programs was $815.0 million. The average daily balance was $496.9 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2013.

10. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors 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.

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.

Since the entry into the Merger Agreement on June 3, 2014, four lawsuits have been filed against the Company, our directors, Dai-ichi 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 alleged 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 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, 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, 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 proposed 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 settlement will not affect the consideration to be received by the Company stockholders in connection with the Merger.

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

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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.

The Company has received notice from two third party auditors that 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 have received notice that they are subject to 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 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 substantial 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. STOCK-BASED COMPENSATION

During the nine months ended September 30, 2014, 203,295 performance shares with an estimated fair value of $10.5 million were awarded. The criteria for payment of the 2014 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 10.5%, no award is earned. If the Company s ROE is at or above 12.0%, the award maximum is earned. Awards are paid in shares of the Company s common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 98,700 restricted stock units for the nine months ended September 30, 2014. These awards had a total fair value at grant date of $5.1 million. Approximately half of these restricted stock units vest after three years from the grant date and the remainder vest after four years.

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Stock appreciation right (SARs) have historically been granted to certain officers of the Company to provide long-term incentive compensation based solely on the performance of the Company s common stock. The SARs are exercisable either five years after the date of grant or in three or four equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, of a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted-average base price is as follows:

	Weighted-Average Base Price per share		No. of SARs
Balance at December 31, 2013	$	23.08	1,305,101
SARs granted			
SARs exercised / forfeited		21.94	(1,127,156)
Balance at September 30, 2014	$	30.27	177,945

The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR. There were no SARs issued for the nine months ended September 30, 2014.

For more information about the impact that the proposed merger with Dai-ichi will have on stock-based compensation, refer to Note 5, *Proposed Dai-ichi Merger*.

12. EMPLOYEE BENEFIT PLANS

Components of the net periodic benefit cost of the Company s defined benefit pension plan and unfunded excess benefit plan are as follows:

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2014		2013		2014		2013	
	(Dollars In Thousands)							
Service cost benefits earned during the period	$	2,453	$	2,708	$	7,359	$	8,124
Interest cost on projected benefit obligation		2,993		2,553		8,979		7,659
Expected return on plan assets		(3,065)		(2,759)		(9,195)		(8,277)
Amortization of prior service cost/(credit)		(95)		(95)		(285)		(285)
Amortization of actuarial losses		1,897		2,729		5,691		8,187
Total benefit cost	$	4,183	$	5,136	$	12,549	$	15,408

During the nine months ended September 30, 2014, the Company contributed $9.0 million to its defined benefit pension plan for the 2013 plan year and $6.3 million for the 2014 plan year. During October of 2014, the Company contributed $0.2 million to the defined benefit pension plan for the 2014 plan year. 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.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the nine months ended September 30, 2014, was immaterial to the Company s financial statements.

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13. 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 September 30, 2014 and December 31, 2013.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	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)			
Beginning Balance, December 31, 2013	$ 539,003	$ (1,235)	$ (43,702)	$ 494,066
Other comprehensive income (loss) before reclassifications	800,982	(58)		800,924
Other comprehensive income (loss) relating to other- than-temporary impaired investments for which a portion has been recognized in earnings	4,494			4,494
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(29,763)	1,025	3,520	(25,218)
Net current-period other comprehensive income (loss)	775,713	967	3,520	780,200
Ending Balance, September 30, 2014	$ 1,314,716	$ (268)	$ (40,182)	$ 1,274,266

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by $198.1 million and $380.4 million as of December 31, 2013 and September 30, 2014, respectively.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	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)			
Beginning Balance, December 31, 2012	$ 1,813,516	$ (3,496)	$ (73,298)	$ 1,736,722
Other comprehensive income (loss) before reclassifications	(1,250,498)	734	29,596	(1,220,168)
Other comprehensive income (loss) relating to other- than-temporary impaired investments	4,591			4,591

for which a portion has been recognized in earnings								
Amounts reclassified from accumulated other comprehensive income (loss)(1)		(28,606)		1,527				(27,079)
Net current-period other comprehensive income (loss)		(1,274,513)		2,261		29,596		(1,242,656)
Ending Balance, December 31, 2013	$	539,003	$	(1,235)	$	(43,702)	$	494,066

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by $204.9 million and $198.1 million as of December 31, 2012 and December 31, 2013, respectively.

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The following tables summarize the reclassifications amounts out of AOCI for the three months ended September 30, 2014 and 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)		Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components			
For The Three Months Ended September 30, 2014			
Gains and losses on derivative instruments			
Net settlement (expense)/benefit(1)	$	(293)	Benefits and settlement expenses, net of reinsurance ceded
		(293)	Total before tax
		103	Tax (expense) or benefit
	$	(190)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	23,627	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(2,354)	Net impairment losses recognized in earnings
		21,273	Total before tax
		(7,446)	Tax (expense) or benefit
	$	13,827	Net of tax
Postretirement benefits liability adjustment			
Amortization of net actuarial gain/(loss)	$	(1,900)	Other operating expenses
Amortization of prior service credit/(cost)		95	Other operating expenses
		(1,805)	Total before tax
		632	Tax (expense) or benefit
	$	(1,173)	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)		Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components			
For The Three Months Ended September 30, 2013			
Gains and losses on derivative instruments			
Net settlement (expense)/benefit(1)	$	(572)	Benefits and settlement expenses, net of reinsurance ceded
		(572)	Total before tax
		200	Tax (expense) or benefit
	$	(372)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	10,546	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(8,681)	Net impairment losses recognized in earnings
		1,865	Total before tax
		(653)	Tax (expense) or benefit
	$	1,212	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

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The following tables summarize the reclassifications amounts out of AOCI for the nine months ended September 30, 2014 and 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)		Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components			
For The Nine Months Ended September 30, 2014			
Gains and losses on derivative instruments			
Net settlement (expense)/benefit(1)	$	(1,577)	Benefits and settlement expenses, net of reinsurance ceded
		(1,577)	Total before tax
		552	Tax (expense) or benefit
	$	(1,025)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	51,195	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(5,405)	Net impairment losses recognized in earnings
		45,790	Total before tax
		(16,027)	Tax (expense) or benefit
	$	29,763	Net of tax
Postretirement benefits liability adjustment			
Amortization of net actuarial gain/(loss)	$	(5,700)	Other operating expenses
Amortization of prior service credit/(cost)		285	Other operating expenses
		(5,415)	Total before tax
		1,895	Tax (expense) or benefit
	$	(3,520)	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)		Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components			
For The Nine Months Ended September 30, 2013			
Gains and losses on derivative instruments			
Net settlement (expense)/benefit(1)	$	(1,649)	Benefits and settlement expenses, net of reinsurance ceded
		(1,649)	Total before tax
		577	Tax (expense) or benefit
	$	(1,072)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	44,374	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(17,265)	Net impairment losses recognized in earnings
		27,109	Total before tax
		(9,488)	Tax (expense) or benefit
	$	17,621	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

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14. EARNINGS PER SHARE

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 Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Average shares issued and outstanding	79,095,917	78,521,996	78,860,218	78,396,347
Issuable under various deferred compensation plans	1,135,674	970,278	1,081,800	950,424
Weighted shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Per share:				
Net income - basic	$ 1.48	$ 1.17	$ 3.88	$ 3.46
Calculation of diluted earnings per share:				
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Weighted shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Stock appreciation rights (SARs)(1)	72,223	409,964	342,203	433,174
Issuable under various other stock-based compensation plans	869,320	592,580	718,215	758,976
Restricted stock units	285,736	357,260	258,813	343,631
Weighted shares outstanding - diluted	81,458,870	80,852,078	81,261,249	80,882,552
Per share:				
Net income - diluted	$ 1.46	$ 1.15	$ 3.82	$ 3.39

(1)Excludes 454,925 SARs as of September 30, 2013, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding, for applicable periods.

15. INCOME TAXES

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, then an acceleration of tax payments will occur. However, such accelerated payments would not materially impact the Company or its effective tax rate.

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

	As of	
	September 30, 2014	December 31, 2013
	(Dollars In Thousands)	
Balance, beginning of period	$ 105,881	$ 75,292
Additions for tax positions of the current year	6,898	7,465
Additions for tax positions of prior years	41,109	26,386
Reductions of tax positions of prior years:		
Changes in judgment	(9,294)	(2,740)
Settlements during the period		
Lapses of applicable statue of limitations		(522)
Balance, end of period	$ 144,594	$ 105,881

The Company believes that it is possible that in the next 12 months approximately $115.3 million of these unrecognized tax benefits will be reduced due to the expected closure of the aforementioned Appeals process and the lapsing of previous tax years statutes 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. Regarding the amounts reported above for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013, discussions with the IRS during these periods, which related to their ongoing examination of tax years 2008 through 2011, prompted the Company to contemporaneously revise upward its measurement of unrecognized tax benefits. These revisions included increasing prior determinations of amounts accrued for in earlier years as well as reducing some previously accrued amounts. These 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.

In July 2014, the IRS issued guidance related to the tax method of accounting for hedges of guaranteed benefits on variable annuity contracts. The Company has issued contracts that provide such benefits. It has treated the derivatives that economically hedge the risk associated with such contracts as tax hedges. There are several uncertainties regarding the provisions of this guidance. Examples include its effective date and its scope. Therefore, it is uncertain at this time whether this guidance will be applicable to the Company and whether it will adopt this guidance s prescribed methodology. Consequently, the Company currently believes that the amounts of unrecognized tax benefits that relate to this issue and that are disclosed above are appropriate.

The Company used its estimate of its annual 2014 and 2013 income in computing its effective income tax rates for the three and nine months ended September 30, 2014 and 2013. The effective tax rates for the three and nine months ended September 30, 2014 were 35.7% and 34.3%, respectively, and 34.5% and 34.1% for the three and nine months ended September 30, 2013, respectively.

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 September 30, 2014.

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16. 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 balance sheets are categorized as follows:

- **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.

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2014:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 1,442,834	$ 5	$ 1,442,839
Commercial mortgage-backed securities		1,175,523		1,175,523
Other asset-backed securities		282,971	565,368	848,339
U.S. government-related securities	1,316,839	267,371		1,584,210
State, municipalities, and political subdivisions		1,609,032	3,675	1,612,707
Other government-related securities		22,020		22,020
Corporate bonds	132	26,029,048	1,377,806	27,406,986
Total fixed maturity securities - available-for-sale	1,316,971	30,828,799	1,946,854	34,092,624
Fixed maturity securities - trading				
Residential mortgage-backed securities		290,862		290,862
Commercial mortgage-backed securities		151,870		151,870
Other asset-backed securities		101,523	170,676	272,199
U.S. government-related securities	229,222	4,889		234,111
State, municipalities, and political subdivisions		284,132		284,132
Other government-related securities		55,901		55,901
Corporate bonds		1,517,519	23,177	1,540,696
Total fixed maturity securities - trading	229,222	2,406,696	193,853	2,829,771
Total fixed maturity securities	1,546,193	33,235,495	2,140,707	36,922,395
Equity securities	637,708	98,882	73,058	809,648
Other long-term investments(1)	99,961	71,316	105,417	276,694
Short-term investments	146,557	36,854		183,411
Total investments	2,430,419	33,442,547	2,319,182	38,192,148
Cash	328,487			328,487
Other assets	11,692			11,692
Assets related to separate accounts				
Variable annuity	13,040,828			13,040,828
Variable universal life	813,178			813,178
Total assets measured at fair value on a recurring basis	$ 16,624,604	$ 33,442,547	$ 2,319,182	$ 52,386,333
Liabilities:				
Annuity account balances(2)	$	$	$ 98,129	$ 98,129
Other liabilities (1)	39,510	46,155	533,746	619,411
Total liabilities measured at fair value on a recurring basis	$ 39,510	$ 46,155	$ 631,875	$ 717,540

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

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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, 2013:

Level 1	Level 2