

PROTECTIVE LIFE CORP
Form 10-K
February 25, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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)

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DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-2492236
(IRS Employer
Identification Number)

2801 HIGHWAY 280 SOUTH
BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

Title of each class	Name of each exchange on which registered
6.25% Subordinated Debentures Due 2042	New York Stock Exchange
6.00% Subordinated Debentures Due 2042	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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.

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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 the definitions of "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of June 30, 2015: None (\$0)

Number of shares of Common Stock, \$0.01 Par Value, outstanding as of February 5, 2016: 1,000

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Table of Contents

PROTECTIVE LIFE CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2015

TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1.</u>	<u>Business</u> 3
<u>Item 1A.</u>	<u>Risk Factors</u> 15
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 36
<u>Item 2.</u>	<u>Properties</u> 36
<u>Item 3.</u>	<u>Legal Proceedings</u> 36
<u>Item 4.</u>	<u>Mine Safety Disclosure Not Applicable</u> 36
<u>PART II</u>	
<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 37
<u>Item 6.</u>	<u>Selected Financial Data</u> 38
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 39
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 115
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 116
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 219
<u>Item 9A.</u>	<u>Controls and Procedures</u> 219
<u>Item 9B.</u>	<u>Other Information</u> 220
<u>PART III</u>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u> 221
<u>Item 11.</u>	<u>Executive Compensation</u> 224
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 246

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<u>Item 13.</u>	<u>Certain Relationships and Related Transactions and Director Independence</u>	246
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	247
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	248
	<u>Signatures</u>	268

Table of Contents

PART I

Item 1. Business

Protective Life Corporation (the Company) is a holding company headquartered in Birmingham, Alabama, with subsidiaries that provide financial services primarily in the United States through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company (PLICO) is the Company's largest operating subsidiary. Unless the context otherwise requires, the Company, we, us, or our refers to the consolidated group of Protective Life Corporation and its subsidiaries.

On February 1, 2015, The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi Life), acquired 100% of the Company's outstanding shares of common stock through the merger of DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi Life, with and into the Company, with the Company continuing as the surviving entity (the Merger). As a result of the Merger, the Company is a direct, wholly owned subsidiary of Dai-ichi Life.

The Company operates several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company's operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, and Asset Protection. The Company has an additional segment referred to as Corporate and Other which consists of net investment income not assigned to the segments above (including the impact of carrying liquidity) and expenses not attributable to the segments above (including interest on certain corporate debt). This segment also includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations. The Company periodically evaluates operating segments, as prescribed in the Accounting Standard Codification (ASC or Codification) Segment Reporting Topic, and makes adjustments to our segment reporting as needed.

Additional information concerning the Company and its operating segments may be found in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 26, *Operating Segments*, to consolidated financial statements included in this report.

In the following paragraphs, the Company reports sales and other statistical information. These statistics are used to measure the relative progress of its marketing and acquisition efforts, but may or may not have an immediate impact on reported segment or consolidated operating income. Sales data for traditional life insurance is based on annualized premiums, while universal life sales are based on annualized planned premiums, or target premiums if lesser, plus 6% of amounts received in excess of target premiums and 10% of single premiums. Target premiums for universal life are those premiums upon which full first year commissions are paid. Sales of annuities are measured based on the amount of purchase payments received less surrenders occurring within twelve months of the purchase payments. Stable value contract sales are measured at the time that the funding commitment is made based on the amount of purchase payments to be received. Sales within the Asset Protection segment are based on the amount of single premiums and fees received.

These statistics are derived from various sales tracking and administrative systems and are not derived from the Company's financial reporting systems or financial statements. These statistics attempt to measure only some of the many factors that may affect future profitability, and therefore, are not intended to be predictive of future profitability.

Life Marketing

The Life Marketing segment markets fixed universal life (UL), indexed universal life (IUL), variable universal life (VUL), bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a national basis, primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.

The following table presents the Life Marketing segment's sales as defined above:

Predecessor Company		Sales
<u>For The Year Ended December 31,</u>		(Dollars In Millions)
2011	\$	133
2012		121
2013		155
2014		130
For the period of January 1, 2015 to January 31, 2015		12
Successor Company		Sales
For the period of February 1, 2015 to December 31, 2015		(Dollars In Millions)
		\$ 144

Table of Contents

Acquisitions

The Acquisitions segment focuses on acquiring, converting, and servicing policies from other insurance companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. The Company expects acquisition opportunities to continue to be available; however, the Company believes it may face increased competition and evolving capital requirements that may affect the environment and the form of future acquisitions.

Most acquisitions completed by the Acquisitions segment have not included the acquisition of an active sales force, thus policies acquired through the segment are typically blocks of business where no new policies are being marketed. Therefore, earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage, unless new acquisitions are made. The segment's revenues and earnings may fluctuate from year to year depending upon the level of acquisition activity. In transactions where some marketing activity was included, the Company may cease future marketing efforts, redirect those efforts to another segment of the Company, or elect to continue marketing new policies as a component of other segments.

The Company believes that its focused and disciplined approach to the acquisition process and its experience in the assimilation, conservation, and servicing of acquired policies provides a significant competitive advantage. On occasion, the Company's other operating segments have acquired companies and/or blocks of policies. The results of these acquisitions are included in the respective segment's financial results.

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the "Master Agreement"), with Genworth Life and Annuity Insurance Company ("GLAIC"), as previously reported in the Company's Current Reports on Forms 8-K filed October 1, 2015 and January 15, 2016. Pursuant to the Master Agreement, on January 15, 2016, PLICO entered into a reinsurance agreement (the "Reinsurance Agreement") under the terms of which PLICO coinsures certain term life insurance business of GLAIC. For additional information regarding this transaction and the related financing, please refer to Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments*.

Annuities

The Annuities segment markets fixed and variable annuity ("VA") products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.

The Company's fixed annuities include modified guaranteed annuities which guarantee an interest rate for a fixed period. Contract values for these annuities are market-value adjusted upon surrender prior to maturity. In certain interest rate environments, these products afford the Company with a measure of protection from the effects of changes in interest rates. The Company's fixed annuities also include single premium deferred annuities, single premium immediate annuities, and indexed annuities. The Company's variable annuities offer the policyholder the opportunity to invest in various investment accounts and offer optional features that guarantee the death and withdrawal benefits of the underlying annuity.

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The demand for annuity products is related to the general level of interest rates, performance of the equity markets, and perceived risk of insurance companies. The following table presents fixed annuity and VA sales:

Predecessor Company

For The Year Ended December 31,

	Fixed Annuities	Variable Annuities	Total Annuities
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(Dollars In Millions)

2011	\$ 1,032	\$ 2,349	\$ 3,381
2012	592	2,735	3,327
2013	693	1,867	2,560
2014	831	953	1,784
For the period of January 1, 2015 to January 31, 2015	28	59	87

Successor Company

	Fixed Annuities	Variable Annuities	Total Annuities
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(Dollars In Millions)

For the period of February 1, 2015 to December 31, 2015	\$ 566	\$ 1,096	\$ 1,662
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Table of Contents

Stable Value Products

The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. During 2015, the Company terminated its funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC) and established a new unregistered funding agreement-backed notes program. Under this program, which complements our overall asset-liability management, the segment issues funding agreements which are purchased by an unaffiliated and unconsolidated trust, which in turn sells notes to institutional investors in both domestic and international markets. The terms of the funding agreements are similar to those of the notes.

The segment also issues funding agreements to the Federal Home Loan Bank (FHLB) and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. GICs are contracts which specify a return on funds for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan. The demand for GICs is related to the relative attractiveness of the fixed rate investment option in a 401(k) plan compared to the equity-based investment options which may be available to plan participants.

The segment's products complement the Company's overall asset/liability management in that the terms may be tailored to the needs of PLICO as the seller of the contracts. The Company's emphasis is on a consistent and disciplined approach to product pricing and asset/liability management, careful underwriting of early withdrawal risks, and maintaining low distribution and administration costs. Most GICs and funding agreements written by the segment have maturities of one to ten years.

The following table presents Stable Value Products sales:

Predecessor Company				
<u>For The Year Ended December 31,</u>	GICs	Funding Agreements	Total	
	(Dollars In Millions)			
2011	\$ 499	\$ 300	\$ 799	
2012	400	222	622	
2013	495		495	
2014	42	50	92	
For the period of January 1, 2015 to January 31, 2015				
Successor Company				
	GICs	Funding Agreements	Total	
	(Dollars In Millions)			

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For the period of February 1, 2015 to
December 31, 2015

\$	115	\$	699	\$	814
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Asset Protection

The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, recreational vehicles (RV), watercraft, and powersports. In addition, the segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss. The segment's products are primarily marketed through a national network of approximately 8,500 automobile, marine, and RV dealers. A network of direct employee sales representatives and general agents distribute these products to the dealer market.

Table of Contents

The following table presents the insurance and related product sales measured by new revenue:

Predecessor Company		Sales
For The Year Ended December 31,		(Dollars In Millions)
2011	\$	416
2012		451
2013		470
2014		487
For the period of January 1, 2015 to January 31, 2015		37

Successor Company		Sales
		(Dollars In Millions)
For the period of February 1, 2015 to December 31, 2015	\$	482

In 2015, all of the segment's sales were through the automobile, RV, marine, and powersports dealer distribution channel and approximately 77.0% of the segment's sales were extended service contracts. A portion of the sales and resulting premiums are reinsured with producer-affiliated reinsurers.

Corporate and Other

The Corporate and Other segment primarily consists of net investment income on assets supporting our equity capital, unallocated corporate overhead and expenses not attributable to the segments above (including interest on corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of obligations and debt on the open market. The earnings of this segment may fluctuate from year to year.

Investments

As of December 31, 2015 (Successor Company), the Company's investment portfolio was approximately \$45.2 billion. The types of assets in which the Company may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, the Company invests in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. On February 1, 2015, immediately before the Merger, the fair value of the Company's investment portfolio was significantly above the carrying

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value due to low market interest rates. As a result of purchase accounting applied as of February 1, 2015, the carrying value of the Company's investment portfolio was adjusted to fair value which resulted in a drop in the overall yield of the Company's investment portfolio for the successor period. For further information regarding the Company's investments, the maturity of and the concentration of risk among the Company's invested assets, derivative financial instruments, and liquidity, see Note 2, *Summary of Significant Accounting Policies*, Note 6, *Investment Operations*, and Note 24, *Derivative Financial Instruments* to the consolidated financial statements included in this report, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

The following table presents the investment results from continuing operations of the Company:

	Predecessor Company					
For The Year Ended December 31,	Cash, Accrued Investment Income, and Investments as of December 31,	Net Investment Income	Percentage Earned on Average of Cash and Investments	Realized Investment Gains (Losses) Derivative Financial Instruments	All Other Investments	
(Dollars In Thousands)						
2011	\$ 35,558,958	\$ 1,820,643	5.3%	\$ (155,251)	\$ 187,473	
2012	37,640,971	1,862,332	4.9	(238,480)	172,149	
2013	44,751,600	1,918,081	4.9	188,131	(145,984)	
2014	46,531,371	2,197,724	4.7	(346,878)	198,127	

Table of Contents

For The Period of	Predecessor Company		
	Net Investment Income	Realized Investment Gains (Losses)	
		Derivative Financial Instruments	All Other Investments
	(Dollars In Thousands)		
January 1, 2015 to January 31, 2015	\$ 175,180	\$ (123,274)	\$ 80,672

For The Period of	Successor Company				
	Cash, Accrued Investment Income, and Investments as of December 31,	Net Investment Income	Percentage Earned on Average of Cash and Investments	Realized Investment Gains (Losses)	
				Derivative Financial Instruments	All Other Investments
	(Dollars In Thousands)				
February 1, 2015 to December 31, 2015	\$ 46,040,220	\$ 1,632,948	3.5%	\$ 29,997	\$ (193,879)

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2015 (Successor Company), the Company's mortgage loan holdings were approximately \$5.7 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes 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 loan portfolio was underwritten and funded by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition. For more information regarding the Company's investment in mortgage loans, refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Note 7, *Mortgage Loans* to the consolidated financial statements included herein.

Ratings

Various Nationally Recognized Statistical Rating Organizations (rating organizations) review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in an insurer's products, its ability to market its

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products and its competitive position. The following table summarizes the current financial strength ratings of our significant member companies from the major independent rating organizations:

<u>Ratings</u>	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A	AA	A2
West Coast Life Insurance Company	A+	A	AA	A2
Protective Life and Annuity Insurance Company	A+	A	AA	
Lyndon Property Insurance Company	A			
MONY Life Insurance Company	A+	A	A+	A2

The Company's ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company's insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. The rating agencies may take

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Table of Contents

various actions, positive or negative, with respect to the financial strength ratings of the Company's insurance subsidiaries, including as a result of the Company's status as a subsidiary of Dai-ichi Life.

Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access credit markets and other types of liquidity. Ratings are not recommendations to buy the Company's securities or products. A downgrade or other negative action by a ratings organization with respect to our credit rating could limit the Company's access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require the Company to post collateral. The rating agencies may take various actions, positive or negative, with respect to the Company's debt ratings, including as a result of the Company's status as a subsidiary of Dai-ichi Life.

Life Insurance In-Force

The following table presents life insurance sales by face amount and life insurance in-force:

	Successor Company			Predecessor Company		
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	2014	For The Year Ended December 31, 2013 2012 2011 (Dollars In Thousands)		
New Business Written						
Life Marketing	\$ 37,677,352	\$ 3,425,214	\$ 35,967,402	\$ 39,107,963	\$ 20,488,483	\$ 19,357,654
Asset Protection	641,794	58,345	878,671	1,040,593	1,013,484	1,093,770
Total	\$ 38,319,146	\$ 3,483,559	\$ 36,846,073	\$ 40,148,556	\$ 21,501,967	\$ 20,451,424

	Successor Company		Predecessor Company		
	As of December 31, 2015 (Dollars In Thousands)	2014	2013	As of December 31, 2012	2011
Business Acquired Acquisitions	\$	\$	\$ 44,812,977	\$	\$ 16,233,361
Insurance In-Force at End of Year(1)					
Life Marketing Acquisitions	\$ 565,858,830	\$ 546,994,786	\$ 535,747,678	\$ 521,829,874	\$ 541,899,176
Asset Protection	199,482,477	215,223,031	235,552,325	212,812,930	217,216,920
Total	\$ 767,251,998	\$ 764,273,690	\$ 773,449,327	\$ 736,886,401	\$ 761,483,143

(1) Reinsurance assumed has been included, reinsurance ceded (Successor 2015 - \$368,142,294); (Predecessor

2014 - \$388,890,060; 2013 - \$416,809,287; 2012 - \$444,950,866; 2011 - \$469,530,487) has not been deducted.

Table of Contents

The ratio of voluntary terminations of individual life insurance to mean individual life insurance in-force, which is determined by dividing the amount of insurance terminated due to lapses during the year by the mean of the insurance in-force at the beginning and end of the year, adjusted for the timing of major acquisitions is as follows:

Predecessor Company		Ratio of Voluntary Termination
<u>As of December 31,</u>		
2011		5.0%
2012		5.0
2013		5.1
2014		4.7
Successor Company		Ratio of Voluntary Termination
<u>As of December 31,</u>		
2015		4.2%

Investment Products In-Force

The amount of investment products in-force is measured by account balances. The following table includes the stable value products and fixed and variable annuity account balances. A majority of the VA account balances are reported in the Company's financial statements as liabilities related to separate accounts.

Predecessor Company			
<u>As of December 31,</u>	Stable Value Products	Fixed Annuities (Dollars In Thousands)	Variable Annuities
2011	\$ 2,769,510	\$ 10,436,281	\$ 7,252,526
2012	2,510,559	10,107,365	10,152,515
2013	2,559,552	10,832,956	13,083,735
2014	1,959,488	10,724,849	13,383,309
Successor Company			
<u>As of December 31,</u>	Stable Value Products	Fixed Annuities	Variable Annuities

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(Dollars In Thousands)

2015	\$	2,131,822	\$	10,719,862	\$	12,829,188
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Table of Contents

Underwriting

The underwriting policies of the Company's insurance subsidiaries are established by management. With respect to individual insurance, the subsidiaries use information from the application, examination, and in some cases, inspection reports, attending physician statements and/or the results of a paramedical exam to determine whether a policy should be issued as applied for, other than applied for, or rejected. Substandard risks may be referred to reinsurers for evaluation. The Company does utilize a simplified issue approach for certain policies which are primarily sold through the Asset Protection segment. In the case of simplified issue policies, coverage is rejected if the responses to certain health questions contained in the application indicate adverse health of the applicant.

The Company's insurance subsidiaries generally require blood samples to be drawn with individual insurance applications above certain face amounts based on the applicant's age. Blood samples are tested for a wide range of chemical values and are screened for antibodies to certain viruses. Applications also contain questions permitted by law regarding certain viruses which must be answered by the proposed insureds.

The Company utilizes an advanced underwriting system, TeleLife®, for certain product lines in life business. TeleLife® streamlines the application process through a telephonic interview of the applicant, schedules medical exams, accelerates the underwriting process and the ultimate issuance of a policy mostly through electronic means, and reduces the number of attending physician statements.

The Company's maximum retention limit on directly issued business is \$2,000,000 for any one life on certain of its traditional life and universal life products.

Reinsurance Ceded

The Company's insurance subsidiaries cede life insurance to other insurance companies. The ceding insurance company remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed by it. The Company has also reinsured guaranteed minimum death benefit (GMDB) claims relative to certain of its VA contracts.

For approximately 10 years prior to mid-2005, the Company entered into reinsurance contracts in which the Company ceded approximately 90% of its newly written traditional life insurance business on a first dollar quota share basis under coinsurance contracts. In mid-2005, the Company substantially discontinued coinsuring its newly written traditional life insurance and moved to yearly renewable term (YRT) reinsurance. The amount of insurance retained by the Company on any one life on traditional life insurance was \$500,000 in years prior to mid-2005. In 2005, this retention amount was increased to \$1,000,000 for certain policies, and during 2008, was increased to \$2,000,000 for certain policies.

For approximately 15 years prior to 2012, the Company reinsured 90% of the mortality risk on the majority of its newly written universal life insurance on a YRT basis. During 2012, the Company moved to reinsure only amounts in excess of its \$2,000,000 retention for the majority of its newly written universal life insurance.

Policy Liabilities and Accruals

The applicable insurance laws under which the Company's insurance subsidiaries operate require that each insurance company report policy liabilities to meet future obligations on the outstanding policies. These liabilities are calculated in accordance with applicable law. These liabilities along with additional premiums to be received and the compounded interest earned on those premiums are considered to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the liabilities shall not be less than liabilities calculated using certain named mortality tables and interest rates.

The policy liabilities and accruals carried in the Company's financial reports presented on the basis of accounting principles generally accepted in the United States of America (GAAP) differ from those specified by the laws of the various states and carried in the insurance subsidiaries statutory financial statements (presented on the basis of statutory accounting principles mandated by state insurance regulations). For policy liabilities other than those for universal life policies, annuity contracts, GICs, and funding agreements, these differences arise from the use of mortality and morbidity tables and interest rate assumptions which are deemed to be more appropriate for financial reporting purposes than those required for statutory accounting purposes. The GAAP policy liabilities also include lapse assumptions in the calculation and use the net level premium method on all business which differs from policy liabilities calculated for statutory financial statements. Policy liabilities for universal life policies, annuity contracts, GICs, and funding agreements are generally carried in the Company's financial reports at the account value of the policy or contract plus accrued interest.

Table of Contents

Federal Taxes

Existing laws and regulations affect the taxation of the Company's products. Income taxes that would otherwise be payable by policyholders on investment income that is earned inside certain types of insurance and annuity policies are deferred during these products' accumulation period. This favorable tax treatment gives certain of the Company's products a competitive advantage over non-insurance products. If the individual income tax laws are revised such that there is an elimination or scale-back of the tax-deferred status of these insurance products, or competing non-insurance products are granted a tax-deferred status, then the relative attractiveness of the Company's products may be reduced or eliminated.

The Company is subject to the corporate income tax within the U.S. and various states. It currently benefits from certain special tax benefits, such as deductions relating to its variable products' separate accounts and its future policy benefits and claims. Tax legislation could be enacted that would cause the Company to lose some or all of these deductions and therefore incur additional income tax expense. In addition, life insurance products are often used to fund estate tax obligations. Changes to estate tax laws may affect the demand for life insurance products. There is general uncertainty regarding the taxes to which the Company and its products will be subject to in the future. The Company cannot predict what changes to tax law will occur.

The Company's insurance subsidiaries are taxed in a manner similar to other life insurance companies in the industry. Certain restrictions apply to the consolidation of recently-acquired life insurance companies into the Company's consolidated income tax return. Additionally, restrictions on the amount of life insurance income that can be offset by non-life-insurance losses can cause the Company's income tax expense to increase.

The Company's move away from reliance on reinsurance for newly written traditional life products results in a net reduction of current taxes, offset by an increase in deferred taxes. The Company allocates the benefits of reduced current taxes to the Life Marketing and Acquisition segments. The profitability and competitive position of certain products is dependent on the continuation of existing tax rules and interpretations as well as the Company's ability to generate future taxable income.

Competition

Life and health insurance is a mature and highly competitive industry. In recent years, the industry has experienced a decline in life insurance sales, though the aging population has increased the demand for retirement savings products. The Company encounters significant competition in all lines of business from other insurance companies, many of which have greater financial resources than the Company and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have lower profitability expectations. The Company also faces competition from other providers of financial services. Competition could result in, among other things, lower sales or higher lapses of existing products.

The Company's ability to compete is dependent upon, among other things, its ability to attract and retain distributors to market its insurance and investment products, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate ratings from rating agencies.

As technology evolves, a comparison of a particular product of any company for a particular customer with competing products for that customer is more readily available, which could lead to increased competition as well as agent or customer behavior, including persistency, which differs from past behavior.

Risk Management

Risk management is a critical part of the Company's business, and the Company has adopted risk management processes in multiple aspects of its operations, including product development and management, business acquisitions, underwriting, investment management, asset-liability management, and technology development projects. The Company's risk management office, under the direction of the Chief Risk Officer, along with other departments, management groups and committees, have responsibilities for managing different risks throughout the Company. Risk management includes the assessment of risk, a decision process to determine which risks are acceptable and the ongoing monitoring and management of identified risks. The primary objective of these risk management processes is to determine the acceptable level of variations the Company experiences from its expected results and to implement strategies designed to limit such variations to these levels.

Regulation

The Company is subject to government regulation in each of the states in which it conducts business. In many instances, the regulatory models emanate from the National Association of Insurance Commissioners (NAIC). Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, insurer use of captive reinsurance companies, acquisitions, mergers, capital adequacy, claims practices and the remittance of unclaimed property. In addition, some state insurance departments may enact rules or regulations with extra-territorial application,

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Table of Contents

effectively extending their jurisdiction to areas such as permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator.

The Company's insurance subsidiaries are required to file periodic reports with the regulatory agencies in each of the jurisdictions in which they do business, and their business and accounts are subject to examination by such agencies at any time. Under the rules of the NAIC, insurance companies are examined periodically (generally every three to five years) by one or more of the regulatory agencies on behalf of the states in which they do business. At any given time, a number of financial and/or market conduct examinations of the Company's subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits for the Company's subsidiaries that could, if determined adversely, have a material adverse impact on the Company. To date, no such insurance department examinations have produced any significant adverse findings regarding any of the Company's insurance company subsidiaries.

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond the prescribed limits. Although the Company cannot predict the amount of any future assessments, most insurance guaranty fund laws currently provide that an assessment may be excused or deferred if it would threaten an insurer's own financial strength.

In addition, many states, including the states in which the Company's insurance subsidiaries are domiciled, have enacted legislation or adopted regulations regarding insurance holding company systems. These laws require registration of and periodic reporting by insurance companies domiciled within the jurisdiction which control or are controlled by other corporations or persons so as to constitute an insurance holding company system. These laws also affect the acquisition of control of insurance companies as well as transactions between insurance companies and companies controlling them. Most states, including Tennessee, where PLICO is domiciled, require administrative approval of the acquisition of control of an insurance company domiciled in the state or the acquisition of control of an insurance holding company whose insurance subsidiary is incorporated in the state. In Tennessee, the acquisition of 10% of the voting securities of an entity is deemed to be the acquisition of control for the purpose of the insurance holding company statute and requires not only the filing of detailed information concerning the acquiring parties and the plan of acquisition, but also administrative approval prior to the acquisition. Holding company legislation has been adopted in certain states where the Company's insurance subsidiaries are domiciled, which subjects the subsidiaries to increased reporting requirements. Holding company legislation has also been proposed in additional states, which, if adopted, will subject any domiciled subsidiaries to additional reporting and supervision requirements.

The states in which the Company's insurance subsidiaries are domiciled also impose certain restrictions on the subsidiaries' ability to pay dividends to the Company. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts are subject to approval by the insurance commissioner of the state of domicile. The maximum amount that would qualify as ordinary dividends to the Company by its insurance subsidiaries in 2016 is approximately, in the aggregate, \$541.3 million. No assurance can be given that more stringent restrictions will not be adopted from time to time by states in which the Company's insurance subsidiaries are domiciled; such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to the Company by such subsidiaries without affirmative prior approval by state regulatory authorities.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer. The NAIC may also be influenced by the initiatives or regulatory structures or schemes of international regulatory bodies, and those initiatives or regulatory structures or schemes may not translate readily into the regulatory structures or schemes or the legal system (including the interpretation or application of standards by juries), under which U.S. insurers must operate. Changes in laws and regulations, or in interpretations thereof, as well as initiatives or regulatory structures or schemes of international regulatory bodies, applicable to

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the Company could have a significant adverse impact on the Company. Some NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Also, regulatory actions with prospective impact can potentially have a significant adverse impact on currently sold products.

At the federal level, bills are routinely introduced in both chambers of the United States Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and solvency regulation, and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, the impact of such legislation on the Company.

The Company's sole stockholder, Dai-ichi Life, is subject to regulation by the Japanese Financial Services Authority (JFSA). Under applicable laws and regulations, Dai-ichi Life is required to provide notice to or obtain the consent of the

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Table of Contents

JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company and its consolidated subsidiaries.

The Company is also subject to various conditions and requirements of the Patient Protection and Affordable Care Act of 2010 (the Healthcare Act). The Healthcare Act makes significant changes to the regulation of health insurance and may affect the Company in various ways. The Healthcare Act may affect small blocks of business the Company has offered or acquired over the years that are, or are deemed to constitute, health insurance. The Healthcare Act may also affect the benefit plans the Company sponsors for employees or retirees and their dependents, the Company's expense to provide such benefits, the tax liabilities of the Company in connection with the provision of such benefits, and the Company's ability to attract or retain employees. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. The Healthcare Act, or any regulatory pronouncement made thereunder, could have a significant impact on the Company.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) made sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to, the following: the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker-dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareholders, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Since the enactment of Dodd-Frank, many regulations have been enacted and others are likely to be adopted in the future that will have an impact upon the Company.

Dodd-Frank also created the Consumer Financial Protection Bureau (CFPB), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the SEC or the U.S. Commodity Futures Trading Commission. Certain of the Company's subsidiaries sell products that may be regulated by the CFPB. In addition, Dodd-Frank includes a framework of regulation of over-the-counter (OTC) derivatives markets which requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The Company uses derivatives to mitigate a wide range of risks in connection with its business, including those arising from its VA products with guaranteed benefit features. The derivative clearing requirements of Dodd-Frank could continue to have an impact on the Company.

The Company may be subject to regulations proposed by the United States Department of Labor that would affect a variety of products and services provided to employee benefit plans and individual investors that are governed by the Employee Retirement Income Security Act (ERISA). The Department of Labor has proposed new regulations that, if enacted, will significantly expand the definition of investment advice and increase the circumstances in which the Company and broker-dealers, insurance agencies and other financial institutions that sell the Company's products could be deemed a fiduciary when providing investment advice with respect to ERISA plans or Individual Retirement Accounts. The Department of Labor also proposed amendments to long standing exemptions from the prohibited transaction provisions under ERISA that would increase fiduciary requirements in connection with transactions involving ERISA plans, plan participants and IRAs, and that would apply more onerous disclosure and contract requirements to such transactions. If adopted, the Company may find it necessary to change sales representative and/or broker compensation, to limit the assistance or advice it can provide to owners of the Company's annuities, or otherwise change the manner in which it designs and supports sales of its annuities.

Certain life insurance policies, contracts, and annuities offered by the Company are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority (FINRA) examine or investigate the activities of broker

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dealers and investment advisors, including the Company's affiliated broker dealers and investment advisors. These examinations often focus on the activities of the registered representatives and registered investment advisors doing business through such entities.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting practices, antitrust laws, minimum solvency requirements, state securities laws, federal privacy laws, cybersecurity regulation, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws and because the Company owns and operates real property, state, federal, and local environmental laws.

Additional issues related to regulation of the Company and its insurance subsidiaries are discussed in Item 1A, *Risk Factors*, and in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included herein.

Table of Contents

Employees

As of December 31, 2015, the Company had approximately 2,541 employees, of which 2,537 were full-time and 4 were part-time employees. Included in the total were approximately 1,443 employees in Birmingham, Alabama, of which 1,439 were full-time and 4 were part-time employees. The Company believes its relations with its employees are satisfactory. Most employees are covered by contributory major medical, dental, vision, group life, and long-term disability insurance plans. The cost of these benefits to the Company in 2015 was approximately \$13.5 million. In addition, substantially all of the employees may participate in a defined benefit pension plan and 401(k) plan. The Company matches employee contributions to its 401(k) plan. See Note 15, *Stock-Based Compensation* and Note 16, *Employee Benefit Plans* to our consolidated financial statements for additional information.

Available Information

The Company files reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports as required. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company is an electronic filer and the SEC maintains an internet site at www.sec.gov that contains the reports, proxy and information statements, and other information filed electronically by the Company.

The Company makes available free of charge through its website, www.protective.com, the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. The information found on the Company's website is not part of this or any other report filed with or furnished to the SEC. The Company will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

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

The Company has adopted a Code of Business Conduct, which applies to all directors, officers and employees of the Company and its wholly owned subsidiaries. The Code of Business Conduct incorporates a code of ethics that applies to the principal executive officer and all financial officers of the Company and its subsidiaries. The Code of Conduct is available on the Company's website, www.protective.com.

Executive Officers

As of December 31, 2015, the Company's executive officers were as follows:

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Name	Age	Position
John D. Johns	63	Chairman of the Board, President, Chief Executive Officer and a Director
Richard J. Bielen	55	Vice Chairman, Chief Financial Officer and a Director
Deborah J. Long	62	Executive Vice President, Secretary and General Counsel
Michael G. Temple	53	Executive Vice President and Chief Risk Officer
Carl S. Thigpen	59	Executive Vice President, Chief Investment Officer
D. Scott Adams	51	Senior Vice President, Chief Human Resources Officer
Steven G. Walker	56	Senior Vice President, Chief Accounting Officer and Controller

All executive officers are elected annually and serve at the pleasure of the Board of Directors. None of the executive officers are related to any director of the Company or to any other executive officer, although certain of the executive officers also serve on the Company's Board of Directors.

Mr. Johns has been Chairman of the Board of the Company since January 2003, and President and Chief Executive Officer of the Company since December 2001. He has been a director of the Company since May 1997. Mr. Johns has been employed by the Company and its subsidiaries since 1993.

Mr. Bielen has been Vice Chairman and Chief Financial Officer of the Company since June 2007. From August 2006 to June 2007, Mr. Bielen served as Executive Vice President, Chief Investment Officer, and Treasurer of the Company. Mr. Bielen

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Table of Contents

became a director of the Company on February 1, 2015. Mr. Bielen has been employed by the Company and its subsidiaries since 1991.

Ms. Long has been Executive Vice President, Secretary, and General Counsel of the Company since May 2007. From November 1996 to May 2007, Ms. Long served as Senior Vice President, Secretary, and General Counsel of the Company. Ms. Long has been employed by the Company and its subsidiaries since 1994.

Mr. Temple has been Executive Vice President and Chief Risk Officer of the Company since December 2012. Prior to joining the Company, Mr. Temple served as Senior Vice President and Chief Risk Officer at Unum Group in Chattanooga, Tennessee.

Mr. Thigpen has been Executive Vice President and Chief Investment Officer of the Company since June 2007. From January 2002 to June 2007, Mr. Thigpen served as Senior Vice President and Chief Mortgage and Real Estate Officer of the Company. Mr. Thigpen has been employed by the Company and its subsidiaries since 1984.

Mr. Adams has been Senior Vice President and Chief Human Resources Officer of the Company since April 2006.

Mr. Walker has been Senior Vice President since March 2004. Mr. Walker has been Controller and Chief Accounting Officer of the Company since September 2003. Mr. Walker has been employed by the Company and its subsidiaries since 2002.

On January 5, 2016, the Company announced the following management changes with respect to its executive officers: Mr. Johns, Chairman, Chief Executive Officer, and a director; Mr. Bielen, President, Chief Operating Officer, and a director; Ms. Long, Executive Vice President, Chief Legal Officer, Secretary, and General Counsel; Mr. Temple, Executive Vice President, Finance and Risk and Chief Risk Officer; Mr. Adams, Executive Vice President, Chief Administrative Officer; and Mr. Walker, Executive Vice President, Chief Financial Officer, and Controller. Mr. Thigpen will continue in his current position as Executive Vice President, Chief Investment Officer.

Certain of these executive officers also serve as executive officers and/or directors of various of the Company's subsidiaries.

Item 1A. Risk Factors

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company's future results include, but are not limited to, general economic conditions and known trends and uncertainties which are discussed more fully below.

General Risk Factors

The Company is controlled by Dai-ichi Life, which has the ability to make important decisions affecting our business.

As of February 1, 2015, the date of completion of our merger, all of our common stock is owned by Dai-ichi Life. As a holder of 100% of the voting stock, Dai-ichi Life is entitled to elect all of our directors, to approve any action requiring the approval of the holders of our voting stock, including adopting amendments to our certificate of incorporation and approving mergers or sales of substantially all of our assets, and to prevent any transaction that requires the approval of stockholders. Dai-ichi Life has effective control over our affairs, policies and operations, such as the appointment of management, future issuances of our securities, the payments of distributions by us, if any, in respect of our common stock, the incurrence of debt by us, and the entering into of extraordinary transactions, and Dai-ichi Life's interests may not in all cases be aligned with the interests of investors, including holders of our debt securities. Additionally, our credit agreement and indentures permit us to pay dividends and make other restricted payments to Dai-ichi Life under certain circumstances, and Dai-ichi Life may have an interest in our doing so. In addition, Dai-ichi Life has no obligation to provide us with any additional debt or equity financing.

The Company is exposed to risks related to natural and man-made disasters and catastrophes, diseases, epidemics, pandemics, malicious acts, terrorist acts and climate change, which could adversely affect the Company's operations and results.

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural or man-made disaster or catastrophe, including a severe weather or geological event such as a storm, tornado, fire, flood, or earthquake, disease, epidemic, pandemic, malicious act, terrorist act, or the occurrence of climate change, could cause the Company's workforce to be unable to engage in operations at one or more of its facilities or result in short or long-term interruptions in the Company's business operations, any of which could be material to the Company's operating results for a particular period. In addition, such events could adversely affect the mortality, morbidity, or other experience of the Company or its reinsurers and have a significant negative impact on the Company. In addition, claims arising from the occurrence of such events or conditions could have a material adverse effect on

Table of Contents

the Company's financial condition and results of operations. Such events or conditions could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. The Company's risk management efforts and other precautionary plans and activities may not adequately predict the impact on the Company from such events.

In addition, such events or conditions could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of the Company's business within such geographic areas and/or the general economic climate, which in turn could have an adverse effect on the Company. Such events or conditions could also result in additional regulation or restrictions on the Company in the conduct of its business. The possible macroeconomic effects of such events or conditions could also adversely affect the Company's asset portfolio, as well as many other aspects of the Company's business, financial condition, and results of operations.

A disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect the Company's business, financial condition and results of operations.

In conducting its business, the Company relies extensively on various electronic systems, including computer systems, networks, data processing and administrative systems, and communication systems. The Company's business partners, counter parties, service providers and distributors also rely on such systems, as do securities exchanges and financial markets that are important to the Company's ability to conduct its business. These systems or their functionality could be disabled, disrupted, damaged or destroyed by intentional or unintentional acts or events such as cyber-attacks, viruses, sabotage, acts of war or terrorism, human error, system failures, failures of power or water supply, and the loss or malfunction of other utilities or services. They may also be disabled, disrupted, damaged or destroyed by natural events such as storms, tornadoes, fires, floods or earthquakes. While the Company and others on whom it depends try to identify threats and implement measures to protect their systems, such protective measures may not be sufficient. Disruption, damage or destruction of any of these systems could cause the Company or others on whom the Company relies to be unable to conduct business for an extended period of time or could result in significant expenditures to replace, repair or reinstate functionality, which could materially adversely impact the Company's business and its financial condition and results of operations.

Confidential information maintained in the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging the Company's business and reputation and adversely affecting its financial condition and results of operations.

In the course of conducting its business, the Company retains confidential information, including information about its customers and proprietary business information. The Company retains confidential information in various electronic systems, including computer systems, data processing and administrative systems, and communication systems. The Company maintains physical, administrative, and technical safeguards to protect the information and it relies on commercial technologies to maintain the security of its systems and to maintain the security of its transmission of such information to other parties, including its business partners, counter parties and service providers. The Company's business partners, counter parties and service providers likewise maintain confidential information, including, in some cases, customer information, on behalf of the Company. An intentional or unintentional breach or compromise of the security measures of the Company or such other parties could result in the disclosure, misappropriation, misuse, alteration or destruction of the confidential information retained by or on behalf of the Company, or the inability of the Company to conduct business for an indeterminate amount of time. Any of these events or circumstances could damage the Company's business and reputation, and adversely affect its financial condition and results of operations by, among other things, causing harm to the Company's business operations and customers, deterring customers and others from doing business with the Company, subjecting the Company to significant regulatory, civil, and criminal liability, and requiring the Company to incur significant legal and other expenses.

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Cyber threats and related legal and regulatory standards applicable to our business are rapidly evolving and may subject the Company to heightened legal standards, new theories of liability and material claims and penalties that we cannot currently predict or anticipate. As cyber threats and applicable legal standards continue to evolve, the Company may be required to expend significant additional resources to continue to modify or enhance our protective measures, to investigate and remediate any information security vulnerabilities and to pay claims, fines or penalties. While the Company has experienced cyber-attacks in the past, and to date the Company has not suffered any material harm or loss relating to cyber-attacks or other information security breaches at the Company or its counterparties, there can be no assurance that the Company will not suffer such losses in the future.

The Company's results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates.

In the conduct of business, the Company makes certain assumptions regarding mortality, morbidity, persistency, expenses, interest rates, equity market volatility, tax liability, business mix, frequency and severity of claims, contingent liabilities, investment performance, and other factors appropriate to the type of business it expects to experience in future periods. These

Table of Contents

assumptions are also used to estimate the amounts of deferred policy acquisition costs, policy liabilities and accruals, future earnings, and various components of the Company's balance sheet. These assumptions are used in the operation of the Company's business in making decisions crucial to the success of the Company, including the pricing of products and expense structures relating to products. The Company's actual experience, as well as changes in estimates, is used to prepare the Company's financial statements. To the extent the Company's actual experience and changes in estimates differ from original estimates, the Company's financial condition may be affected.

Mortality, morbidity, and casualty expectations incorporate assumptions about many factors, including for example, how a product is distributed, for what purpose the product is purchased, the mix of customers purchasing the products, persistency and lapses, future progress in the fields of health and medicine, and the projected level of used vehicle values. Actual mortality, morbidity, and/or casualty experience may differ from expectations. In addition, continued activity in the viatical, stranger-owned, and/or life settlement industry could cause the Company's level of lapses to differ from its assumptions about persistency and lapses, which could negatively impact the Company's performance.

The calculations the Company uses to estimate various components of its balance sheet and statements of income are necessarily complex and involve analyzing and interpreting large quantities of data. The Company currently employs various techniques for such calculations. From time to time it develops and implements more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates.

Assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. Accordingly, the Company's results may be affected, positively or negatively, from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

The Company may not realize its anticipated financial results from its acquisitions strategy.

The Company's acquisitions of companies and acquisitions or coinsurance of blocks of insurance business have increased its earnings in part by allowing the Company to position itself to realize certain operating efficiencies. However, there can be no assurance that the Company will have future suitable opportunities for, or sufficient capital available to fund, such transactions. If our competitors have access to capital on more favorable terms or at a lower cost, our ability to compete for acquisitions may be diminished. In addition, there can be no assurance that the Company will realize the anticipated financial results from such transactions.

The Company may be unable to complete an acquisition transaction. Completion of an acquisition transaction may be more costly or take longer than expected, or may have a different or more costly financing structure than initially contemplated. In addition, the Company may not be able to complete or manage multiple acquisition transactions at the same time, or the completion of such transactions may be delayed or be more costly than initially contemplated. The Company or other parties to the transaction may be unable to obtain regulatory approvals required to complete an acquisition transaction. If the Company identifies and completes suitable acquisitions, it may not be able to successfully integrate the business in a timely or cost-effective manner. In addition, there may be unforeseen liabilities that arise in connection with businesses or blocks of insurance business that the Company acquires. Additionally, in connection with its acquisition transactions that involve reinsurance, the Company assumes, or otherwise becomes responsible for, the obligations of policies and other liabilities of other insurers. Any regulatory, legal, financial, or other adverse development affecting the other insurer could also have an adverse effect on the Company.

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Assets allocated to the MONY Closed Block benefit only the holders of certain policies; adverse performance of Closed Block assets or adverse experience of Closed Block liabilities may negatively affect the Company.

On October 1, 2013, the Company completed the acquisition of MONY Life Insurance Company from AXA Financial, Inc. (MONY). MONY was converted from a mutual insurance company to a stock corporation in accordance with its Plan of Reorganization dated August 14, 1998, as amended. In connection with its demutualization, an accounting mechanism known as a closed block (the Closed Block) was established for the benefit of policyholders who owned certain individual insurance policies of MONY in force as of the date of demutualization. Please refer to Note 5, *MONY Closed Block of Business*, to the consolidated financial statements for a more detailed description of the Closed Block.

Assets allocated to the Closed Block inure solely to the benefit of the Closed Block 's policyholders and will not revert to the benefit of the Company. However, if the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments must be made from assets outside the Closed Block. Adverse financial or investment performance of the Closed Block, or adverse mortality or lapse experience on policies in the Closed Block, may require MONY to pay policyholder benefits using assets outside the Closed Block, which events could have a material adverse impact on the Company 's financial condition or results of operations and negatively affect the Company 's risk-based capital ratios. In addition, regulatory actions

Table of Contents

could require payment of dividends to policyholders in a larger amount than is anticipated by the Company, which could have a material adverse impact on the Company.

The Company is dependent on the performance of others.

The Company's results may be affected by the performance of others because the Company has entered into various arrangements involving other parties. For example, most of the Company's products are sold through independent distribution channels, variable annuity deposits are invested in funds managed by third parties, and certain modified coinsurance assets are managed by third parties. Also, the Company may rely upon third parties to administer certain portions of its business or business that it reinsures. Additionally, the Company's operations are dependent on various technologies, some of which are provided and/or maintained by other parties. Any of the other parties upon which the Company depends may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, or other reasons. Such defaults could have a material adverse effect on the Company's financial condition and results of operations.

Certain of these other parties may act on behalf of the Company or represent the Company in various capacities. Consequently, the Company may be held responsible for obligations that arise from the acts or omissions of these other parties. As with all financial services companies, the Company's ability to conduct business is dependent upon consumer confidence in the industry and its products. Actions of competitors and financial difficulties of other companies in the industry could undermine consumer confidence and adversely affect retention of existing business and future sales of the Company's insurance and investment products.

The Company's risk management policies, practices, and procedures could leave it exposed to unidentified or unanticipated risks, which could negatively affect its business or result in losses.

The Company has developed risk management policies and procedures and expects to continue to enhance these in the future. Nonetheless, the Company's policies and procedures to identify, monitor, and manage both internal and external risks may not predict future exposures, which could be different or significantly greater than expected.

These identified risks may not be the only risks facing the Company. Additional risks and uncertainties not currently known to the Company, or that it currently deems to be immaterial, may adversely affect its business, financial condition and/or operating results.

The Company's strategies for mitigating risks arising from its day-to-day operations may prove ineffective resulting in a material adverse effect on its results of operations and financial condition.

The Company's performance is highly dependent on its ability to manage risks that arise from a large number of its day-to-day business activities, including: policy pricing, reserving and valuation; underwriting; claims processing; policy administration and servicing; administration of reinsurance; execution of its investment and hedging strategy; financial and tax reporting; and other activities, many of which are very complex. The Company also may rely on third parties for such activities. The Company seeks to monitor and control its exposure to

risks arising out of or related to these activities through a variety of internal controls, management review processes, and other mechanisms. However, the occurrence of unforeseen or un-contemplated risks, or the occurrence of risks of a greater magnitude than expected, including those arising from a failure in processes, procedures or systems implemented by the Company or a failure on the part of employees or third parties upon which the Company relies in this regard, may have a material adverse effect on the Company's financial condition or results of operations.

Risks Related to the Financial Environment

Interest rate fluctuations and sustained periods of low interest rates could negatively affect the Company's interest earnings and spread income, or otherwise impact its business.

Significant changes in interest rates expose the Company to the risk of not earning anticipated interest on products without significant account balances, or not realizing anticipated spreads between the interest rate earned on investments and the credited interest rates paid on in-force policies and contracts that have significant account balances. Both rising and declining interest rates as well as sustained periods of low interest rates can negatively affect the Company's interest earnings and spread income.

Lower interest rates may also result in lower sales of certain of the Company's life insurance and annuity products. Additionally, during periods of declining or low interest rates, certain previously issued life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible

Table of Contents

premium features, repayment of policy loans and increased persistency, or a higher percentage of insurance policies remaining in force from year to year during a period when the Company's investments earn lower returns. Certain of the Company's life insurance and annuity products guarantee a minimum credited interest rate, and the Company could become unable to earn its spread income or may earn less interest on its investments than it is required to credit to policy holders should interest rates decrease significantly and/or remain low for sustained periods. Additionally, the profitability of certain of the Company's life insurance products that do not have significant account balances could be reduced should interest rates decrease significantly and/or remain low for sustained periods.

The Company's expectation for future interest earnings and spreads is an important component in amortization of deferred acquisition costs (DAC) and value of business acquired (VOBA), and significantly lower interest earnings or spreads may cause it to accelerate amortization, thereby reducing net income in the affected reporting period. Sustained periods of low interest rates could also result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with the Company's products.

Higher interest rates may create a less favorable environment for the origination of mortgage loans and decrease the investment income the Company receives in the form of prepayment fees, make-whole payments, and mortgage participation income. Higher interest rates would also adversely affect the market value of fixed income securities within the Company's investment portfolio. Higher interest rates may also increase the cost of debt and other obligations of the Company having floating rate or rate reset provisions and may result in fluctuations in sales of annuity products. During periods of increasing market interest rates, the Company may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and it may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased policy surrenders, withdrawals from life insurance policies and annuity contracts, and requests for policy loans as policyholders and contract holders shift assets into higher yielding investments. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on the Company's financial condition and results of operations, including earnings, equity (including accumulated other comprehensive income (loss) (AOCI)), and statutory risk-based capital ratios.

Additionally, the Company's asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and other factors. The effectiveness of the Company's asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions. In general, the Company's results of operations improve when the yield curve is positively sloped (i.e., when long-term interest rates are higher than short-term interest rates), and will be adversely affected by a flat or negatively sloped curve.

The Company's investments are subject to market and credit risks. These risks could be heightened during periods of extreme volatility or disruption in financial and credit markets.

The Company's invested assets and derivative financial instruments are subject to risks of credit defaults and changes in market values. These risks could be heightened during periods of extreme volatility or disruption in the financial and credit markets, including as a result of social or political unrest or instability domestically or abroad. A widening of credit spreads will increase the unrealized losses in the Company's investment portfolio. The factors affecting the financial and credit markets could lead to other-than-temporary impairments of assets in the Company's investment portfolio.

The value of the Company's commercial mortgage loan portfolio depends in part on the financial condition of the tenants occupying the properties that the Company has financed. The value of the Company's investment portfolio, including its portfolio of government debt obligations, debt obligations of those entities with an express or implied governmental guarantee and debt obligations of other issuers holding a

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large amount of such obligations, depends in part on the ability of the issuers or guarantors of such debt to maintain their credit ratings and meet their contractual obligations. Factors that may affect the overall default rate on, and market value of, the Company's invested assets, derivative financial instruments, and mortgage loans include interest rate levels, financial market performance, general economic conditions, and conditions affecting certain sectors of the economy, as well as particular circumstances affecting the individual tenants, borrowers, issuers and guarantors.

Significant continued financial and credit market volatility, changes in interest rates and credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions and conditions affecting certain sectors of the economy, either alone or in combination, could have a material adverse impact on the Company's results of operations, financial condition, or cash flows through realized losses, impairments, changes in unrealized loss positions, and increased demands on capital, including obligations to post additional capital and collateral. In addition, market volatility can make it difficult for the Company to value certain of its assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on the Company's results of operations or financial condition.

Table of Contents

Equity market volatility could negatively impact the Company's business.

Volatility in equity markets may discourage prospective purchasers of variable separate account products, such as variable annuities, that have returns linked to the performance of equity markets and may cause some existing customers to withdraw cash values or reduce investments in those products. The amount of policy fees received from variable products is affected by the performance of the equity markets, increasing or decreasing as markets rise or fall. Decreases in policy fees could materially and adversely affect the profitability of our variable annuity products.

Equity market volatility can also affect the profitability of variable products in other ways, in particular as a result of death benefit and withdrawal benefit guarantees in these products. The estimated cost of providing guaranteed minimum death benefits (GMDB) and guaranteed minimum withdrawal benefits (GMWB) incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets or increased equity market volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income and an adverse impact to the statutory capital and risk-based capital ratios of the Company's insurance subsidiaries.

The amortization of DAC relating to variable products and the estimated cost of providing GMDB and GMWB incorporate various assumptions about the overall performance of equity markets over certain time periods. The rate of amortization of DAC and the cost of providing GMDB and GMWB could increase if equity market performance is worse than assumed.

The Company's use of derivative financial instruments within its risk management strategy may not be effective or sufficient.

The Company uses derivative financial instruments within its risk management strategy to mitigate risks to which it is exposed, including the adverse effects of domestic and/or international credit and/or equity market and/or interest rate levels or volatility on its fixed indexed annuity and variable annuity products with guaranteed benefit features. These derivative financial instruments may not effectively offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in the value of such guarantees and the changes in the value of the derivative financial instruments purchased by the Company, extreme credit and/or equity market and/or interest rate levels or volatility, contract holder behavior that differs from the Company's expectations, and divergence between the performance of the underlying funds of such variable annuity products with guaranteed benefit features and the indices utilized by the Company in estimating its exposure to such guarantees.

The Company may also use derivative financial instruments within its risk management strategy to mitigate risks arising from its exposure to investments in individual issuers or sectors of issuers and to mitigate the adverse effects of distressed domestic and/or international credit and/or equity markets and/or interest rate levels or volatility on its overall financial condition or results of operations.

The use of derivative financial instruments by the Company may have an adverse impact on the level of statutory capital and the risk-based capital ratios of the Company's insurance subsidiaries. The Company employs strategies in the use of derivative financial instruments that are intended to mitigate such adverse impacts, but the Company's strategies may not be effective.

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The Company may also choose not to hedge, in whole or in part, these or other risks that it has identified, due to, for example, the availability and/or cost of a suitable derivative financial instrument or, in reaction to extreme credit, equity market and/or interest rate levels or volatility. Additionally, the Company's estimates and assumptions made in connection with its use of any derivative financial instrument may fail to reflect or correspond to its actual long-term exposure in respect to identified risks. Derivative financial instruments held or purchased by the Company may also otherwise be insufficient to hedge the risks in relation to the Company's obligations. In addition, the Company may fail to identify risks, or the magnitude thereof, to which it is exposed. The Company is also exposed to the risk that its use of derivative financial instruments within its risk management strategy may not be properly designed and/or may not be properly implemented as designed.

The Company is also subject to the risk that its derivative counterparties or clearinghouse may fail or refuse to meet their obligations to the Company under derivative financial instruments. If the Company's derivative counterparties or clearinghouse fail or refuse to meet their obligations to the Company in this regard, the Company's efforts to mitigate risks to which it is subject through the use of such derivative financial instruments may prove to be ineffective or inefficient.

The above factors, either alone or in combination, may have a material adverse effect on the Company's financial condition and results of operations.

Table of Contents

Credit market volatility or disruption could adversely impact the Company's financial condition or results from operations.

Significant volatility or disruption in domestic or foreign credit markets, including as a result of social or political unrest or instability, could have an adverse impact in several ways on either the Company's financial condition or results from operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in the Company's investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in the Company's investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within the Company's investment portfolio.

The Company's statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities on its fixed market value adjusted (MVA) annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, the Company is required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. Credit spreads are not consistently fully reflected in crediting rates based on U.S. Treasuries, and the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This situation would result in the need to devote significant additional capital to support fixed MVA annuity products.

Volatility or disruption in the credit markets could also impact the Company's ability to efficiently access financial solutions for purposes of issuing long-term debt for financing purposes, its ability to obtain financial solutions for purposes of supporting certain traditional and universal life insurance products for capital management purposes, or result in an increase in the cost of existing securitization structures.

The ability of the Company to implement financing solutions designed to fund a portion of statutory reserves on both the traditional and universal life blocks of business is dependent upon factors such as the ratings of the Company, the size of the blocks of business affected, the mortality experience of the Company, the credit markets, and other factors. The Company cannot predict the continued availability of such solutions or the form that the market may dictate. To the extent that such financing solutions were desired but are not available, the Company's financial position could be adversely affected through impacts including, but not limited to, higher borrowing costs, surplus strain, lower sales capacity, and possible reduced earnings.

The Company's ability to grow depends in large part upon the continued availability of capital.

The Company deploys significant amounts of capital to support its sales and acquisitions efforts. Although the Company believes it has sufficient capital to fund its immediate capital needs, the amount of capital available can vary significantly from period to period due to a variety of circumstances, some of which are not predictable, foreseeable, or within the Company's control. Furthermore, our sole stockholder is not obligated to provide us with additional capital. A lack of sufficient capital could have a material adverse impact on the Company's financial condition and results of operations.

A ratings downgrade or other negative action by a ratings organization could adversely affect the Company.

Various Nationally Recognized Statistical Rating Organizations (rating organizations) review the financial performance and condition of insurers, including the Company's insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. While financial strength ratings are not a recommendation to buy the Company's securities or products, these ratings are important to maintaining public confidence in the Company, its products, its ability to market its products, and its competitive position. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company's insurance subsidiaries or the debt ratings of the Company could adversely affect the Company in many ways, including the following: reducing new sales of insurance and investment products; adversely affecting relationships with distributors and sales agents; increasing the number or amount of policy surrenders and withdrawals of funds; requiring a reduction in prices for the Company's insurance products and services in order to remain competitive; and adversely affecting the Company's ability to obtain reinsurance at a reasonable price, on reasonable terms or at all. A downgrade of sufficient magnitude could result in the Company, its insurance subsidiaries, or both being required to collateralize reserves, balances or obligations under reinsurance, funding, swap, and securitization agreements. A downgrade of sufficient magnitude could also result in the termination of certain funding and swap agreements.

Table of Contents

Rating organizations also publish credit ratings for issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important to the Company's overall ability to access credit markets and other types of liquidity. Credit ratings are not recommendations to buy the Company's securities or products. Downgrades of the Company's credit ratings, or an announced potential downgrade or other negative action, could have a material adverse effect on the Company's financial conditions and results of operations in many ways, including, but not limited to, the following: limiting the Company's access to capital markets; increasing the cost of debt; impairing its ability to raise capital to refinance maturing debt obligations; limiting its capacity to support the growth of its insurance subsidiaries; requiring it to pay higher amounts in connection with certain existing or future financing arrangements or transactions; and making it more difficult to maintain or improve the current financial strength ratings of its insurance subsidiaries. A downgrade of sufficient magnitude, in combination with other factors, could require the Company to post collateral pursuant to certain contractual obligations.

Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, ratings of parent companies, and circumstances outside the rated company's control. Factors identified by rating agencies that could lead to negative rating actions with respect to the Company or its insurance subsidiaries include, but are not limited to, weak growth in earnings, a deterioration of earnings (including deterioration due to spread compression in interest-sensitive lines of business), significant impairments in investment portfolios, heightened financial leverage, lower interest coverage ratios, risk-based capital ratios falling below ratings thresholds, a material reinsurance loss, underperformance of an acquisition, and the rating of a parent company. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the rating organizations' judgment of the rating to be assigned to the rated company. Rating organizations may take various actions, positive or negative, with respect to our debt ratings and financial strength ratings of our insurance subsidiaries, including as a result of our status as a subsidiary of Dai-ichi Life. Any negative action by a ratings agency could have a material adverse impact on the Company's financial condition or results of operations. The Company cannot predict what actions the rating organizations may take, or what actions the Company may take in response to the actions of the rating organizations.

The Company could be forced to sell investments at a loss to cover policyholder withdrawals.

Many of the products offered by the Company allow policyholders and contract holders to withdraw their funds under defined circumstances. The Company manages its liabilities and configures its investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. While the Company owns a significant amount of liquid assets, a certain portion of its assets are relatively illiquid. If the Company experiences unexpected withdrawal or surrender activity, it could exhaust its liquid assets and be forced to liquidate other assets, perhaps at a loss or on other unfavorable terms. If the Company is forced to dispose of assets at a loss or on unfavorable terms, it could have an adverse effect on the Company's financial condition. The degree of the adverse effect could vary in relation to the magnitude of the unexpected surrender or withdrawal activity.

Disruption of the capital and credit markets could negatively affect the Company's ability to meet its liquidity and financing needs.

The Company needs liquidity to meet its obligations to its policyholders and its debt holders, and to pay its operating expenses. The Company's sources of liquidity include insurance premiums, annuity considerations, deposit funds, cash flow from investments and assets, and other income from its operations. In normal credit and capital market conditions, the Company's sources of liquidity also include a variety of short and long-term borrowing arrangements, including issuing debt securities.

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The Company's business is dependent on the capital and credit markets, including confidence in such markets. When the credit and capital markets are disrupted and confidence is eroded the Company may not be able to borrow money, including through the issuance of debt securities, or the cost of borrowing or raising equity capital may be prohibitively high. If the Company's internal sources of liquidity are inadequate during such periods, the Company could suffer negative effects from not being able to borrow money, or from having to do so on unfavorable terms. The negative effects could include being forced to sell assets at a loss, a lowering of the Company's credit ratings and the financial strength ratings of its insurance subsidiaries, and the possibility that customers, lenders, ratings agencies, or regulators develop a negative perception of the Company's financial prospects, which could lead to further adverse effects on the Company.

Difficult general economic conditions could materially adversely affect the Company's business and results of operations.

The Company's business and results of operations could be materially affected by difficult general economic conditions. Stressed economic conditions and volatility and disruptions in capital markets, particular markets or financial asset classes can have an adverse effect on the Company due to the size of the Company's investment portfolio and the sensitive nature of

Table of Contents

insurance liabilities to changing market factors. Disruptions in one market or asset class can also spread to other markets or asset classes. Volatility in financial markets can also affect the Company's business by adversely impacting general levels of economic activity, employment and customer behavior.

Like other financial institutions, and particularly life insurers, the Company may be adversely affected by these conditions. The presence of these conditions could have an adverse impact on the Company by, among other things, decreasing demand for its insurance and investment products, and increasing the level of lapses and surrenders of its policies. The Company and its subsidiaries could also experience additional ratings downgrades from ratings agencies, unrealized losses, significant realized losses, impairments in its investment portfolio, and charges incurred as a result of mark-to-market and fair value accounting principles. If general economic conditions become more difficult, the Company's ability to access sources of capital and liquidity may be limited.

Economic trends may worsen in 2016, thus contributing to increased volatility and diminished expectations for the economy, markets, and financial asset classes. The Company cannot predict the occurrence of economic trends or the likelihood or timing of improvement in such trends.

The Company may be required to establish a valuation allowance against its deferred tax assets, which could materially adversely affect the Company's results of operations, financial condition, and capital position.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets in essence represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income.

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 its material deferred tax assets net of any related valuation allowance. The Company has recognized a valuation allowance of \$7.4 million and \$3.4 million as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively, related to state-based loss carryforwards that it has determined are more likely than not to expire unutilized. If future events differ from the Company's current forecasts, a valuation allowance may need to be established, which could have a material adverse effect on the Company's results of operations, financial condition, and capital position.

The Company could be adversely affected by an inability to access its credit facility.

The Company relies on its credit facility as a potential source of liquidity. The availability of these funds could be critical to the Company's credit and financial strength ratings and its ability to meet obligations, particularly when alternative sources of credit are either difficult to access or costly. The availability of the Company's credit facility is dependent in part on the ability of the lenders to provide funds under the facility. The Company's credit facility contains various affirmative and negative covenants and events of default, including covenants requiring the Company to maintain a specified minimum consolidated net worth. The Company's right to make borrowings under the facility is subject to the fulfillment of certain conditions, including its compliance with all covenants. The Company's failure to comply with the covenants in the credit

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facility could restrict its ability to access this credit facility when needed. The Company's inability to access some or all of the line of credit under the credit facility could have a material adverse effect on its financial condition and results of operations.

The Company could be adversely affected by an inability to access FHLB lending.

The Company is a member of the Federal Home Loan Banks (the FHLB) of Cincinnati and the FHLB of New York Membership, provides the Company with access to FHLB financial services, including advances that provide an attractive funding source for short-term borrowing and for the sale of funding agreements. In recent years, the Federal Housing Finance Agency (FHFA) has released advisory bulletins addressing concerns associated with insurance company (as opposed to federally-backed bank) access to FHLB financial services, the state insurance regulatory framework and FHLB creditor status in the event of member insurer insolvency. In response to FHFA actions, FHLB members, the NAIC and trade groups developed model legislation that would enable insurers to access FHLB funding on similar collateral terms as federally insured depository institutions. While members of the FHLB and NAIC were not able to agree on certain points, legislation based on this model has been introduced and adopted in several states and is not being opposed by the NAIC. It is unclear at this time whether or to what extent additional or new legislation or regulatory action regarding continued access to FHLB financial services will be enacted or adopted. Any developments that limit access to FHLB financial services could have a material adverse effect on the Company.

Table of Contents

The Company's financial condition or results of operations could be adversely impacted if the Company's assumptions regarding the fair value and future performance of its investments differ from actual experience.

The Company makes assumptions regarding the fair value and expected future performance of its investments. Expectations that the Company's investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and consider the performance of the underlying assets. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such reduced performance may lead to adverse changes in the cash flows on the Company's holdings of these types of securities. This could lead to potential future write-downs within the Company's portfolio of mortgage-backed and asset-backed securities. In addition, expectations that the Company's investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through its normal credit surveillance process. It is possible that issuers of the Company's investments in corporate securities and/or debt obligations will perform worse than current expectations. Such events may lead the Company to recognize potential future write-downs within its portfolio of corporate securities and/or debt obligations. It is also possible that such unanticipated events would lead the Company to dispose of such investments and recognize the effects of any market movements in its financial statements.

The Company also makes certain assumptions when utilizing internal models to value certain of its investments. It is possible that actual results will differ from the Company's assumptions. Such events could result in a material change in the value of the Company's investments.

Adverse actions of certain funds or their advisers could have a detrimental impact on the Company's ability to sell its variable life and annuity products, or maintain current levels of assets in those products.

Certain of the Company's insurance subsidiaries have arrangements with various open-end investment companies, or mutual funds, and the investment advisers to those mutual funds, to offer the mutual funds as investment options in the Company's variable life and annuity products. It is possible that the termination of one or more of those arrangements by the mutual fund or its adviser could have a detrimental impact on the company's ability to sell its variable life and annuity products, or maintain current levels of assets in those products, which could have a material adverse effect on the Company's financial condition and results of operations.

The amount of statutory capital that the Company has and the amount of statutory capital that it must hold to maintain its financial strength and credit ratings and meet other requirements can vary significantly from time to time and such amounts are sensitive to a number of factors outside of the Company's control.

The Company primarily conducts business through licensed insurance company subsidiaries. Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital (RBC) formulas for life and property and casualty companies. The risk-based capital formula for life insurance companies establishes capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and risk-based capital ratios may increase or decrease depending on a variety of factors including the following: the amount of statutory income or losses generated by the Company's insurance subsidiaries (which itself is sensitive to equity market and credit market conditions); the amount of additional capital its insurance subsidiaries must hold to support business growth;

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changes in the Company's reserve requirements; the Company's ability to secure capital market solutions to provide reserve relief; changes in equity market levels; the value of certain fixed-income and equity securities in its investment portfolio; the credit ratings of investments held in its portfolio, including those issued by, or explicitly or implicitly guaranteed by, a government; the value of certain derivative instruments; changes in interest rates and foreign currency exchange rates; credit market volatility; changes in consumer behavior; and changes to the NAIC risk-based capital formula. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and risk-based capital ratios of its insurance company subsidiaries. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital the Company must hold in order to maintain its current ratings. In addition, rating agencies may downgrade the investments held in the Company's portfolio, which could result in a reduction of the Company's capital and surplus and/or its risk-based capital ratio.

In scenarios of equity market declines, the amount of additional statutory reserves the Company is required to hold for its variable product guarantees may increase at a rate greater than the rate of change of the markets. Increases in reserves could result in a reduction to the Company's capital, surplus, and/or risk-based capital ratio. Also, in environments where there is not a correlative relationship between interest rates and spreads, the Company's market value adjusted annuity product can have a material adverse effect on the Company's statutory surplus position.

Table of Contents

The Company operates as a holding company and depends on the ability of its subsidiaries to transfer funds to it to meet its obligations.

The Company operates as a holding company for its insurance and other subsidiaries and does not have any significant operations of its own. The Company's primary sources of funding are dividends from its operating subsidiaries; revenues from investment, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These funding sources support the Company's general corporate needs including its debt service. If the funding the Company receives from its subsidiaries is insufficient for it to fund its debt service and other holding company obligations, it may be required to raise funds through the incurrence of debt, or the sale of assets.

The states in which the Company's insurance subsidiaries are domiciled impose certain restrictions on the subsidiaries' ability to pay dividends and make other payments to the Company. State insurance regulators may prohibit the payment of dividends or other payments to the Company by its insurance subsidiaries if they determine that the payments could be adverse to the policyholders or contract holders of the insurance subsidiaries.

Industry and Regulatory Related Risks

The business of the Company is highly regulated and is subject to routine audits, examinations and actions by regulators, law enforcement agencies and self-regulatory organizations.

The Company is subject to government regulation in each of the states in which it conducts business. In many instances, the regulatory models emanate from the National Association of Insurance Commissioners (NAIC). Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, insurer use of captive reinsurance companies, acquisitions, mergers, capital adequacy, claims practices and the remittance of unclaimed property. In addition, some state insurance departments may enact rules or regulations with extra-territorial application, effectively extending their jurisdiction to areas such as permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator.

At any given time, a number of financial, market conduct, or other examinations or audits of the Company's subsidiaries may be ongoing. It is possible that any examination or audit may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures, any of which could have a material adverse effect on the Company's financial condition or results of operations. The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products. The Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations.

The Company may be subject to regulations influenced by or related to international regulatory authorities or initiatives.

The NAIC and the Company's state regulators may be influenced by the initiatives of international regulatory bodies, and those initiatives may not translate readily into the legal system under which U.S. insurers must operate. There is increasing pressure to conform to international standards due to the globalization of the business of insurance and the most recent financial crisis. In addition to developments at the NAIC and in the United States, the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated.

The International Association of Insurance Supervisors (IAIS), at the direction of the FSB, has published a methodology for identifying global systemically important insurers (G-SIIs) and high level policy measures that will apply to G-SIIs. The FSB, working with national authorities and the IAIS, has designated nine insurance groups as G-SIIs. The IAIS is working on the policy measures which include higher capital requirements and enhanced supervision. Although neither the Company nor Dai-ichi Life has been designated a G-SII, the list of designated insurers will be updated annually by the FSB. It is possible that the greater size and reach of the combined group as a result of the Company becoming a subsidiary of Dai-ichi Life, or a change in the methodologies or their application, could lead to the combined group's designation as a G-SII.

Table of Contents

The IAIS is also in the process of developing a common framework for the supervision of internationally active insurance groups (IAIGs), which is targeted to be implemented in 2019. Under the proposed framework, insurance groups deemed to be IAIGs may be required by their regulators to comply with new global capital requirements, which may exceed the sum of state or other local capital requirements. In addition, the IAIS is developing a model framework for the supervision of IAIGs that contemplates group wide supervision across national boundaries, which requires each IAIG to conduct its own risk and solvency assessment to monitor and manage its overall solvency. It is possible that, as a result of the Merger, the combined group may be deemed an IAIG, in which case it may be subject to supervision and capital requirements beyond those applicable to any competitors who are not designated as an IAIG.

While it is not yet known how or if these actions will impact the Company, such regulation could result in increased costs of compliance, increased disclosure, less flexibility in capital management and more burdensome regulation and capital requirements for specific lines of business, and could impact the Company and its reserve and capital requirements, financial condition or results of operations.

NAIC actions, pronouncements and initiatives may affect the Company's product profitability, reserve and capital requirements, financial condition or results of operations.

Although some NAIC pronouncements, particularly as they affect accounting, reserving and risk-based capital issues, may take effect automatically without affirmative action taken by the states, the NAIC is not a governmental entity and its processes and procedures do not comport with those to which governmental entities typically adhere. Therefore, it is possible that actions could be taken by the NAIC that become effective without the procedural safeguards that would be present if governmental action was required. In addition, with respect to some financial regulations and guidelines, states sometimes defer to the interpretation of the insurance department of a non-domiciliary state. Neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a state could choose to follow a different interpretation. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal, accounting or actuarial issue may result in non-compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal, accounting or actuarial issue may change over time to the Company's detriment, or that changes to the overall legal or market environment may cause the Company to change its practices in ways that may, in some cases, limit its growth or profitability. Statutes, regulations, interpretations, and instructions may be applied with retroactive impact, particularly in areas such as accounting, reserve and risk-based capital requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products.

The NAIC has announced more focused inquiries on certain matters that could have an impact on the Company's financial condition and results of operations. Such inquiries concern, for example, examination of statutory accounting disclosures for separate accounts, insurer use of captive reinsurance companies, certain aspects of insurance holding company reporting and disclosure, reserving for universal life products with secondary guarantees, reinsurance, cybersecurity practices, and risk-based capital calculations. In addition, the NAIC continues to consider various initiatives to change and modernize its financial and solvency requirements and regulations. It is considering changing to, or has considered and passed, a principles-based reserving method for life insurance and annuity reserves, changes to the accounting and risk-based capital regulations, changes to the governance practices of insurers, and other items. Some of these proposed changes, including implementing a principles-based reserving methodology, would require the approval of state legislatures. The Company cannot provide any estimate as to what impact these more focused inquiries or proposed changes, if they occur, will have on its product mix, product profitability, reserve and capital requirements, financial condition or results of operations.

Regulatory actions, interpretations and pronouncements related to Actuarial Guideline XXXVIII may have an adverse effect on the Company's ability to sell certain universal life products and reserving requirements.

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With respect to reserving requirements for universal life policies with secondary guarantees (ULSG), in 2012 the NAIC adopted revisions to Actuarial Guideline XXXVIII (AG38) addressing those requirements. Also, the NAIC established a working group to consider interpretations of AG38, and any adopted interpretations are binding on reserve calculations for policies within the scope of AG38. Some of the regulatory participants in the AG38 revision process appeared to believe that one of the purposes of the revisions was to calculate reserves for ULSG similarly to reserves for guaranteed level term life insurance contracts with the same guarantee period. The effect of the revisions was to increase the level of reserves that must be held by insurers on ULSG with certain product designs that are issued on and after January 1, 2013, and to cause insurers to test the adequacy of reserves, and possibly increase the reserves, on ULSG with certain product designs that were issued before January 1, 2013. The Company developed and introduced a new ULSG product for sales in 2013. The Company cannot predict future regulatory actions that could negatively impact the Company's ability to market this or other products. Such regulatory reactions could include, for example, withdrawal of state approvals of the product, or adoption of further changes to AG38 or other adverse action including retroactive regulatory action that could negatively impact the Company's product. A disruption of the Company's ability to sell financially viable life insurance products or an increase in reserves on ULSG policies issued

Table of Contents

either before or after January 1, 2013, could have a material adverse impact on the Company's financial condition or results of operations.

The Company's use of captive reinsurance companies to finance statutory reserves related to its term and universal life products and to reduce volatility affecting its variable annuity products may be limited or adversely affected by regulatory action, pronouncements and interpretations.

The Company currently uses affiliated captive reinsurance companies in various structures to finance certain statutory reserves based on a regulation entitled "Valuation of Life Insurance Policies Model Regulation," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies Model Regulation," commonly known as "Guideline AXXX," which are associated with term life insurance and universal life insurance with secondary guarantees, respectively, as well as to reduce the volatility in statutory risk-based capital associated with certain guaranteed minimum withdrawal and death benefit riders associated with the Company's variable annuity products. The NAIC, through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers (including traditional reinsurers) (the "Affected Business"). In addition, the Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, adopted the conceptual framework contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the "Rector Report"), that includes numerous recommendations pertaining to the regulation and use of certain captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in various stages of discussions regarding recommendations. One recommendation of the Rector Report has been adopted as Actuarial Guideline XLVIII ("AG48"). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. Other recommendations in the Rector Report are subject to ongoing comment and revision. It is unclear at this time to what extent the recommendations in the Rector Report, or additional or revised recommendations relating to captive transactions or reinsurance transactions in general, will be adopted by the NAIC. If the recommendations proposed in the Rector Report are implemented, it will likely be difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Rector Report, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. Additionally, in some circumstances AG48 and the implementation of the recommendations in the Rector Report could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

The NAIC adopted revisions to the Part A Laws and Regulations Preamble of the NAIC Financial Regulation Standards and Accreditation Program that will include within the definition of "multi-state insurer" certain insurer-owned captives and special purpose vehicles that are single-state licensed but assume reinsurance from cedants operating in multiple states. The revised definition will subject certain captives, including XXX/AXXX captives, variable annuity and long-term care captives, to all of the accreditation standards applicable to other traditional multi-state insurers, including standards related to capital and surplus requirements, risk-based capital requirements, investment laws and credit for reinsurance laws. Although we do not expect the revised definition to affect our existing life insurance captives (or our ability to engage in life insurance captive transactions in the future), such application will likely prevent us from engaging in variable annuity captive transactions on the same or a similar basis as in the past and, if applied retroactively, would likely cause us to recapture business from and unwind our existing variable annuity captive ("VA Captive"). While the recapture of business from our existing VA Captive would not have a material adverse effect on the Company given current market conditions, in the future the Company could experience fluctuations in its risk-based capital ratio due to market volatility if it were prohibited from engaging in similar transactions or required to unwind its existing VA Captive, which could adversely affect our future financial condition and results of operations.

The Financial Condition (E) Committee of the NAIC established a Variable Annuity Issues Working Group (VAIWG) in 2015 to oversee the NAIC's efforts to study and address regulatory issues resulting in variable annuity captive reinsurance transactions. The VAIWG developed a Framework for Change (the "Framework") which was adopted in 2015. The Framework suggests numerous changes to current NAIC rules and regulations that are intended to decrease incentives for insurers to establish variable annuities captives, which changes could potentially be applied to both inforce and new business. The Framework proposes that various NAIC groups consider and adopt recommended changes to

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current rules and regulations (with a targeted effective date in 2017) and that, upon adoption, domestic regulators request that insurers ceding business to variable annuity captives recapture such business and dissolve such captives. If the proposals set forth in the Framework are adopted, changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and results of operations.

Any regulatory action or changes in interpretation that materially adversely affects the Company's use or materially increases the Company's cost of using captives or reinsurers for the Affected Business, either retroactively or prospectively,

Table of Contents

could have a material adverse impact on the Company's financial condition or results of operations. If the Company were required to discontinue its use of captives for intercompany reinsurance transactions on a retroactive basis, adverse impacts would include early termination fees payable with respect to certain structures, diminished capital position and higher cost of capital. Additionally, finding alternative means to support policy liabilities efficiently is an unknown factor that would be dependent, in part, on future market conditions and the Company's ability to obtain required regulatory approvals. On a prospective basis, discontinuation of the use of captives could impact the types, amounts and pricing of products offered by the Company's insurance subsidiaries.

Laws, regulations and initiatives related to unreported deaths and unclaimed property and death benefits may result in operational burdens, fines, unexpected payments or escheatments.

Recently, new laws and regulations have been adopted in certain states that require life insurers to search for unreported deaths. The National Conference of Insurance Legislators (NCOIL) has adopted the Model Unclaimed Life Insurance Benefits Act (the Unclaimed Benefits Act) and legislation has been enacted in various states that is similar to the Unclaimed Benefits Act, although each state's version differs in some respects. The Unclaimed Benefits Act would impose new requirements on insurers to periodically compare their in-force life insurance and annuity contracts and retained asset accounts against a Death Database, investigate any potential matches to confirm the death and determine whether benefits are due, and to attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. Other states in which the Company does business may also consider adopting legislation similar to the Unclaimed Benefits Act. The Company cannot predict whether such legislation will be proposed or enacted in additional states. Additionally, the NAIC Unclaimed Life Insurance Benefits (A) Working Group is developing a model unclaimed property law that overlaps with the NCOIL-based laws already adopted in several states. The Uniform Laws Commission is also revising the Uniform Unclaimed Property Act in a manner likely to impact state unclaimed property laws and requirements, though it is not clear at this time to what extent or whether requirements will conflict with otherwise imposed search requirements. Other life insurance industry associations and regulatory associations are also considering these matters.

A number of state treasury departments and administrators of unclaimed property have audited life insurance companies for compliance with unclaimed property laws. The focus of the audits has been to determine whether there have been maturities of policies or contracts, or policies that have exceeded limiting age with respect to which death benefits or other payments under the policies should be treated as unclaimed property that should be escheated to the state. In addition, the audits have sought to identify unreported deaths of insureds. There is no clear basis in previously existing law for treating an unreported death as giving rise to a policy benefit that would be subject to unclaimed property procedures. A number of life insurers, however, have entered into resolution agreements with state treasury departments under which the life insurers agreed to procedures for comparing their previously issued life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest to the state if the beneficiary could not be found. The amounts publicly reported to have been paid to beneficiaries and/or escheated to the states have been substantial.

The NAIC has established an Investigations of Life/Annuity Claims Settlement Practices (D) Task Force to coordinate targeted multi-state examinations of life insurance companies on claims settlement practices. The state insurance regulators on the Task Force have initiated targeted multi-state examinations of life insurance companies with respect to the companies' claims paying practices and use of a Death Database to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement systems and procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest to the state if the beneficiary could not be found. It has been publicly reported that the life insurers have paid substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements.

Certain of the Company's subsidiaries as well as certain other insurance companies from whom the Company has coinsured blocks of life insurance and annuity policies are subject to unclaimed property audits and/or targeted multistate examinations by insurance regulators similar to those described above. It is possible that the audits, examinations and/or the enactment of state laws similar to the Unclaimed Benefits Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, payment of administrative penalties and/or examination fees to state authorities, and changes to the Company's procedures for identifying unreported deaths and escheatment of abandoned property. It is possible any such additional payments and any costs related to changes in Company procedures could materially impact the Company's financial results from operations. It is also possible that life insurers, including the Company, may be subject to claims, regulatory actions, law enforcement actions, and civil litigation arising from their prior business practices. Any resulting liabilities, payments or costs, including initial and ongoing costs of changes to the Company's procedures or

Table of Contents

systems, could be significant and could have a material adverse effect on the Company's financial condition or results of operations.

During December 2012, the West Virginia Treasurer filed actions against the Company's subsidiaries Protective Life Insurance Company and West Coast Life Insurance Company in West Virginia state court (*State of West Virginia ex rel. John D. Perdue v. Protective Life Insurance Company, State of West Virginia ex rel. John D. Perdue v. West Coast Life Insurance Company; Defendants' Motions to Dismiss granted on December 27, 2013; Notice of Appeal filed on January 27, 2014; dismissal reversed by the West Virginia Supreme Court of Appeals on June 16, 2015; Petition for Rehearing filed by Defendant insurance companies denied on September 21, 2015*). The actions, which also name numerous other life insurance companies, allege that the companies violated the West Virginia Uniform Unclaimed Property Act, seek to compel compliance with the Act, and seek payment of unclaimed property, interest, and penalties. While the legal theory or theories that may give rise to liability in the West Virginia Treasurer litigation are uncertain, it is possible that other jurisdictions may pursue similar actions. The Company does not currently believe that losses, if any, arising from the West Virginia Treasurer litigation will be material. The Company cannot, however, predict whether other jurisdictions will pursue similar actions or, if they do, whether such actions will have a material impact on the Company's financial results from operations. Additionally, the California Controller has sued several insurance carriers for alleged failure to comply with audit requests from an appointed third party auditor. The Company cannot predict whether California or other jurisdictions might pursue a similar action against the Company. The Company does not believe however that any such action would have a material impact on the Company's financial condition or results of operations.

The Company is subject to insurance guaranty fund and insurable interest laws, and the laws, rules and regulations of state, federal and foreign regulators that could adversely affect the Company's financial condition or results of operations.

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. The Company cannot predict the amount or timing of any future assessments.

The purchase of life insurance products is limited by state insurable interest laws, which in most jurisdictions require that the purchaser of life insurance name a beneficiary that has some interest in the sustained life of the insured. To some extent, the insurable interest laws present a barrier to the life settlement, or "stranger-owned" industry, in which a financial entity acquires an interest in life insurance proceeds, and efforts have been made in some states to liberalize the insurable interest laws. To the extent these laws are relaxed, the Company's lapse assumptions may prove to be incorrect.

At the federal level, bills are routinely introduced in both chambers of the United States Congress (Congress) that could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, whether the enacted legislation will positively or negatively affect the Company or whether any effects will be material.

The Company's sole stockholder, Dai-ichi Life, is subject to regulation by the Japanese Financial Services Authority (JFSA). Under applicable laws and regulations, Dai-ichi Life is required to provide notice to or obtain the consent of the JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company and its consolidated subsidiaries.

The Healthcare Act and related regulations could adversely affect the results of operations or financial condition of the Company.

The Company is subject to various conditions and requirements of the Patient Protection and Affordable Care Act of 2010 (the Healthcare Act). The Healthcare Act makes significant changes to the regulation of health insurance and may affect the Company in various ways. The Healthcare Act may affect the small blocks of business the Company has offered or acquired over the years that are, or are deemed to constitute, health insurance. The Healthcare Act may also affect the benefit plans the Company sponsors for employees or retirees and their dependents, the Company's expense to provide such benefits, the tax liabilities of the Company in connection with the provision of such benefits, and the Company's ability to attract or retain employees. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. The Company cannot predict the effect that the Healthcare Act, or any regulatory pronouncement made thereunder, will have on its results of operations or financial condition.

Table of Contents

Laws, rules and regulations promulgated in connection with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act may adversely affect the results of operations or financial condition of the Company.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) enacted in July 2010 made sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to the following: the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker-dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareowners, and the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Since the enactment of Dodd-Frank, many regulations have been enacted and others are likely to be adopted in the future that will have an impact upon the Company. Dodd-Frank also created the Financial Stability Oversight Council (the FSOC), which has issued a final rule and interpretive guidance setting forth the methodology by which it will determine whether a non-bank financial company is a systemically important financial institution (SIFI). A non- bank financial company, such as the Company, that is designated as a SIFI by the FSOC will become subject to supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve). The Company is not currently supervised by the Federal Reserve as a SIFI. Such supervision could impact the Company s requirements relating to capital, liquidity, stress testing, limits on counterparty credit exposure, compliance and governance, early remediation in the event of financial weakness and other prudential matters, and in other ways the Company currently cannot anticipate. FSOC-designated non-bank financial companies will also be required to prepare resolution plans, so- called living wills, that set out how they could most efficiently be liquidated if they endangered the U.S. financial system or the broader economy. The FSOC has conducted two rounds of SIFI designation consideration. However, this process is still very new, and the FSOC continues to make changes to its process for designating a company as a SIFI. The FSOC has made its initial SIFI designations, and the Company was not designated as such. However, the Company could be considered and designated at any time. Because the process is in its initial stages, the Company is at this time unable to predict the impact on an entity that is supervised as a SIFI by the Federal Reserve Board. The Company is not able to predict whether the capital requirements or other requirements imposed on SIFIs may impact the requirements applicable to the Company even if it is not designated as a SIFI. The uncertainty about regulatory requirements could influence the Company s product line or other business decisions with respect to some product lines. There is a similarly uncertain international designation process. The Financial Stability Board, appointed by the G-20 Summit, recently designated nine insurers as G-SIIs, or global systemically-important insurers. As with the designation of SIFI s, it is unclear at this time how additional capital, use of non-traditional non-insurance products, and other requirements affect the insurance and financial industries. The insurers designated as G-SIIs to date represent organizations larger than the Company, but the possibility remains that the Company could be so designated.

Additionally, Dodd-Frank created the Consumer Financial Protection Bureau (CFPB), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the United States Securities and Exchange Commission (the SEC) or the U.S. Commodity Futures Trading Commission. CFPB has issued a rule to bring under its supervisory authority certain non-banks whose activities or products it determines pose risks to consumers. It is unclear at this time the extent to which the Company s activities or products will be covered by this rule or how burdensome compliance will become. Certain of the Company s subsidiaries sell products that may be regulated by the CFPB. CFPB continues to bring enforcement actions involving a growing number of issues, including actions brought jointly with state Attorneys General, which could directly or indirectly affect the Company or any of its subsidiaries. Additionally, the CFPB is exploring the possibility of helping Americans manage their retirement savings and is considering the extent of its authority in that area. The Company is unable at this time to predict the impact of these activities on the Company.

Dodd-Frank includes a framework of regulation of over-the-counter (OTC) derivatives markets which requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The types of transactions to be cleared are expected to increase in the future. The new framework could potentially impose additional costs, including increased margin requirements and additional regulation on the Company. Increased margin requirements on the Company s part, combined with restrictions on securities that will qualify as eligible collateral, could continue to reduce its liquidity and require an increase in its holdings of cash and government securities with lower yields causing a reduction in income. The Company uses derivative financial instruments to mitigate a wide range of risks in connection with its businesses, including those arising from its variable annuity products with guaranteed benefit features. The derivative clearing requirements of

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Dodd-Frank could continue to increase the cost of the Company's risk mitigation and expose it to the risk of a default by a clearinghouse with respect to the Company's cleared derivative transactions.

Numerous provisions of Dodd-Frank require the adoption of implementing rules and/or regulations. The process of adopting such implementing rules and/or regulations have in some instances been delayed beyond the timeframes imposed by Dodd-Frank. Until the various final regulations are promulgated pursuant to Dodd-Frank, the full impact of the regulations on

Table of Contents

the Company will remain unclear. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, the Company, its competitors or the entities with which the Company does business. Legislative or regulatory requirements imposed by or promulgated in connection with Dodd-Frank may impact the Company in many ways, including but not limited to the following: placing the Company at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for the Company to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, causing historical market behavior or statistics utilized by the Company in connection with its efforts to manage risk and exposure to no longer be predictive of future risk and exposure or otherwise have a material adverse effect on the overall business climate as well as the Company's financial condition and results of operations.

Regulations recently proposed by the Department of Labor related to the sales of annuities to benefit plans may, if enacted, have a material adverse impact on the Company's ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations.

Broker-dealers, insurance agencies and other financial institutions sell the Company's annuities to employee benefit plans and individual retirement accounts that are governed by the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code. Consequently, our activities and those of such parties are subject to restrictions that require ERISA fiduciaries to perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that prohibit ERISA fiduciaries from causing a covered plan to engage in certain prohibited transactions. In general, the prohibited transaction rules restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Accounts (IRAs) if fees are paid to the individual advisor, his or her firm or their affiliates in respect of the investment recommendation that vary according to the recommendation chosen.

In April 2015, the Department of Labor proposed new regulations that, if enacted, will significantly expand the definition of investment advice and increase the circumstances in which the Company and broker-dealers, insurance agencies and other financial institutions that sell the Company's products could be deemed a fiduciary when providing investment advice with respect to ERISA plans or Individual Retirement Accounts. The Department of Labor also proposed amendments to long standing exemptions from the prohibited transaction provisions under ERISA that would increase fiduciary requirements in connection with transactions involving ERISA plans, plan participants and IRAs, and that would apply more onerous disclosure and contract requirements to such transactions. If the foregoing proposals are adopted, sales of certain of our products may be materially and adversely affected and our current distributors may cease to include our products among their offerings. The Company may find it necessary to change sales representative and/or broker compensation, to limit the assistance or advice it can provide to owners of the Company's annuities, to replace or engage additional distributors, or otherwise change the manner in which it designs and supports sales of its annuities. In addition, the Company may incur significant expenses in connection with initial and ongoing compliance obligations with respect to such rules. The foregoing could have a material adverse impact on our ability to sell annuities and other products, to retain in-force business, and on our financial condition or results of operations.

The Company may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with its business operations.

Certain life insurance policies, contracts, and annuities offered by the Company's subsidiaries are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority (FINRA) examine or investigate the activities of broker-dealers and investment advisors, including the Company's affiliated broker-dealers and investment advisors. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisors doing business through such entities and the entities' supervision of those persons. It is possible that any examination or investigation could lead to enforcement action by the

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regulator and/or may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures of such entities, any of which could have a material adverse effect on the Company's financial condition or results of operations.

In addition, the SEC is reviewing the standard of conduct applicable to brokers, dealers, and investment advisers when those entities provide personalized investment advice about securities to retail customers. FINRA has also issued a report addressing how its member firms might identify and address conflicts of interest including conflicts related to the introduction of new products and services and the compensation of the member firms' associated persons. These regulatory initiatives could have an impact on Company operations and the manner in which broker-dealers and investment advisers distribute the Company's products.

The Company may also be subject to regulation by governments of the countries in which it currently does, or may in the future, do, business, as well as regulation by the U.S. Government with respect to its operations in foreign countries, such as the

Table of Contents

Foreign Corrupt Practices Act. Penalties for violating the various laws governing the Company's business in other countries may include restrictions upon business operations, fines and imprisonment, both within the U.S. and abroad. U.S. enforcement of anti-corruption laws continues to increase in magnitude, and penalties may be substantial.

The Company is subject to conditions and requirements set forth in the Telephone Consumer Protection Act (TCPA) which places restrictions on the use of automated telephone and facsimile machines. Class action lawsuits alleging violations of the act have been filed against a number of companies, including life insurance carriers. These class action lawsuits contain allegations that defendant carriers were vicariously liable for the alleged wrongful conduct of agents who violated the TCPA. Some of the class actions have resulted in substantial settlements against other insurers. Any such actions against the Company could result in a material adverse effect upon our financial condition or results of operations.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting and reserving practices, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, cybersecurity regulation, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws (including laws in Alabama where over half of the Company's employees are located), and because the Company owns and operates real property, state, federal, and local environmental laws. Under some circumstances, severe penalties may be imposed for breach of these laws.

The Company cannot predict what form any future changes to laws and/or regulations affecting participants in the financial services sector and/or insurance industry, including the Company and its competitors or those entities with which it does business, may take, or what effect, if any, such changes may have.

Changes to tax law or interpretations of existing tax law could adversely affect the Company and its ability to compete with non-insurance products or reduce the demand for certain insurance products.

Under the Internal Revenue Code of 1986, as amended (the Code), income taxes payable by policyholders on investment earnings on most life insurance and annuity product are deferred during their accumulation period . This favorable tax treatment provides some of the Company's products with a competitive advantage over products offered by non-insurance companies. To the extent that the Code is revised to either reduce the tax-deferred status of life insurance and annuity products, or to establish the tax-deferred status of competing products, then all life insurance companies, including the Company's subsidiaries, would be adversely affected with respect to their ability to sell their products. Furthermore, depending upon grandfathering provisions, such changes could cause increased surrenders of existing life insurance and annuity products. For example, future legislation that further restricts the deductibility of interest on funds borrowed to purchase corporate-owned life insurance products could result in increased surrenders of these products.

The Company is subject to the federal corporate income tax in the U.S. Certain tax provisions, such as the dividends-received deduction, the deferral of current taxation on derivatives and securities economic income, and the deduction for future policy benefits and claims, are beneficial to the Company. The Obama Administration and Congress have each made proposals that either materially change or eliminate these benefits. Most of the foregoing proposals would cause the Company to pay higher current taxes, offset (in whole or in part) by a reduction in its deferred taxes. However, the proposal regarding the dividends-received deduction would cause the Company's net income to decrease. Whether these proposals will be enacted, and if so, whether they will be enacted as described above, is uncertain.

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The Company's mid-2005 transition from relying on reinsurance for newly-written traditional life products to reinsuring some of these products reserves into its captive insurance companies resulted in a net reduction in its current taxes, offset by an increase in its deferred taxes. The resulting benefit of reduced current taxes is attributed to the applicable life products and is an important component of the profitability of these products. The profitability and competitive position of these products is dependent on the continuation of current tax law and the ability to generate taxable income.

There is general uncertainty regarding the taxes to which the Company and its products will be subject in the future. The Company cannot predict what changes to tax law or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.

Financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments.

A number of judgments have been returned against insurers, broker-dealers, and other providers of financial services involving, among other things, sales, underwriting practices, product design, product disclosure, product administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the company does business, payment of sales or other contingent commissions, and other matters. Often these legal proceedings have resulted in the award of substantial judgments

Table of Contents

that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given legal proceeding. Arbitration awards are subject to very limited appellate review. In addition, in some legal proceedings, companies have made material settlement payments. In some instances, substantial judgments may be the result of a party's perceived ability to satisfy such judgments as opposed to the facts and circumstances regarding the claims.

Group health coverage issued through associations and credit insurance coverages have received some negative publicity in the media as well as increased regulatory consideration and review and litigation. The Company has a small closed block of group health insurance coverage that was issued to members of an association.

A number of lawsuits and investigations regarding the method of paying claims have been initiated against life insurers. The Company offers payment methods that may be similar to those that have been the subject of such lawsuits and investigations.

The Company, like other financial services companies in the ordinary course of business, is involved in legal proceedings and regulatory actions. The occurrence of such matters may become more frequent and/or severe when general economic conditions have deteriorated. The Company may be unable to predict the outcome of such matters and may be unable to provide a reasonable range of potential losses. Given the inherent difficulty in predicting the outcome of such matters, it is possible that an adverse outcome in certain such matters could be material to the Company's results for any particular reporting period.

The financial services and insurance industries are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

The financial services and insurance industries are 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 other actions resulting from such investigations. Resulting publicity about one company may generate inquiries into or litigation against other financial service providers, even those who do not engage in the business lines or practices at issue in the original action. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of such scrutiny on the financial services and insurance industry or the Company. From time to time, the Company receives subpoenas, requests, or other inquiries and responds to them in the ordinary course of business.

New accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact the Company.

The Company is required to comply with accounting principles generally accepted in the United States (GAAP). A number of organizations are instrumental in the development and interpretation of GAAP such as the SEC, the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. The Company can give no assurance that

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future changes to GAAP will not have a negative impact on the Company. GAAP includes the requirement to carry certain assets and liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in the Company's financial statements.

The FASB is working on several projects that could result in significant changes to GAAP. Furthermore, the SEC is considering whether and how to incorporate International Financial Reporting Standards (IFRS) into the U.S. financial reporting system. While the SEC has indicated that it does not intend to take action on IFRS in the near term, these potential changes would impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure. Such changes would affect how we manage our business, as it will likely affect business processes such as the design of products and compensation plans. The Company is unable to predict whether, and if so, when the FASB projects will be adopted and/or implemented, or the degree to which IFRS will be incorporated into the U.S. financial reporting system.

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles (SAP). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals either are currently or have previously been pending before committees

Table of Contents

and task forces of the NAIC, some of which, if enacted, would negatively affect the Company. The NAIC is also currently working to reform model regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and, if so, whether the enacted reforms will positively or negatively affect the Company. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. The Company cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of the Company's insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. The Company can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on the Company. For additional information regarding pending NAIC reforms, please see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

If our business does not perform well, we may be required to recognize an impairment of our goodwill and indefinite lived intangible assets which could adversely affect our results of operations or financial condition.

Goodwill is the excess of the purchase price in an acquisition over the estimated fair value of net assets acquired. Goodwill is not amortized but is tested for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that the fair value of the operating unit may be less than the carrying value of that operating unit. We perform our annual goodwill impairment testing during the fourth quarter of each year based upon data as of the close of the third quarter. Impairment testing is performed using the fair value approach, which requires the use of estimates and judgment, at the operating segment level.

The estimated fair value of the operating segment is impacted by the performance of the business, which may be adversely impacted by prolonged market declines or other circumstances. If it is determined that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write downs could have an adverse effect on our results of operations or financial position. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Goodwill*, and notes 2 and 9 of the notes to the consolidated financial statements for additional information.

The Company's indefinite lived intangible assets represent the value of the Company's insurance licenses on the date of the Merger. These assets are not amortized but are tested for impairment at least annually or more frequently if events or circumstances indicate that the fair value of the indefinite lived intangibles is less than the carrying value. We perform our annual impairment testing of indefinite lived intangibles during the fourth quarter of each year. Impairment testing is performed using the fair value approach, which requires the use of estimates and judgment. If it is determined that the indefinite lived intangibles have been impaired, we must write them down by the amount of the impairment, with a corresponding charge to net income. Such write downs could have an adverse effect on our results of operations or financial position.

The use of reinsurance introduces variability in the Company's statements of income.

The timing of premium payments to and receipt of expense allowances from reinsurers differs from the Company's receipt of customer premium payments and incurrence of expenses. These timing differences introduce variability in certain components of the Company's statements of income and may also introduce variability in the Company's quarterly financial results.

The Company's reinsurers could fail to meet assumed obligations, increase rates, terminate agreements or be subject to adverse developments that could affect the Company.

The Company and its insurance subsidiaries cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets or other issues, the Company remains liable with respect to ceded insurance should any reinsurer fail to meet the assumed obligations. Therefore, the failure, insolvency, or inability or unwillingness to pay under the terms of the reinsurance agreement with the Company of one or more of the Company's reinsurers could negatively impact the Company's earnings and financial position.

The Company's results and its ability to compete are affected by the availability and cost of reinsurance. Premium rates charged by the Company are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, a reinsurer may increase the rate it charges the Company for the reinsurance, including rates for new policies the Company is issuing and rates related to policies that the Company has already issued. The Company may not be able to increase the premium rates it charges for policies it has already issued, and for competitive reasons it may not be able to

Table of Contents

raise the premium rates it charges for new policies to offset the increase in rates charged by reinsurers. If the cost of reinsurance were to increase, if reinsurance were to become unavailable, if alternatives to reinsurance were not available to the Company, or if a reinsurer should fail to meet its obligations, the Company could be adversely affected.

In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market results in increased concentration of risk for insurers, including the Company. If the reinsurance market further contracts, the Company's ability to continue to offer its products on terms favorable to it could be adversely impacted.

In addition, reinsurers are facing many challenges regarding illiquid credit and/or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions, and other factors negatively impacting the financial services industry. Concerns over the potential default on the sovereign debt of several European Union member states, and its impact on the European financial sector have increased liquidity concerns, particularly for those reinsurers with significant exposure to European capital and/or credit markets. If such events cause a reinsurer to fail to meet its obligations, the Company would be adversely impacted.

The Company has implemented a reinsurance program through the use of captive reinsurers. Under these arrangements, an insurer owned by the Company serves as the reinsurer, and the consolidated books and tax returns of the Company reflect a liability consisting of the full reserve amount attributable to the reinsured business. The success of the Company's captive reinsurance program is dependent on a number of factors outside the control of the Company, including continued access to financial solutions, a favorable regulatory environment, and the overall tax position of the Company. If the captive reinsurance program is not successful, the Company's financial condition could be adversely impacted.

The Company's policy claims fluctuate from period to period resulting in earnings volatility.

The Company's results may fluctuate from period to period due to fluctuations in the amount of policy claims received. In addition, certain of the Company's lines of business may experience higher claims if the economy is growing slowly or in recession, or if equity markets decline. Also, insofar as the Company continues to retain a larger percentage of the risk of newly written life insurance products than it has in the past, its financial results may have greater variability due to fluctuations in mortality results.

The Company operates in a mature, highly competitive industry, which could limit its ability to gain or maintain its position in the industry and negatively affect profitability.

The insurance industry is a mature and highly competitive industry. In recent years, the industry has experienced reduced growth in life insurance sales. The Company encounters significant competition in all lines of business from other insurance companies, many of which have greater financial resources and higher ratings than the Company and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have different profitability expectations than the Company. The Company also faces competition from other providers of financial services. Competition could result in, among other things, lower sales or higher lapses of existing products. Consolidation and expansion among banks, insurance companies, distributors, and other financial service companies with which the Company does business could also have an adverse effect on the Company's financial condition and results of operations if such companies require more favorable terms than previously offered to the Company or if such companies elect not to continue to do business with the Company following consolidation or expansion.

The Company's ability to compete is dependent upon, among other things, its ability to attract and retain distribution channels to market its insurance and investment products, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate ratings from rating agencies. As technology evolves, comparison of a particular product of any company for a particular customer with competing products for that customer is more readily available, which could lead to increased competition as well as agent or customer behavior, including persistency that differs from past behavior.

The Company's ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business.

The Company's ability to maintain competitive unit costs is dependent upon a number of factors, such as the level of new sales, persistency of existing business, and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher unit costs. Additionally, a decrease in persistency of existing business may result in higher or more rapid amortization of deferred policy acquisition costs and thus higher unit costs and lower reported earnings. Although many of the Company's products contain surrender charges, the charges decrease over time and may not be sufficient to cover the unamortized deferred policy acquisition costs with respect to the insurance policy or annuity contract being

Table of Contents

surrendered. Some of the Company's products do not contain surrender charge features and such products can be surrendered or exchanged without penalty. A decrease in persistency may also result in higher claims.

The Company may not be able to protect its intellectual property and may be subject to infringement claims.

The Company relies on a combination of contractual rights and copyright, trademark, patent, and trade secret laws to establish and protect its intellectual property. Although the Company uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. The Company may have to litigate to enforce and protect its copyrights, trademarks, patents, trade secrets, and know-how or to determine their scope, validity, or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of the Company's intellectual property assets could have a material adverse effect on its business and ability to compete.

The Company also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon that party's intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by the Company's products, methods, processes, or services. Any party that holds such a patent could make a claim of infringement against the Company. The Company may also be subject to claims by third parties for breach of copyright, trademark, trade secret, or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If the Company were found to have infringed third party patent or other intellectual property rights, it could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to its customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets, or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on the Company's business, results of operations, and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's home office is located at 2801 Highway 280 South, Birmingham, Alabama. The Company owns two buildings consisting of 310,000 square feet. The first building was constructed in 1974 and the second building was constructed in 1982. Additionally, the Company leases a third 310,000 square-foot building constructed in 2004. Parking is provided for approximately 2,594 vehicles.

The Company leases administrative and marketing office space in 17 cities, including 24,090 square feet in Birmingham (excluding the home office building), with most leases being for periods of three to ten years. The aggregate annualized rent is approximately \$6.3 million.

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The Company believes its properties are adequate and suitable for the Company's business as currently conducted and are adequately maintained. The above properties do not include properties the Company owns for investment only.

Item 3. Legal Proceedings

To the knowledge and in the opinion of management, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company, to which the Company or any of its subsidiaries is a party or of which any of our properties is the subject. For additional information regarding legal proceedings see Item 1A, *Risk Factors*, and Note 13, *Commitments and Contingencies*, of the notes to the consolidated financial statements, each included herein.

Item 4. Mine Safety Disclosure Not Applicable

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

As of February 1, 2015 the Company became a wholly owned subsidiary of Dai-ichi Life, and as a result there is no market for our Common Stock, of which all shares are owned by Dai-ichi Life. Prior to February 1, 2015 the Company's Common Stock was listed on the New York Stock Exchange, but was delisted in connection with our becoming a wholly owned subsidiary of Dai-ichi Life.

On December 31, 2014 (Predecessor Company), there were approximately 1,019 owners of record of the Company's common stock.

The Company did not pay any dividends during the period of February 1, 2015 to December 31, 2015 to its parent, Dai-ichi Life. In the future, the Company expects to pay cash dividends to its parent, Dai-ichi Life, subject to its earnings and financial condition, regulatory requirements, capital needs, and other relevant factors. The Company's ability to pay cash dividends is dependent in part on cash dividends received by the Company from its life insurance subsidiaries. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Liquidity and Capital Resources* included herein. Such subsidiary dividends are restricted by the various insurance laws of the states in which the subsidiaries are domesticated. See Item 1, *Business*, *Regulation*. The historical trading ranges of the Company's equity shares and related dividends are set forth below for the noted periods.

		High	Range	Low		Dividends
2014						
First Quarter	\$	53.86		\$ 46.34	\$	0.200
Second Quarter		69.72		48.95		0.240
Third Quarter		69.69		69.20		0.240
Fourth Quarter		69.97		69.15		0.240

Purchases of Equity Securities by the Issuer

During the year ended December 31, 2014 (Predecessor Company), the Company did not repurchase any of its common stock.

Table of Contents**Item 6. Selected Financial Data**

	Successor Company		Predecessor Company				
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	2014 (Dollars In Thousands, Except Per Share Amounts)	2013	2012	2011	
INCOME STATEMENT DATA							
Premiums and policy fees	\$ 3,008,050	\$ 261,866	\$ 3,297,768	\$ 2,981,651	\$ 2,814,278	\$ 2,800,140	
Reinsurance ceded	(1,154,978)	(89,956)	(1,373,597)	(1,377,195)	(1,345,836)	(1,394,675)	
Net of reinsurance ceded	1,853,072	171,910	1,924,171	1,604,456	1,468,442	1,405,465	
Net investment income	1,632,948	175,180	2,197,724	1,918,081	1,862,332	1,820,643	
Realized investment gains (losses):							
Derivative financial instruments	29,997	(123,274)	(346,878)	188,131	(238,480)	(155,251)	
All other investments	(166,886)	81,153	205,402	(123,537)	231,035	234,915	
Other-than-temporary impairment losses	(28,659)	(636)	(2,589)	(10,941)	(66,188)	(62,332)	
Portion recognized in other comprehensive income (before taxes)	1,666	155	(4,686)	(11,506)	7,302	14,890	
Net impairment losses recognized in earnings	(26,993)	(481)	(7,275)	(22,447)	(58,886)	(47,442)	
Other income	388,531	36,421	430,428	394,315	358,563	307,812	
Total revenues	3,710,669	340,909	4,403,572	3,958,999	3,623,006	3,566,142	
Total benefits and expenses	3,310,827	339,727	3,820,283	3,368,626	3,170,035	3,095,666	
Income tax expense (benefit)	131,543	(327)	198,414	196,909	150,519	154,839	
Net income	268,299	1,509	384,875	393,464	302,452	315,637	
Less: Net income attributable to noncontrolling interests						245	
Net income available to PLC s common shareowners(1)	\$ 268,299	\$ 1,509	\$ 384,875	\$ 393,464	\$ 302,452	\$ 315,392	
PER SHARE DATA							
Net income from continuing operations basic		\$ 0.02	\$ 4.81	\$ 4.96	\$ 3.73	\$ 3.70	
Net income available to PLC s common shareowners basic		\$ 0.02	\$ 4.81	\$ 4.96	\$ 3.73	\$ 3.70	
Average shares outstanding basic		80,452,848	80,065,217	79,395,622	81,066,338	85,208,612	
Net income from continuing operations diluted		\$ 0.02	\$ 4.73	\$ 4.86	\$ 3.66	\$ 3.65	
Net income available to PLC s common shareowners diluted		\$ 0.02	\$ 4.73	\$ 4.86	\$ 3.66	\$ 3.65	
Average shares outstanding diluted		81,759,287	81,375,496	80,925,713	82,723,016	86,475,229	
Cash dividends paid		\$	\$ 0.92	\$ 0.78	\$ 0.70	\$ 0.62	
Total Protective Life Corporation s Shareowners Equity		\$ 68.49	\$ 62.58	\$ 47.28	\$ 59.06	\$ 45.45	

Successor Company
As of December 31,

Predecessor Company
As of December 31,

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	2015 (Dollars In Thousands)	2014	2013 (Dollars In Thousands)	2012	2011
BALANCE SHEET DATA					
Total assets	\$ 68,488,697	\$ 70,480,306	\$ 68,757,363	\$ 57,384,672	\$ 52,143,369
Total stable value products and annuity account balances	12,851,684	12,910,217	13,684,805	13,169,022	13,716,358
Non-recourse funding obligations	685,684	582,404	562,448	586,000	407,800
Debt	1,588,806	1,300,000	1,585,000	1,400,000	1,520,000
Subordinated debt securities	448,763	540,593	540,593	540,593	524,743
Total Protective Life Corporation's shareowner's equity	4,581,224	4,964,884	3,714,794	4,615,183	3,711,517

(1) Protective Life Corporation (PLC)

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated audited financial statements and related notes included herein.

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

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

IMPORTANT INVESTOR INFORMATION

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

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

OVERVIEW

Our Business

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

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

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

- ***Life Marketing*** We market fixed universal life (UL), indexed universal life (IUL), variable universal life (VUL), bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a

Table of Contents

national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.

- **Acquisitions** We focus on acquiring, converting, and servicing policies from other companies. This segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.
- **Annuities** We market fixed and variable annuity (VA) products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- **Stable Value Products** We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank (FHLB), and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. During 2015, we terminated our SEC registered funding agreement-backed notes program and established a new unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.
- **Asset Protection** We market extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, recreational vehicles, watercraft, and powersports. In addition, this segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.
- **Corporate and Other** The Corporate and Other segment primarily consists of net investment income on assets supporting our equity capital, unallocated corporate overhead and expenses not attributable to the segments above (including interest on corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of obligations and debt on the open market.

RECENT DEVELOPMENTS

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the Master Agreement), with Genworth Life and Annuity Insurance Company (GLAIC), as previously reported in the Company's Current Reports on

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Form 8-K filed October 1, 2015 and January 15, 2016. Pursuant to the Master Agreement, on January 15, 2016, PLICO entered into a reinsurance agreement (the Reinsurance Agreement) under the terms of which PLICO coinsures certain term life insurance business of GLAIC (the GLAIC Block). In connection with the reinsurance transaction, on January 15, 2016, Golden Gate Captive Insurance Company (Golden Gate), a wholly owned subsidiary of PLICO, and Steel City, LLC (Steel City), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance \$2.188 billion of XXX reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life Insurance Company (WCL), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of \$2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of \$2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the Risk-Takers) provide credit enhancement to the Steel City notes for the 18-year term in exchange for credit enhancement fees. The transaction is non-recourse to PLICO, WCL and the Company, meaning that none of these companies are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. 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 or Steel City, including a guarantee of the fees to the Risk-Takers. The estimated average annual expense of the credit enhancement under generally accepted accounting principles is approximately \$3.1 million, after-tax. As a result of the financing transaction described above, the \$800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes. Also on January 15, 2016, Golden Gate paid an extraordinary dividend of \$300 million to PLICO as approved by the Vermont Department of Regulation.

Table of Contents

RISKS AND UNCERTAINTIES

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

General

- we are controlled by Dai-ichi Life, which has the ability to make important decisions affecting our business;
- exposure to the risks of natural and man-made disasters, catastrophes, diseases, epidemics, pandemics, malicious acts, terrorist acts and climate change could adversely affect our operations and results;
- a disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect our business, financial condition and results of operations;
- confidential information maintained in the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- assets allocated to the MONY Closed Block benefit only the holders of certain policies; adverse performance of Closed Block assets or adverse experience of Closed Block liabilities may negatively affect us;
- we are dependent on the performance of others;
- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;

Financial Environment

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- interest rate fluctuations and sustained periods of low interest rates could negatively affect our interest earnings and spread income, or otherwise impact our business;
- our investments are subject to market and credit risks, which could be heightened during periods of extreme volatility or disruption in financial and credit markets;
- equity market volatility could negatively impact our business;
- our use of derivative financial instruments within our risk management strategy may not be effective or sufficient;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;
- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult general economic conditions could materially adversely affect our business and results of operations;
- we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- we could be adversely affected by an inability to access FHLB lending;
- our financial condition or results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience;
- adverse actions of certain funds or their advisers could have a detrimental impact on our ability to sell our variable life and annuity products, or maintain current levels of assets in those products;
- the amount of statutory capital that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations;

Industry and Regulation

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- we are highly regulated and are subject to routine audits, examinations, and actions by regulators, law enforcement agencies, and self-regulatory organizations;
- we may be subject to regulations influenced by or related to international regulatory authorities or initiatives;
- NAIC actions, pronouncements and initiatives may affect our product profitability, reserve and capital requirements, financial condition or results of operations;

Table of Contents

- regulatory actions, interpretations and pronouncements related to Actuarial Guidelines XXXVIII may have an adverse effect on our ability to sell certain universal life products and reserving requirements;
- our use of captive reinsurance companies to finance statutory reserves related to our term and universal life products and to reduce volatility affecting our variable annuity products, may be limited or adversely affected by regulatory action, pronouncements and interpretations;
- laws, regulations and initiatives related to unreported deaths and unclaimed property and death benefits may result in operational burdens, fines, unexpected payments or escheatments;
- we are subject to insurance guaranty fund and insurable interest laws, and the laws, rules and regulations of state, federal and foreign regulators that could adversely affect our financial condition or results of operations;
- the Healthcare Act and related regulations could adversely affect our results of operations or financial condition;
- laws, rules and regulations promulgated in connection with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act may adversely affect our results of operations or financial condition;
- regulations recently proposed by the Department of Labor related to the sales of annuities to benefit plans may, if enacted, have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operation;
- we may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with our business operations;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- the financial services and insurance industries are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- if our business does not perform well, we may be required to recognize an impairment of our goodwill and indefinite lived intangible assets which could adversely affect our results of operations or financial condition;
- use of reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates, terminate agreements, or be subject to adverse developments that could affect us;

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

For more information about the risks, uncertainties, and other factors that could affect our future results, please see Item 1A, *Risk Factors*, of this report.

CRITICAL ACCOUNTING POLICIES

Our accounting policies require the use of judgments relating to a variety of assumptions and estimates, including, but not limited to expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of investments, securities, and certain intangible assets. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated financial statements. A discussion of our various critical accounting policies is presented below.

Fair value of financial instruments FASB guidance defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term fair value in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 2, *Summary of Significant Accounting Policies* and Note 23, *Fair Value of Financial Instruments*, to the consolidated financial statements included in this report.

Available-for-sale securities and trading account securities are recorded at fair value, which is primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value for these securities. Market price quotes may not be readily available for some positions or for some positions within a market sector where trading activity has slowed significantly or ceased. These situations are generally triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial position, changes in credit ratings, and cash flows on the investments. As of December 31, 2015

Table of Contents

(Successor Company), \$1.7 billion of available-for-sale and trading account assets, excluding other long-term investments, were classified as Level 3 fair value assets.

The liabilities of certain of our annuity account balances are calculated at fair value using actuarial valuation models. These models use various observable and unobservable inputs including projected future cash flows, policyholder behavior, a measure of the Company's non-performance risk, and other market conditions. As of December 31, 2015 (Successor Company), the Level 3 fair value of these liabilities was \$92.5 million.

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

Derivatives - We utilize a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure certain risks, including but not limited to, interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. Assessing the effectiveness of the hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. The fair values of most of our derivatives are determined using exchange prices or independent broker quotes, but certain derivatives, including embedded derivatives, are valued based upon industry standard models which calculate the present-value of the projected cash flows of the derivatives using current and implied future market conditions. These models include market-observable estimates of volatility and interest rates in the determination of fair value. The use of different assumptions may have a material effect on the estimated fair value amounts, as well as the amount of reported net income. In addition, measurements of ineffectiveness of hedging relationships are subject to interpretations and estimations, and any differences may result in material changes to our results of operations. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources. Estimation risk is greater for derivative financial instruments that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price, or index scenarios are used in determining fair values. As of December 31, 2015 (Successor Company), the fair value of derivatives reported on our balance sheet in other long-term investments and other liabilities was \$352.0 million and \$629.6 million, respectively. Of those derivative assets and liabilities, \$96.8 million and \$585.6 million, respectively, were Level 3 fair values determined by quantitative models.

Evaluation of Other-Than-Temporary Impairments One of the significant estimates related to available-for-sale and

held-to-maturity securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale or held-to-maturity security is judged to be other-than-temporary, the security's basis is adjusted, and an other-than-temporary impairment is recognized through a charge in the statement of income. The portion of this other-than-temporary impairment related to credit losses on a security is recognized in earnings, while the non-credit portion, representing the difference between fair value and the discounted expected future cash flows of the security, is recognized within other comprehensive income (loss). The fair value of the other-than-temporarily impaired investment becomes its new cost basis on the date an other-than-temporary impairment is recognized. For fixed maturities, we accrete the new cost basis to par or to the estimated future value over the expected remaining life of the security by adjusting the security's future yields, assuming that future expected cash flows on the securities can be properly estimated.

Determining whether a decline in the current fair value of invested assets is other-than-temporary is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. For example, assessing the value of certain investments requires that we perform an analysis of expected future cash flows, including rates of prepayments. Other investments, such as collateralized mortgage or bond obligations, represent selected tranches of a structured transaction, supported in the aggregate by underlying investments in a wide variety of issuers. Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Although it is possible for the impairment of one investment to affect other investments, we engage in ongoing risk management to safeguard against and limit any further risk to our investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets.

Table of Contents

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

Each quarter we review investments with unrealized losses and test for other-than-temporary impairments. We analyze various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of our intent to sell the security (including a more likely than not assessment of whether we will be required to sell the security) before recovering the security's amortized cost, 5) the duration of the decline, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, and in some cases, an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security's basis is adjusted, and an other-than-temporary impairment is recognized. Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that we do not intend to sell and do not expect to be required to sell before recovering the security's amortized cost are written down to discounted expected future cash flows (post impairment cost), and credit losses are recorded in earnings. The difference between the securities' discounted expected future cash flows and the fair value of the securities on the impairment date is recognized in other comprehensive income (loss) as a non-credit portion impairment. When calculating the post impairment cost for residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS), we consider all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, we consider all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that we intend to sell or expect to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the years ended December 31, 2014 and 2013 (Predecessor Company), we recorded pre-tax other-than-temporary impairments of investments of \$28.7 million, \$0.6 million, \$2.6 million, and \$10.9 million, respectively. Credit impairments recorded in earnings during the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the year ended December 31, 2014 and 2013 (Predecessor Company) were \$27.0 million, \$0.5 million, \$7.3 million, and \$22.4 million, respectively.

During the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the year ended December 31, 2014 (Predecessor Company), there were no other-than-temporary impairments related to equity securities. For the year ended December 31, 2013 (Predecessor Company), there were \$3.3 million of other-than-temporary impairments related to equity securities. During the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the years ended December 31, 2014 and 2013 (Predecessor Company), there were \$28.7 million, \$0.6 million, \$2.6 million, and \$7.6 million of other-than-temporary impairments related to debt securities, respectively.

During the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the years ended December 31, 2014 and 2013 (Predecessor Company), there were no other-than-temporary

impairments related to fixed maturities or equity securities that we intend to sell or expect to be required to sell.

Our specific accounting policies related to our invested assets are discussed in Note 2, *Summary of Significant Accounting Policies*, and Note 6, *Investment Operations*, to the consolidated financial statements. As of December 31, 2015 (Successor Company), we held \$32.9 billion of available-for-sale investments, including \$30.3 billion in investments with a gross unrealized loss of \$2.9 million, and \$593.3 million of held-to-maturity investments with a gross unrealized loss of \$78.3 million.

Reinsurance For each of our reinsurance contracts, we must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. We must review all contractual features, particularly those that may limit the amount of insurance risk to which we are subject or features that delay the timely

Table of Contents

reimbursement of claims. If we determine that the possibility of a significant loss from insurance risk will occur only under remote circumstances, we record the contract under a deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on our consolidated balance sheets. Fees earned on the contracts are reflected as other revenues, as opposed to premiums, in our consolidated statements of income.

Our reinsurance is ceded to a diverse group of reinsurers. The collectability of reinsurance is largely a function of the solvency of the individual reinsurers. We perform periodic credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends, and commitment to the reinsurance business. We also require assets in trust, letters of credit, or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer's insolvency, inability, or unwillingness to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition. As of December 31, 2015 (Successor Company), our third party reinsurance receivables amounted to \$5.5 billion. These amounts include ceded reserve balances and ceded benefit payments.

We account for reinsurance as required by Financial Accounting Standards Board (FASB) guidance under the ASC Financial Services Topic as applicable. In accordance with this guidance, costs for reinsurance are amortized as a level percentage of premiums for traditional life products and a level percentage of estimated gross profits for universal life products. Accordingly, ceded reserve and deferred acquisition cost balances are established using methodologies consistent with those used in establishing direct policyholder reserves and deferred acquisition costs. Establishing these balances requires the use of various assumptions including investment returns, mortality, persistency, and expenses. The assumptions made for establishing ceded reserves and ceded deferred acquisition costs are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs.

Assumptions are also made regarding future reinsurance premium rates and allowance rates. Assumptions made for mortality, persistency, and expenses are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs. Assumptions made for future reinsurance premium and allowance rates are consistent with rates provided for in our various reinsurance agreements. For certain of our reinsurance agreements, premium and allowance rates may be changed by reinsurers on a prospective basis, assuming certain contractual conditions are met (primarily that rates are changed for all companies with which the reinsurer has similar agreements). We do not anticipate any changes to these rates and, therefore, have assumed continuation of these non-guaranteed rates. To the extent that future rates are modified, these assumptions would be revised and both current and future results would be affected. For traditional life products, assumptions are not changed unless projected future revenues are expected to be less than future expenses. For universal life products, assumptions are periodically updated whenever actual experience and/or expectations for the future differ from that assumed. When assumptions are updated, changes are reflected in the income statement as part of an unlocking process. During the period of February 1, 2015 to December 31, 2015 (Successor Company), we adjusted our estimates of future reinsurance costs in both the Acquisitions and Life Marketing segments, resulting in an immaterial impact.

Deferred Acquisition Costs and Value of Business Acquired In conjunction with the Merger, a portion of the purchase price was allocated to the right to receive future gross profits from cash flows and earnings of the Company's insurance policies and investment contracts as of the date of the Merger. This intangible asset, called value of business acquired (VOBA), is based on the actuarially estimated present value of future cash flows from the Company's insurance policies and investment contracts in-force on the date of the Merger. The estimated present value of future cash flows used in the calculation of the VOBA is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. The Company amortizes VOBA in proportion to gross premiums for traditional life products, or estimated gross margins (EGMs) for participating traditional life products within the MONY block. For interest sensitive products, the Company uses various amortization bases including expected gross profits (EGPs), revenues, or insurance in-force. VOBA amortization included accrued interest credited to account balances of up to approximately 8%. VOBA is subject to annual recoverability testing.

We incur significant costs in connection with acquiring new insurance business. Portions of these costs, which are determined to be incremental direct costs associated with successfully acquired policies and coinsurance of blocks of policies, are deferred and amortized over future periods. The recovery of such costs is dependent on the future profitability of the related policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These costs are amortized over the expected lives of the contracts, based on the level and timing of either gross profits or gross premiums, depending on the type of contract. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts. As of December 31, 2015 (Successor Company), we had a deferred acquisition costs (DAC) and VOBA asset of \$1.6 billion.

We periodically review and update as appropriate our key assumptions on certain life and annuity products including future mortality, expenses, lapses, premium persistency, investment yields, and interest spreads. For products in which DAC and VOBA are amortized over estimated gross profits, changes to these assumptions result in adjustments which increase or

Table of Contents

decrease DAC and VOBA amortization and/or benefits and expenses. When we refer to DAC and VOBA amortization unlocking, we are referring to changes in balance sheet components amortized over estimated gross profits.

Goodwill 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. We evaluate 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, we first determine 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, we compare our estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We utilize 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. Our material goodwill balances are attributable to certain of our operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of our reporting units are dependent on a number of significant assumptions. Our estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions.

On the date of the Merger, goodwill of \$735.7 million was recognized as the excess of the purchase considerations over the fair value of identifiable assets acquired and liabilities assumed. During the measurement period subsequent to the Merger date, we have made adjustments to provisional amounts related to certain tax balances that resulted in a decrease to goodwill of \$3.3 million from the amount recorded at the Merger date. The balance of goodwill associated with the Merger as of December 31, 2015 (Successor Company) is \$732.4 million. The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of the Company's reporting units below its carrying amount. During the fourth quarter of 2015 (Successor Company), we performed our annual evaluation of goodwill based on information as of September 30, 2015 and determined that no adjustment to impair goodwill was necessary. The Company has assessed whether events have occurred subsequent to September 30, 2015 that would impact our conclusion and no such events were identified. As of December 31, 2015 (Successor Company), we had goodwill of \$732.4 million.

Insurance Liabilities and Reserves Establishing an adequate liability for our obligations to policyholders requires the use of assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency, and other assumptions based on our historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for our property and casualty insurance products also requires the use of assumptions, including the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions that we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments. In addition, we

fair value the liability related to our equity indexed annuity product at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As of December 31, 2015 (Successor Company), we had total policy liabilities and accruals of \$30.4 billion.

Guaranteed Minimum Death Benefits We establish liabilities for guaranteed minimum death benefits (GMDB) on our VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. We assume age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table with company experience. Future declines in the equity market would increase our GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB as of December 31, 2015 (Successor Company), is subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2015 (Successor Company), the GMDB reserve was \$36.4 million.

Guaranteed Minimum Withdrawal Benefits We establish reserves for guaranteed minimum withdrawal benefits (GMWB) on our VA products. The GMWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the embedded derivative to be recorded at fair value using current implied volatilities for the equity indices. The fair value of the GMWB is impacted by equity market conditions and can result in the GMWB embedded derivative being in an overall net asset or net liability position. In times of favorable equity market conditions the likelihood and severity of claims is

Table of Contents

reduced and expected fee income increases. Since claims are generally expected later than fees, these favorable equity market conditions can result in the present value of fees being greater than the present value of claims, which results in a net GMWB embedded derivative asset. In times of unfavorable equity market conditions the likelihood and severity of claims is increased and expected fee income decreases and can result in the present value of claims exceeding the present value of fees resulting in a net GMWB embedded derivative liability. The methods used to estimate the embedded derivatives employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table with company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In conjunction with the Merger, we updated the fair value of the GMWB reserves to reflect current assumptions as of February 1, 2015 (Successor Company). As a result of the application of ASC Topic 805, we reset the hedge premium rates utilized in the valuation for all policies to be equal to the present value of future claims with the reset hedge premium rates being capped at the actual charges to the policyholder. This update resulted in a decrease in the net liability of approximately \$266.1 million on the Merger date. As of December 31, 2015 (Successor Company), our net GMWB liability held was \$181.6 million.

Pension and Other Postretirement Benefits Determining our obligations to employees under our pension plans and other postretirement benefit plans requires the use of assumptions. The calculation of the liability and expense related to our benefit plans incorporates the following significant assumptions:

- appropriate weighted average discount rate;
- estimated rate of increase in the compensation of employees; and
- expected long-term rate of return on the plan's assets.

See Note 16, *Employee Benefit Plans*, to the consolidated financial statements included in this report for further information on this plan.

Stock-Based Payments-Accounting for stock-based compensation plans may require the use of option pricing models to estimate our obligations. Assumptions used in such models relate to equity market movements and volatility, the risk-free interest rate at the date of grant, expected dividend rates, and expected exercise dates. In 2015, following the Merger, the Company's compensation plans were modified to reflect the fact that we no longer have a publicly traded class of stock to use in our compensation programs. See Note 15, *Stock-Based Compensation*, to the consolidated financial statements included in this report for further information.

Deferred Taxes and Uncertain Tax Positions Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to net unrealized gains (losses), deferred policy acquisition costs and value of business acquired, and future policy benefits and claims.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such differences reverse. We evaluate deferred tax assets for impairment quarterly at the taxpaying component level within each tax jurisdiction. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of such assets will not be realized as future reductions of current taxes. In determining the need for a valuation allowance we consider the reversal of existing temporary differences, future taxable income, and tax planning strategies. The determination of any valuation allowance requires management to make certain judgments and assumptions regarding future operations that are based on our historical experience and our expectations of future performance.

The ASC Income Taxes Topic prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an expected or actual uncertain income tax return position and provides guidance on disclosure. Additionally, in order for us to recognize any degree of benefit in our financial statements from such a position, there must be a greater than 50 percent chance of success with the relevant taxing authority with regard to that position. In making this analysis, we assume that the taxing authority is fully informed of all of the facts regarding any issue. Our judgments and assumptions regarding uncertain tax positions are subject to change over time due to the enactment of new legislation, the issuance of revised or new regulations or rulings by the various tax authorities, and the issuance of new decisions by the courts.

Contingent Liabilities The assessment of potential obligations for tax, regulatory, and litigation matters inherently involves a variety of estimates of potential future outcomes. We make such estimates after consultation with our advisors and a review of available facts. However, there can be no assurance that future outcomes will not differ from management's assessments.

Table of Contents

RESULTS OF OPERATIONS

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

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

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

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

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Table of Contents

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

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	For The Year Ended December 31, 2014 2013 (Dollars In Thousands)	
Segment Operating Income (Loss)				
Life Marketing	\$ 57,414	\$ (1,618)	\$ 121,448	\$ 110,298
Acquisitions	194,654	20,134	254,021	154,003
Annuities	180,231	13,164	227,611	184,130
Stable Value Products	56,581	4,529	73,354	80,561
Asset Protection	20,627	2,420	32,480	26,795
Corporate and Other	(25,067)	(10,144)	(56,720)	(40,562)
Total segment operating income	484,440	28,485	652,194	515,225
Realized investment gains (losses) - investments(1)	(185,153)	89,815	207,307	(172,720)
Realized investment gains (losses) - derivatives	100,555	(117,118)	(276,212)	247,868
Income tax (expense) benefit	(131,543)	327	(198,414)	(196,909)
Net income	\$ 268,299	\$ 1,509	\$ 384,875	\$ 393,464
Investment gains (losses)(2)	\$ (193,879)	\$ 80,672	\$ 198,127	\$ (145,984)
Less: amortization related to DAC/VOBA and benefits and settlement expenses	(8,726)	(9,143)	(9,180)	26,736
Realized investment gains (losses) investments	\$ (185,153)	\$ 89,815	\$ 207,307	\$ (172,720)
Derivative gains (losses)(3)	\$ 29,997	\$ (123,274)	\$ (346,878)	\$ 188,131
Less: VA GMWB economic cost	(70,558)	(6,156)	(70,666)	(59,737)
Realized investment gains (losses) derivatives	\$ 100,555	\$ (117,118)	\$ (276,212)	\$ 247,868

(1) Includes credit related other-than-temporary impairments of \$27.0 million, \$0.5 million, \$7.3 million, and \$22.4 million for the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and for the years ended December 31, 2014 and 2013 (Predecessor Company), respectively.

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

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

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

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Net income was \$268.3 million and operating income was \$484.4 million for the period of February 1, 2015 to December 31, 2015.

We experienced net realized losses of \$163.9 million for the period of February 1, 2015 to December 31, 2015 (Successor Company). The losses realized were primarily related to \$27.0 million of other-than-temporary impairment credit-related losses, net losses of \$135.3 million of derivatives related to variable annuity contracts, \$1.3 million of losses related to the net activity of the modified coinsurance portfolio, and net losses of \$1.0 million related to IUL contracts. The net losses on derivatives related to VA contracts in addition to capital market impacts were affected by changes in the lowering of assumed lapses used to value the GMWB embedded derivatives. Partially offsetting these losses were \$0.3 million of gains related to investment securities sale activity, net gains of \$0.1 million of derivatives related to FIA contracts, and net gains of \$0.3 million loss related to other investment and derivative activity.

- Life Marketing segment operating income was \$57.4 million which consisted of universal life operating income of \$54.5 million, traditional life operating income of \$15.9 million, and an operating loss of \$13.0 million in other lines which included \$17.4 million of amortization related intangible assets.
- Acquisitions segment operating income was \$194.7 million. This included expected runoff of the in-force blocks of business.
- Annuities segment operating income was \$180.2 million which included \$83.8 million of fixed annuity operating earnings, \$111.7 million of variable annuity operating earnings, and a \$15.3 million loss in other annuity earnings

Table of Contents

which included \$12.2 million of amortization related to intangible assets. The fixed annuity results were negatively impacted by \$0.8 million of unfavorable SPIA mortality. The segment recorded \$2.4 million of favorable unlocking.

- Stable Value Products operating income of \$56.6 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$23.0 million and the adjusted operating spread, which excludes participating income, was 188 basis points.
- Asset Protection segment operating income was \$20.6 million which consisted of service contract earnings of \$11.1 million, GAP product earnings of \$6.7 million, and credit insurance earnings of \$2.9 million.
- The Corporate and Other segment's \$25.1 million operating loss was primarily due to \$179.0 million of other operating expenses which is primarily interest and corporate overhead expenses. These expenses were partially offset by \$154.1 million of investment income which represents income on assets supporting our equity capital.

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

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

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

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

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- Annuities segment operating income was \$13.2 million. Included in that amount was \$2.8 million of unfavorable SPIA mortality results and \$2.3 million of unfavorable unlocking, primarily related to the VA line of business.
- Stable Value Products operating income was \$4.5 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.1 million and the adjusted operating spread, which excludes participating income, was 276 basis points.
- Asset Protection segment operating income was \$2.4 million which consisted of \$1.3 million in service contract earnings, \$0.9 million in GAP product earnings, and credit insurance earnings of \$0.2 million.
- The Corporate and Other segment s \$10.1 million operating loss was primarily due to \$20.5 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by \$10.7 million of investment income which represents income on assets supporting our equity capital.

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Net income for the year ended December 31, 2014 included a \$137.0 million, or 26.6%, increase in segment operating income. The increase was primarily related to an \$11.2 million increase in the Life Marketing segment, a \$100.0 million increase in the Acquisitions segment, a \$43.5 million increase in the Annuities segment, and a \$5.7 million increase in the Asset Protection segment. These increases were partially offset by a \$7.2 million decrease in the Stable Value Products segment and a \$16.2 million decrease in the Corporate and Other segment.

We experienced net realized losses of \$148.8 million for the year ended December 31, 2014, as compared to net realized gains of \$42.1 million for the year ended December 31, 2013. The losses realized for the year ended December 31, 2014 were primarily related to \$7.3 million for other-than-temporary impairment credit-related losses, net losses of \$235.3 million of derivatives related to VA contracts, net losses of \$6.1 million of derivatives related to fixed indexed annuity (FIA) contracts, and \$13.9 million of losses related to other investment and derivative activity. The net losses on derivatives related to VA contracts were impacted by changes in the policyholder behavior assumptions, primarily the lowering of assumed lapses and increased utilization rates, used to value the GMWB embedded derivatives. Partially offsetting these losses were gains of \$77.0 million related to investment securities sale activity and \$36.7 million of gains related to the net activity of the modified coinsurance portfolio.

Table of Contents

- Life Marketing segment operating income was \$121.4 million for the year ended December 31, 2014, representing an increase of \$11.2 million, or 10.1%, from the year ended December 31, 2013. The increase was primarily due to higher premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional life mortality. These increases were largely offset by less favorable universal life mortality, unfavorable prospective unlocking compared to 2013, and higher operating expenses.
- Acquisitions segment operating income was \$254.0 million for the year ended December 31, 2014 an increase of \$100.0 million, or 64.9%, as compared to the year ended December 31, 2013 primarily due to increased earnings from the MONY acquisition and a favorable change in prospective unlocking of \$16.0 million. The MONY acquisition operating income was \$109.5 million for the year ended December 31, 2014, an increase of \$84.3 million compared to 2013. This increase was due to a full year of MONY results being included in 2014 compared to only one quarter in 2013. Expected runoff offset other favorable items.
- Annuities segment operating income was \$227.6 million for the year ended December 31, 2014, as compared to \$184.1 million for the year ended December 31, 2013, an increase of \$43.5 million, or 23.6%. This increase was a result of higher net policy fees and other income in the VA line, lower credited interest, and a favorable change in SPIA mortality results. These favorable increases were partially offset by an unfavorable change in unlocking and other operating expenses. The segment recorded a favorable \$8.0 million of unlocking for the year ended December 31, 2014, as compared to favorable unlocking of \$13.8 million for the year ended December 31, 2013.
- Stable Value Products operating income was \$73.4 million and decreased \$7.2 million, or 8.9%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The decrease in operating earnings resulted from a decrease in participating mortgage income and a decline in average account values offset by higher operating spreads and lower expenses. Participating mortgage income for the year ended December 31, 2014 was \$4.9 million, as compared to \$12.1 million for the year ended December 31, 2013. The adjusted operating spread, which excludes participating income and other income, increased by 4 basis points for the year ended December 31, 2014 over the prior year.
- Asset Protection segment operating income was \$32.5 million, representing an increase of \$5.7 million, or 21.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Service contract earnings increased \$4.9 million primarily due to lower loss ratios and higher sales. Credit insurance earnings increased \$1.7 million primarily due to lower loss ratios and lower expenses in 2014. Earnings from the GAP product line decreased \$0.9 million primarily resulting from higher loss ratios.
- Corporate and Other segment operating loss was \$56.7 million for the year ended December 31, 2014, as compared to an operating loss of \$40.6 million for the year ended December 31, 2013. The decrease was primarily due to a \$16.9 million unfavorable variance related to other operating expenses, and a \$9.6 million unfavorable variance

related to gains on the repurchase of non-recourse funding obligations. Partially offsetting these negative variances was a \$9.5 million increase in net investment income.

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

Segment results were as follows:

	Successor Company February 1, 2015 to December 31, 2015 (Dollars In Thousands)		Predecessor Company For The Year Ended December 31, 2014 (Dollars In Thousands)	
	January 1, 2015 to January 31, 2015	January 1, 2015 to January 31, 2015	2014	2013
REVENUES				
Gross premiums and policy fees	\$ 1,553,658	\$ 136,068	\$ 1,684,393	\$ 1,634,132
Reinsurance ceded	(671,487)	(51,142)	(830,207)	(838,023)
Net premiums and policy fees	882,171	84,926	854,186	796,109
Net investment income	446,439	47,460	554,004	521,665
Other income	111,497	12,810	128,073	123,155
Total operating revenues	1,440,107	145,196	1,536,263	1,440,929
Realized gains (losses) investments	(13,008)	997	12,931	3,877
Realized gains (losses) derivatives	(1,009)	(598)	157	
Total revenues	1,426,090	145,595	1,549,351	1,444,806
BENEFITS AND EXPENSES				
Benefits and settlement expenses	1,109,341	123,525	1,073,660	1,142,619
Amortization of DAC and VOBA	108,035	4,584	171,782	24,838
Other operating expenses	165,317	18,705	169,373	163,174
Operating benefits and expenses	1,382,693	146,814	1,414,815	1,330,631
Amortization related to benefits and settlement expenses	499	(346)	1,726	513
Amortization of DAC/VOBA related to realized gains (losses) investments	(224)	229	4,025	936
Total benefits and expenses	1,382,968	146,697	1,420,566	1,332,080
INCOME (LOSS) BEFORE INCOME TAX				
	43,122	(1,102)	128,785	112,726
Less: realized gains (losses)	(14,017)	399	13,088	3,877
Less: amortization related to benefits and settlement expenses	(499)	346	(1,726)	(513)
Less: related amortization of DAC/VOBA	224	(229)	(4,025)	(936)
OPERATING INCOME (LOSS)	\$ 57,414	\$ (1,618)	\$ 121,448	\$ 110,298

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Table of Contents

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

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
Sales By Product				
Traditional	\$ 512	\$ 42	\$ 501	\$ 1,293
Universal life	143,969	11,473	129,508	153,428
BOLI	15		22	
	\$ 144,496	\$ 11,515	\$ 130,031	\$ 154,721
Sales By Distribution Channel				
Independent agents	\$ 108,249	\$ 9,027	\$ 98,755	\$ 108,180
Stockbrokers / banks	30,552	2,169	28,588	44,343
Other	5,695	319	2,688	2,198
	\$ 144,496	\$ 11,515	\$ 130,031	\$ 154,721
Average Life Insurance In-force(1)				
Traditional	\$ 380,364,300	\$ 391,411,413	\$ 400,127,927	\$ 424,012,114
Universal life	176,050,239	153,317,720	139,824,061	109,131,467
	\$ 556,414,539	\$ 544,729,133	\$ 539,951,988	\$ 533,143,581
Average Account Values				
Universal life	\$ 7,321,233	\$ 7,250,973	\$ 7,178,418	\$ 6,965,424
Variable universal life	586,840	574,257	559,566	475,064
	\$ 7,908,073	\$ 7,825,230	\$ 7,737,984	\$ 7,440,488

(1) Amounts are not adjusted for reinsurance ceded.

Operating Expenses Detail

Other operating expenses for the segment were as follows:

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
Insurance companies:				
First year commissions	\$ 163,229	\$ 14,109	\$ 154,263	\$ 169,619

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Renewal commissions	31,773	2,513	31,824	34,855
First year ceding allowances	(2,716)	(49)	(2,309)	(4,139)
Renewal ceding allowances	(153,112)	(12,364)	(148,599)	(167,853)
General & administrative	192,686	17,467	180,981	175,641
Taxes, licenses, and fees	28,722	2,508	28,192	36,823
Other operating expenses incurred	260,582	24,184	244,352	244,946
Less: commissions, allowances and expenses capitalized	(201,951)	(17,059)	(196,643)	(198,661)
Other insurance company operating expenses	58,631	7,125	47,709	46,285
Marketing companies:				
Commissions	78,211	8,233	90,496	86,342
Other operating expenses	28,475	3,347	31,168	30,547
Other marketing company operating expenses	106,686	11,580	121,664	116,889
Other operating expenses	\$ 165,317	\$ 18,705	\$ 169,373	\$ 163,174

Table of Contents

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

Net Premiums and Policy Fees

Net premiums and policy fees were \$882.2 million for the period of February 1, 2015 to December 31, 2015. Included in this amount are traditional life net premiums of \$426.9 million and universal life policy fees of \$454.8 million.

Net Investment Income

Net investment income was \$446.4 million for the period of February 1, 2015 to December 31, 2015. Included in this amount is traditional life net investment income of \$59.5 million and universal life investment income of \$376.0 million.

Other Income

Other income was \$111.5 million for the period of February 1, 2015 to December 31, 2015. This amount is primarily comprised of revenue in the segment's non-insurance operations.

Benefits and Settlement Expenses

Benefit and settlement expenses were \$1.1 billion for the period of February 1, 2015 to December 31, 2015. This amount includes traditional life benefit and settlement expenses of \$348.4 million and universal life benefit and settlement expenses of \$757.9 million, including \$288.3 million of interest on funds for universal life policies. For the period of February 1, 2015 to December 31, 2015, universal life and BOLI unlocking increased policy benefits and settlement expenses \$1.6 million and was largely driven by assumption changes to lapses and yields.

Amortization of DAC and VOBA

DAC and VOBA amortization was \$108.0 million for the period of February 1, 2015 to December 31, 2015. For the same period, universal life and BOLI unlocking decreased amortization \$1.9 million.

Other Operating Expenses

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Other operating expenses were \$165.3 million for the period of February 1, 2015 to December 31, 2015. Other operating expenses for the insurance companies reflect commissions of \$195.0 million, general and administrative expenses of \$192.7 million, and taxes, licenses, and fees of \$28.7 million, partly offset by ceding allowances of \$155.8 million and capitalization of \$202.0 million. Marketing company expenses were \$106.7 million for the period of February 1, 2015 to December 31, 2015.

Sales

Sales for the segment were \$144.5 million for the period of February 1, 2015 to December 31, 2015, comprised primarily of universal life sales.

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

Net Premiums and Policy Fees

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

Net Investment Income

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

Other Income

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

Benefits and Settlement Expenses

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

Table of Contents

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income

Operating income was \$121.4 million for the year ended December 31, 2014, representing an increase of \$11.2 million, or 10.1%, from the year ended December 31, 2013. The increase was primarily due to higher premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional life mortality. These increases were largely offset by less favorable universal life mortality, unfavorable prospective unlocking compared to 2013, and higher operating expenses.

Operating Revenues

Total operating revenues for the year ended December 31, 2014, increased \$95.3 million, or 6.6%, as compared to the year ended December 31, 2013. This increase was driven by higher premiums and policy fees due to continued growth in the universal life block and higher investment income due to increases in net in-force reserves.

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Net Premiums and Policy Fees

Net premiums and policy fees increased by \$58.1 million, or 7.3%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to an increase in premium and policy fees associated with growth of the universal life block of business and the impact from a reinsurance settlement on ceded premiums, which was almost entirely offset in benefit and settlement expense during 2014. The increase was partially offset by decreases in traditional life premiums.

Net Investment Income

Net investment income in the segment increased \$32.3 million, or 6.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Of the increase in net investment income, \$19.2 million was the result of a net increase in universal life reserves. Additionally, traditional life investment income increased \$10.4 million due to a net increase in reserves.

Other Income

Other income increased \$4.9 million, or 4.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase related primarily to higher revenue in the segment's non-insurance operations.

Benefits and Settlement Expenses

Benefits and settlement expenses decreased by \$69.0 million, or 6.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to the impact of unlocking and favorable traditional life mortality, partially offset by growth in retained universal life insurance in-force and less favorable universal life mortality. Universal life and BOLI unlocking decreased policy and settlement expenses \$50.2 million in 2014, as compared to an increase of \$50.5 million in 2013. Unlocking in 2014 was largely driven by assumption changes to mortality, reinsurance, and portfolio yields. Reinsurance, lapses, yields, and credited interest contributed to the unlocking in 2013. Of the total impact due to unlocking, \$23.5 million is offset by the decline in ceded premiums during 2014 due to the reinsurance settlement noted above.

Amortization of DAC and VOBA

DAC and VOBA amortization increased \$146.9 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to differing impacts of unlocking. Unlocking during 2014 increased DAC

Table of Contents

amortization by \$94.0 million, as compared to a decrease of \$47.6 million in 2013. The unlocking of DAC during 2014 was largely offset by favorable unlocking impacting benefit and settlement expenses.

Other Operating Expenses

Other operating expenses increased \$6.2 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013. This increase reflects higher marketing company expenses of \$4.8 million and higher general administrative expenses, offset by reduced new business acquisition costs associated with lower sales.

Sales

Sales for the segment decreased \$24.7 million, or 16.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Universal life sales decreased \$23.9 million due to sales in 2013 of a product that we are no longer marketing.

Reinsurance

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

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration, and investment contracts business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore, impact DAC amortization on these lines of business. Deferred reinsurance allowances on level term business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in-force. Thus, deferred reinsurance allowances may impact DAC amortization. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our consolidated financial statements included in this report.

Table of Contents*Impact of Reinsurance*

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

Life Marketing Segment**Line Item Impact of Reinsurance**

	Successor Company		Predecessor Company		
	February 1, 2015	January 1, 2015	For The Year Ended		
	to	to	December 31,		
	December 31, 2015	January 31, 2015	2014	2013	
	(Dollars In Thousands)		(Dollars In Thousands)		
REVENUES					
Reinsurance ceded	\$ (671,487)	\$ (51,142)	\$ (830,207)	\$ (838,023)	
BENEFITS AND EXPENSES					
Benefits and settlement expenses	(586,030)	(58,501)	(819,301)	(818,597)	
Amortization of DAC/VOBA	(5,350)	(3,766)	(57,270)	(45,574)	
Other operating expenses(1)	(148,293)	(11,728)	(148,062)	(144,801)	
Total benefits and expenses	(739,673)	(73,995)	(1,024,633)	(1,008,972)	
NET IMPACT OF REINSURANCE	\$ 68,186	\$ 22,853	\$ 194,426	\$ 170,949	
Allowances received	\$ (155,828)	\$ (12,413)	\$ (150,908)	\$ (169,552)	
Less: Amount deferred	7,535	685	2,846	24,751	
Allowances recognized (ceded other operating expenses)(1)	\$ (148,293)	\$ (11,728)	\$ (148,062)	\$ (144,801)	

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

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies' profitability on the business that we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 100% to 340%. The Life Marketing segment's reinsurance programs do not materially impact the other income line of our income statement.

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

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universal life business has been ceded. As a result of that change, the relative impact of reinsurance on the Life Marketing segment's overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances.

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

The ceded premiums and policy fees were primarily comprised of ceded traditional life premiums of \$304.4 million and universal life policy fees of \$365.2 million.

Ceded benefits and settlement expenses were \$586.0 million for the period of February 1, 2015 to December 31, 2015. This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional life ceded benefits activity of \$321.0 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded benefits of \$265.7 million were largely comprised of \$239.4 million in ceded universal life claims during the period.

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Table of Contents

Ceded amortization of DAC and VOBA activity was \$5.4 million for the period of February 1, 2015 to December 31, 2015.

Ceded other operating expenses reflect the impact of reinsurance allowances on pre-tax income.

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

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

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

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

Ceded other operating expenses reflect the impact of reinsurance allowances on pre-tax income.

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

The decrease in ceded premiums and policy fees for 2014 as compared to 2013 was caused primarily by lower ceded universal life policy fees of \$5.0 million and lower ceded traditional life premiums of \$2.3 million. Ceded universal life policy fees decreased for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This was due to a \$23.5 million reduction in ceded policy fees from a reinsurance settlement, which more than offset the increase in ceded universal life in-force during the year. Ceded traditional life premiums decreased from the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily due to fluctuations in the number of policies entering their post level period.

Ceded benefits and settlement expenses were higher for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to higher ceded claims, largely offset by a decrease in change in ceded reserves. Traditional ceded benefits decreased \$3.6 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to lower ceded death benefits, largely offset by an increase in ceded reserves. Universal life ceded benefits increased \$5.4 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to higher ceded claims, largely offset by a decrease in ceded reserves due to the impact of unlocking on ceded premiums. Ceded universal life claims were \$72.4 million higher for the year ended December 31, 2014, as compared to the year ended

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December 31, 2013.

Ceded amortization of deferred policy acquisitions costs increased for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the differences in unlocking between the two periods.

Total allowances recognized for the year ended December 31, 2014, increased from the year ended December 31, 2013, with the impact of the allowance pattern on older universal life business and changes in the mix of business. This increase more than offset the impact of the continued reduction in our traditional life reinsurance allowances due to runoff from the number of policies reaching their post level period.

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

Segment results were as follows:

	Successor Company February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	Predecessor Company For The Year Ended December 31, 2014 2013 (Dollars In Thousands)	
REVENUES				
Reinsurance ceded	(332,672)	(26,512)	(399,530)	(409,648)
Net investment income	639,422	71,088	874,653	617,298
Total operating revenues	1,341,282	134,671	1,662,636	1,143,699
Realized gains (losses) derivatives	166,027	(68,511)	(104,767)	202,945
BENEFITS AND EXPENSES				
Benefits and settlement expenses	1,054,598	100,693	1,227,751	839,616
Amortization of value of business acquired	2,070	4,803	58,515	71,836
Operating benefits and expenses	1,146,628	114,537	1,408,615	989,696
Amortization of VOBA related to realized gains (losses) investments	(35)	230	1,516	926
INCOME BEFORE INCOME TAX	173,953	23,761	289,963	184,187
Less: amortization related to benefits and settlement expenses	(12,884)	(1,233)	(20,085)	(11,770)
OPERATING INCOME	\$ 194,654	\$ 20,134	\$ 254,021	\$ 154,003

Table of Contents

The following table summarizes key data for the Acquisitions segment:

	Successor Company		Predecessor Company		
	February 1, 2015	January 1, 2015	For The Year Ended		
	to	to	December 31,		
	December 31, 2015	January 31, 2015	2014	2013	
	(Dollars In Thousands)		(Dollars In Thousands)		
Average Life Insurance In-Force(1)(4)					
Traditional	\$ 175,316,149	\$ 182,177,575	\$ 188,466,828	\$ 167,594,421	
Universal life	32,022,655	33,413,557	34,995,011	27,771,451	
	\$ 207,338,804	\$ 215,591,132	\$ 223,461,839	\$ 195,365,872	
Average Account Values(5)					
Universal life	\$ 4,420,698	\$ 4,486,843	\$ 4,555,949	\$ 3,330,496	
Fixed annuity(2)	3,643,397	3,712,578	3,780,914	3,033,811	
Variable annuity	1,327,080	1,396,587	1,474,256	583,758	
	\$ 9,391,175	\$ 9,596,008	\$ 9,811,119	\$ 6,948,065	
Interest Spread UL & Fixed Annuities(5)					
Net investment income yield(3)	4.36%	5.73%	5.64%	5.73%	
Interest credited to policyholders	4.06	4.05	3.99	4.00	
Interest spread	0.30%	1.68%	1.65%	1.73%	

- (1) Amounts are not adjusted for reinsurance ceded.
- (2) Includes general account balances held within variable annuity products and is net of coinsurance ceded.
- (3) Earned rates exclude portfolios supporting modified coinsurance and crediting rates exclude 100% cessions.
- (4) Excludes \$44,812,977 related to the MONY acquisition for the year ended December 31, 2013 (Predecessor Company).
- (5) Excludes the MONY acquisition for the year ended December 31, 2013 (Predecessor Company).

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

Operating revenues for the segment were \$1.3 billion and included net premiums and policy fees of \$690.7 million, net investment income of \$639.4 million, and other income of \$11.1 million. The segment experienced expected runoff in the current period.

Total Benefits and Expenses

Total benefits and expenses were \$1.2 billion, primarily due to operating benefits and expenses of \$1.1 billion. Operating benefits and expenses included benefits and settlement expenses of \$1.1 billion, amortization of VOBA of \$2.1 million, and other operating expenses of \$90.0 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed \$12.8 million to total benefits and expenses.

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

Operating Revenues

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

Total Benefits and Expenses

Total benefits and expenses were \$116.0 million, primarily due to operating benefits and expenses of \$114.5 million. Operating benefits and expenses included benefits and settlement expenses of \$100.7 million, amortization of VOBA of \$4.8 million, and other operating expenses of \$9.0 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed \$1.5 million to total benefits and expenses.

Table of Contents

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income

Operating income was \$254.0 million for the year ended December 31, 2014, an increase of \$100.0 million, or 64.9%, as compared to the year ended December 31, 2013 primarily due to increased earnings from the MONY acquisition and a favorable change in unlocking of \$19.3 million. The MONY acquisition operating income was \$109.5 million for the year ended December 31, 2014, an increase of \$84.3 million compared to 2013. This increase was due to a full year of MONY results being included in 2014 compared to only one quarter in 2013. Expected runoff offset other favorable items.

Operating Revenues

Net premiums and policy fees increased \$252.5 million, or 48.6%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The impact of the MONY acquisition increased \$277.4 million in 2014 compared to 2013, which reflects four quarters in 2014 as compared to one quarter in 2013. In addition, a 2014 reinsurance recapture increased net premiums \$9.0 million compared to 2013. This increase was partly offset by expected runoff. Net investment income increased \$257.3 million, or 41.7%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the MONY acquisition, which was offset by expected runoff of other blocks of business.

Total Benefits and Expenses

Total benefits and expenses increased \$427.8 million, or 42.7%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was due to a \$493.6 million impact from the MONY acquisition which was partly offset by more favorable unlocking, a reinsurance recapture, and the expected runoff of the in-force business. Unlocking was a favorable \$14.1 million for the year ended December 31, 2014, as compared to unfavorable unlocking of \$5.2 million for the year ended December 31, 2013.

Reinsurance

The Acquisitions segment currently reinsures portions of both its life and annuity in-force. The cost of reinsurance to the segment is reflected in the chart shown below. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our consolidated financial statements included in this report.

Impact of Reinsurance

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

Acquisitions Segment

Line Item Impact of Reinsurance

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Reinsurance ceded	\$ (332,672)	\$ (26,512)	\$ (399,530)	\$ (409,648)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(326,068)	(25,832)	(340,647)	(330,153)
Amortization of value of business acquired	(260)	(233)	(13,885)	(8,968)
Other operating expenses	(43,284)	(3,647)	(45,596)	(50,159)
Total benefits and expenses	(369,612)	(29,712)	(400,128)	(389,280)
NET IMPACT OF REINSURANCE(1)	\$ 36,940	\$ 3,200	\$ 598	\$ (20,368)

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

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

Table of Contents

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

The net impact of reinsurance activity for the period of February 1, 2015 to December 31, 2015 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims. Ceded claims included an unusually elevated level of claims in a block that is assumed and then one hundred percent ceded to a third party.

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

The net impact of reinsurance is more favorable by \$20.9 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to a decrease in ceded premiums in relation to the increase in ceded benefits and settlement expenses. This was primarily driven by higher ceded claims in 2014.

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

Segment results were as follows:

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Gross premiums and policy fees	\$ 138,146	\$ 12,473	\$ 149,825	\$ 132,317
Reinsurance ceded				
Net premiums and policy fees	138,146	12,473	149,825	132,317
Net investment income	297,114	37,189	465,845	468,322
Realized gains (losses) derivatives	(70,558)	(6,156)	(70,666)	(59,737)
Other income	149,078	12,980	149,569	125,511
Total operating revenues	513,780	56,486	694,573	666,413
Realized gains (losses) investments	(5,743)	(145)	9,601	8,418
Realized gains (losses) derivatives, net of economic cost	(64,618)	(48,457)	(170,770)	39,721
Total revenues	443,419	7,884	533,404	714,552
BENEFITS AND EXPENSES				
Benefits and settlement expenses	226,127	27,485	307,168	321,456
Amortization of DAC and VOBA	(18,524)	5,911	41,162	48,207
Other operating expenses	125,946	9,926	118,632	112,620
Operating benefits and expenses	333,549	43,322	466,962	482,283
Amortization related to benefits and settlement expenses	697	3,128	9,281	(2,036)
Amortization of DAC/VOBA related to realized gains (losses) investments	(22,547)	(13,617)	(45,813)	14,627
Total benefits and expenses	311,699	32,833	430,430	494,874
INCOME (LOSS) BEFORE INCOME TAX	131,720	(24,949)	102,974	219,678
Less: realized gains (losses) investments	(5,743)	(145)	9,601	8,418
Less: realized gains (losses) derivatives, net of economic cost	(64,618)	(48,457)	(170,770)	39,721
Less: amortization related to benefits and settlement expenses	(697)	(3,128)	(9,281)	2,036
Less: related amortization of DAC/VOBA	22,547	13,617	45,813	(14,627)
OPERATING INCOME	\$ 180,231	\$ 13,164	\$ 227,611	\$ 184,130

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Table of Contents

The following table summarizes key data for the Annuities segment:

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	For The Year Ended December 31, 2014 2013 (Dollars In Thousands)	
Sales				
Fixed annuity	\$ 566,290	\$ 28,335	\$ 831,147	\$ 693,128
Variable annuity	1,096,113	59,115	952,641	1,866,494
	\$ 1,662,403	\$ 87,450	\$ 1,783,788	\$ 2,559,622
Average Account Values				
Fixed annuity(1)	\$ 8,223,481	\$ 8,171,438	\$ 8,220,560	\$ 8,233,343
Variable annuity	12,506,856	12,365,217	12,309,922	10,696,375
	\$ 20,730,337	\$ 20,536,655	\$ 20,530,482	\$ 18,929,718
Interest Spread Fixed Annuities(2)				
Net investment income yield	3.71%	5.22 %	5.44 %	5.50 %
Interest credited to policyholders	2.88	3.17	3.33	3.53
Interest spread	0.83 %	2.05 %	2.11 %	1.97 %

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

(2) Interest spread on average general account values.

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	For The Year Ended December 31, 2014 2013 (Dollars In Thousands)	
Derivatives related to VA contracts:				
Interest rate futures - VA	\$ (14,818)	\$ 1,413	\$ 27,801	\$ (31,216)
Equity futures - VA	(5,033)	9,221	(26,104)	(52,640)
Currency futures - VA	7,169	7,778	14,433	(469)
Variance swaps - VA			(744)	(11,310)
Equity options - VA	(27,733)	3,047	(41,216)	(95,022)
Volatility options - VA				(115)
Interest rate swaptions - VA	(13,354)	9,268	(22,280)	1,575
Interest rate swaps - VA	(85,942)	122,710	214,164	(157,408)
Embedded derivative - GMWB(1)	4,412	(207,018)	(401,354)	325,497
Total derivatives related to VA contracts	(135,299)	(53,581)	(235,300)	(21,108)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(738)	1,769	(16,932)	(942)
Equity futures - FIA	(355)	(184)	870	173
Volatility futures - FIA	5		20	(5)
Equity options - FIA	1,211	(2,617)	9,906	1,866

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Total derivatives related to FIA contracts	123	(1,032)	(6,136)	1,092
Economic cost - VA GMWB(2)	70,558	6,156	70,666	59,737
Realized gains (losses) - derivatives, net of economic cost	\$ (64,618)	\$ (48,457)	\$ (170,770)	\$ 39,721

(1) Includes impact of nonperformance risk of \$2.2 million, \$11.8 million, \$(5.3) million, and \$(18.3) million for the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and for the years ended December 31, 2014 and 2013 (Predecessor Company), respectively.

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

Table of Contents

	Successor Company As of December 31, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
GMDB Net amount at risk⁽¹⁾	\$ 266,950	\$ 93,061
GMDB Reserves	33,141	25,960
GMWB and GMAB Reserves	181,622	245,127
Account value subject to GMWB rider	9,306,644	9,738,496
GMWB Benefit Base	10,304,939	9,837,891
GMAB Benefit Base	4,323	4,967
S&P 500® Index	2,044	2,059

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

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

Segment operating revenues were \$513.8 million for the period of February 1, 2015 to December 31, 2015. Operating revenue consisted of \$297.1 million of net investment income, \$138.1 million of policy fees, \$149.1 million in other income, and \$70.6 million related to GMWB economic cost from the VA line of business.

Benefits and Settlement Expenses

Benefits and settlement expenses were \$226.1 million for the period of February 1, 2015 to December 31, 2015. Included in that amount was \$0.8 million in unfavorable SPIA mortality results, an increase in guaranteed benefit reserves of \$5.2 million primarily from the VA line of business, and \$1.9 million of unfavorable unlocking.

Amortization of DAC and VOBA

DAC and VOBA amortization was \$18.5 million favorable for the period of February 1, 2015 to December 31, 2015 due to the allocation of negative VOBA to some of the products within the segment. There was \$4.4 million of favorable unlocking recorded by the segment during the period of February 1, 2015 to December 31, 2015.

Other Operating Expenses

Other operating expenses were \$125.9 million for the period of February 1, 2015 to December 31, 2015. Operating expenses consisted of \$31.8 million in acquisition expenses, \$47.0 million in maintenance and overhead expenses, and \$47.2 million in commission expenses.

Sales

Total sales were \$1.7 billion for the period of February 1, 2015 to December 31, 2015. Fixed annuity sales were \$566.3 million and variable annuity sales were \$1.1 billion.

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

Operating Revenues

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Table of Contents

Other Operating Expenses

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

Sales

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

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income

Segment operating income was \$227.6 million for the year ended December 31, 2014, as compared to \$184.1 million for the year ended December 31, 2013, an increase of \$43.5 million, or 23.6%. This increase was a result of higher net policy fees and other income in the VA line, lower credited interest, and a favorable change in SPIA mortality results. These favorable increases were partially offset by an unfavorable change in unlocking and other operating expenses. The segment recorded a favorable \$8.0 million of unlocking for the year ended December 31, 2014, as compared to favorable unlocking of \$13.8 million for the year ended December 31, 2013.

Operating Revenues

Segment operating revenues increased \$28.2 million, or 4.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to increases in net policy fees and other income associated with the growth in account balances from the VA line of business. Those increases were partially offset by increased GMWB economic cost in the VA line of business along with lower investment income. Average fixed account balances decreased by 0.2% and average variable account balances grew 15.1% for the year ended December 31, 2014, as compared to the year ended December 31, 2013.

Benefits and Settlement Expenses

Benefits and settlement expenses decreased \$14.3 million, or 4.4%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. This decrease was primarily the result of lower credited interest, lower realized losses in the market value adjusted line,

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lower amortization, and a \$7.4 million favorable change in SPIA mortality results. These favorable changes were partially offset by an \$8.1 million unfavorable change in guaranteed benefit reserves. Unfavorable unlocking of \$7.6 million was recorded in the year ended December 31, 2014, as compared to \$2.1 million of unfavorable unlocking during the year ended December 31, 2013.

Amortization of DAC and VOBA

The decrease in DAC and VOBA amortization for the year ended December 31, 2014, as compared to the year ended December 31, 2013, was primarily due to a favorable change in normal amortization primarily due to lower rates of amortization in the VA line. The segment recorded favorable DAC unlocking of \$15.7 million for the year ended December 31, 2014, as compared to favorable unlocking of \$15.9 million for the year ended December 31, 2013.

Other Operating Expenses

Other operating expenses increased \$6.0 million, or 5.3%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was due to higher renewal commissions partially offset by lower acquisition expenses and lower guaranty fund assessments.

Sales

Total sales decreased \$775.8 million, or 30.3%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Sales of variable annuities decreased \$913.9 million, or 49.0% for the year ended December 31, 2014, as compared to the year ended December 31, 2013 primarily due to product changes. Sales of fixed annuities increased by \$138.0 million, or 19.9% for the year ended December 31, 2014, as compared to the year ended December 31, 2013, driven by sales of fixed indexed annuities.

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

Segment results were as follows:

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Net investment income	\$ 78,459	\$ 6,888	\$ 107,170	\$ 123,798
Other income	133		3,536	759
Total operating revenues	78,592	6,888	110,706	124,557
Realized gains (losses)	1,078	1,293	16,947	(1,767)
Total revenues	79,670	8,181	127,653	122,790
BENEFITS AND EXPENSES				
Benefits and settlement expenses	19,348	2,255	35,559	41,793
Amortization of DAC and VOBA	43	25	380	398
Other operating expenses	2,620	79	1,413	1,805
Total benefits and expenses	22,011	2,359	37,352	43,996
INCOME BEFORE INCOME TAX	57,659	5,822	90,301	78,794
Less: realized gains (losses)	1,078	1,293	16,947	(1,767)
OPERATING INCOME	\$ 56,581	\$ 4,529	\$ 73,354	\$ 80,561

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

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)		(Dollars In Thousands)	
Sales				
GIC	\$ 114,700	\$	\$ 41,650	\$ 494,582
GFA Direct Institutional	699,648		50,000	
	\$ 814,348	\$	\$ 91,650	\$ 494,582
Average Account Values				
	\$ 1,933,838	\$ 1,932,722	\$ 2,384,824	\$ 2,537,307
Ending Account Values	\$ 2,131,822	\$ 1,911,751	\$ 1,959,488	\$ 2,559,552
Operating Spread				

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Net investment income yield	4.36	%	4.28%	4.50%	4.88%
Other income yield	0.01			0.17	0.03
Interest credited	1.12		1.40	1.49	1.65
Operating expenses	0.15		0.07	0.08	0.09
Operating spread	3.10	%	2.81%	3.10%	3.17%
Adjusted operating spread(1)	1.88	%	2.76%	2.71%	2.67%

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

Table of Contents

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

Segment Operating Income

Operating income of \$56.6 million was primarily due to activity in average account values, operating spreads, and participating mortgage income. Participating mortgage income was \$23.0 million and the adjusted operating spread, which excludes participating income, was 188 basis points.

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

Segment Operating Income

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

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income

Operating income was \$73.4 million and decreased \$7.2 million, or 8.9%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The decrease in operating earnings resulted from a decrease in participating mortgage income and a decline in average account values offset by higher operating spreads and lower expenses. Participating mortgage income for the year ended December 31, 2014 was \$4.9 million, as compared to \$12.1 million for the year ended December 31, 2013. The adjusted operating spread, which excludes participating income and other income, increased by 4 basis points for the year ended December 31, 2014 over the prior year.

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

Segment results were as follows:

	Successor Company February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	Predecessor Company For The Year Ended December 31, 2014 2013 (Dollars In Thousands)
REVENUES			
Gross premiums and policy fees	\$ 278,937	\$ 23,127	\$ 275,527 \$ 267,917
Reinsurance ceded	(150,599)	(12,302)	(143,849) (129,513)
Net premiums and policy fees	128,338	10,825	131,678 138,404
Net investment income	17,459	1,878	22,703 23,179
Other income	115,896	9,250	121,630 116,734
Total operating revenues	261,693	21,953	276,011 278,317
BENEFITS AND EXPENSES			
Benefits and settlement expenses	101,881	7,592	96,379 101,696
Amortization of DAC and VOBA	25,211	1,820	25,257 30,505
Other operating expenses	113,974	10,121	121,895 119,321
Total benefits and expenses	241,066	19,533	243,531 251,522
INCOME BEFORE INCOME TAX	20,627	2,420	32,480 26,795
OPERATING INCOME	\$ 20,627	\$ 2,420	\$ 32,480 \$ 26,795

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

	Successor Company February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	Predecessor Company For The Year Ended December 31, 2014 2013 (Dollars In Thousands)
Sales			
Credit insurance	\$ 23,837	\$ 2,088	\$ 29,399 \$ 33,637
Service contracts	371,242	28,835	383,969 369,514
GAP	87,017	6,318	73,610 66,646
	\$ 482,096	\$ 37,241	\$ 486,978 \$ 469,797
Loss Ratios(1)			
Credit insurance	28.8%	27.9%	27.7% 36.1%
Service contracts	85.4	82.4	87.7 91.2

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GAP	83.9	56.6	55.4	43.2
(1) Incurred claims as a percentage of earned premiums				

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

Net Premiums and Policy Fees

Net premiums and policy fees were \$128.3 million which consisted of service contract premiums of \$77.0 million, GAP premiums of \$38.7 million, and credit insurance premiums of \$12.6 million.

Other Income

Other income activity consisted of \$96.7 million from the service contract line, \$19.1 million from the GAP product line, and \$0.1 million from the credit insurance line.

Table of Contents

Benefits and Settlement Expenses

Benefits and settlement expenses activity was \$65.8 million in service contract claims, \$32.5 million in GAP claims and \$3.6 million in credit insurance claims.

Amortization of DAC and VOBA and Other Operating Expenses

Amortization of DAC and VOBA consisted of \$13.2 million in the credit insurance line, \$11.2 million in the GAP line, and \$0.8 million in the service contract line, primarily resulting from amortization of VOBA activity. Other operating expenses were \$114.0 million including activity in all products lines.

Sales

Total segment sales consisted of \$371.2 million in the service contract line, \$87.0 million in the GAP product line, and credit insurance sales of \$23.8 million.

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

Net Premiums and Policy Fees

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA and Other Operating Expenses

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

Sales

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

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income

Operating income was \$32.5 million, representing an increase of \$5.7 million, or 21.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Service contract earnings increased \$4.9 million primarily due to lower loss ratios and higher sales. Credit insurance earnings increased \$1.7 million primarily due to lower loss ratios and lower expenses in 2014. Earnings from the GAP product line decreased \$0.9 million primarily resulting from higher loss ratios.

Net Premiums and Policy Fees

Net premiums and policy fees decreased \$6.7 million, or 4.9%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Service contract premiums decreased \$4.1 million, or 4.6%, and GAP premiums decreased \$2.8 million, or 8.2%, primarily due to higher ceded premiums. Credit insurance premiums increased \$0.2 million.

Other Income

Other income increased \$4.9 million, or 4.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to higher sales in the service contract and GAP product lines.

Benefits and Settlement Expenses

Benefits and settlement expenses decreased \$5.3 million, or 5.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Service contract claims decreased \$6.7 million, or 8.2%, due to higher ceded losses and lower loss ratios. Credit insurance claims decreased \$1.2 million, or 22.6%, due to lower loss ratios. The decreases were partially offset by an increase in GAP claims of \$2.6 million, or 17.9%, due to higher loss ratios.

Table of Contents*Amortization of DAC and VOBA and Other Operating Expenses*

Amortization of DAC and VOBA was \$5.2 million, or 17.2%, lower for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to lower DAC balances in the service contract line and a change in the mix of business in the GAP product line. Other operating expenses increased \$2.6 million, or 2.2%, for the year ended December 31, 2014 primarily due to higher sales.

Sales

Total segment sales increased \$17.2 million, or 3.7%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Higher auto sales in 2014 helped drive increased service contract sales of \$14.4 million, or 3.9%, and GAP product sales of \$7.0 million, or 10.5%. The increase was partly offset by a decrease in credit insurance sales of \$4.2 million, or 12.6%, due to decreasing demand for this product.

Reinsurance

The majority of the Asset Protection segment's reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies (PARCs). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis generally at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our consolidated financial statements included in this report.

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

Asset Protection Segment**Line Item Impact of Reinsurance**

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	
	to	to	December 31,	
	December 31, 2015	January 31, 2015	2014	2013
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	\$ (150,599)	\$ (12,302)	\$ (143,849)	\$ (129,513)
BENEFITS AND EXPENSES				

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Benefits and settlement expenses	(65,895)	(4,659)	(60,245)	(55,651)
Amortization of DAC/VOBA	(637)	(520)	(6,424)	(6,953)
Other operating expenses	(4,162)	(531)	(6,921)	(6,215)
Total benefits and expenses	(70,694)	(5,710)	(73,590)	(68,819)
NET IMPACT OF REINSURANCE(1)	\$ (79,905)	\$ (6,592)	\$ (70,259)	\$ (60,694)

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

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

Reinsurance premiums ceded of \$150.6 million consisted of ceded premiums in the service contract line of \$114.2 million, ceded premiums in the GAP product line of \$20.5 million, and ceded premiums in the credit insurance line of \$15.9 million.

Benefits and settlement expenses ceded consisted of \$51.1 million in service contract ceded claims, \$11.6 million in GAP ceded claims, and \$3.2 million in credit insurance ceded claims.

Other operating expenses ceded of \$4.2 million was mainly due to ceded activity in the credit insurance and GAP product lines.

Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business that we cede.

Table of Contents

The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated financial statements.

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

Reinsurance premiums ceded of \$12.3 million consisted of ceded premiums in the service contract line of \$9.4 million, ceded premiums in the GAP product line of \$1.4 million and ceded premiums in the credit insurance line of \$1.5 million.

Benefits and settlement expenses ceded consisted of \$4.0 million in service contract ceded claims, \$0.4 million in GAP ceded claims, and \$0.3 million in credit insurance ceded claims.

Amortization of DAC and VOBA ceded consisted of \$0.3 million in the service contract line and \$0.2 million in the credit insurance line. Other operating expenses ceded of \$0.5 million was mainly due to ceded activity in the credit insurance product line.

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

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Reinsurance premiums ceded increased \$14.3 million, or 11.1%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was primarily due to increases in ceded service contract and GAP premiums somewhat offset by a decline in ceded dealer credit insurance premiums due to lower sales.

Benefits and settlement expenses ceded increased \$4.6 million, or 8.3%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was primarily due to increases in ceded losses in the service contract and GAP lines.

Amortization of DAC ceded decreased \$0.5 million, or 7.6%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily as the result of a change in the mix of business in the GAP product line. Other operating expenses ceded increased \$0.7 million, or 11.4%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily as a result of increases in GAP ceded activity.

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

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

Segment results were as follows:

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended December 31,	
	to	to	2014	2013
	December 31, 2015	January 31, 2015	(Dollars In Thousands)	
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Gross premiums and policy fees	\$ 13,896	\$ 1,343	\$ 16,473	\$ 18,160
Reinsurance ceded	(220)		(11)	(11)
Net premiums and policy fees	13,676	1,343	16,462	18,149
Net investment income	154,055	10,677	173,349	163,819
Other income	808	141	11,657	21,232
Total operating revenues	168,539	12,161	201,468	203,200
Realized gains (losses) investments	(2,254)	4,919	(3,885)	3,363
Realized gains (losses) derivatives	82	455	(609)	5,392
Total revenues	166,367	17,535	196,974	211,955
BENEFITS AND EXPENSES				
Benefits and settlement expenses	14,568	1,722	20,001	22,330
Amortization of DAC and VOBA	27	87	485	625
Other operating expenses	179,011	20,496	237,702	220,807
Total benefits and expenses	193,606	22,305	258,188	243,762
INCOME (LOSS) BEFORE INCOME TAX	(27,239)	(4,770)	(61,214)	(31,807)
Less: realized gains (losses) investments	(2,254)	4,919	(3,885)	3,363
Less: realized gains (losses) derivatives	82	455	(609)	5,392
OPERATING INCOME (LOSS)	\$ (25,067)	\$ (10,144)	\$ (56,720)	\$ (40,562)

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

Operating revenues of \$168.5 million were primarily due to \$154.1 million of investment income which represents income on assets supporting our equity capital.

Total Benefits and Expenses

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Total benefits and expenses of \$193.6 million were primarily due to \$179.0 million of other operating expenses which included corporate overhead expenses and \$82.0 million of interest expense.

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

Operating Revenues

Operating revenues of \$12.2 million were primarily due to \$10.7 million of investment income which represents income on assets supporting our equity capital.

Total Benefits and Expenses

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

Table of Contents

For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013 (Predecessor Company)

Segment Operating Income (Loss)

Corporate and Other segment operating loss was \$56.7 million for the year ended December 31, 2014, as compared to an operating loss of \$40.6 million for the year ended December 31, 2013. The decrease was primarily due to a \$16.9 million unfavorable variance related to other operating expenses, and a \$9.6 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. Partially offsetting these negative variances was a \$9.5 million increase in net investment income.

Operating Revenues

Net investment income for the segment increased \$9.5 million, or 5.8%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, and net premiums and policy fees decreased \$1.7 million, or 9.3%. The increase in net investment income was primarily the result of a \$12.3 million favorable variance related to income on called securities, offset by lower core investment income as compared to 2013. Other income decreased \$9.6 million, or 45.1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily due to a \$9.6 million unfavorable variance related to gains generated on the repurchase of non-recourse funding obligations.

Total Benefits and Expenses

Total benefits and expenses increased \$14.4 million, or 5.9%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to an increase in other operating expenses. The increase in operating expenses includes \$6.4 million of Dai-ichi Life acquisition related expenses, \$2.4 million write off of unamortized deferred issue costs related to called senior notes, and higher overhead expenses recorded during the twelve months ended December 31, 2014.

Table of Contents**CONSOLIDATED INVESTMENTS**

As of December 31, 2015 (Successor Company), our investment portfolio was approximately \$45.2 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

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

	Successor Company As of December 31, 2015 (Dollars In Thousands)		Predecessor Company As of December 31, 2014 (Dollars In Thousands)	
Publicly issued bonds (amortized cost: 2015 Successor - \$29,898,554; 2014 Predecessor - \$26,374,714)	\$ 27,444,771	60.7%	\$ 28,850,812	63.1%
Privately issued bonds (amortized cost: 2015 Successor - \$9,083,251; 2014 Predecessor - \$7,798,528)	8,654,911	19.1	8,360,177	18.3
Preferred stock (amortized cost: 2015 Successor - \$68,558)	66,882	0.1		
Fixed maturities	36,166,564	79.9	37,210,989	81.4
Equity securities (cost: 2015 Successor - \$732,485; 2014 Predecessor \$778,744)	739,263	1.6	803,230	1.8
Mortgage loans	5,662,812	12.6	5,133,780	11.2
Investment real estate	11,118		5,918	
Policy loans	1,699,508	3.8	1,758,237	3.8
Other long-term investments	622,567	1.4	514,639	1.1
Short-term investments	268,718	0.7	250,645	0.7
Total investments	\$ 45,170,550	100.0%	\$ 45,677,438	100.0%

Included in the preceding table are \$2.7 billion and \$2.8 billion of fixed maturities and \$61.7 million and \$95.1 million of short-term investments classified as trading securities as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively. The trading portfolio includes invested assets of \$2.7 billion and \$2.8 billion as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively, held pursuant to modified coinsurance (Modco) arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are \$593.3 million and \$435.0 million of securities classified as held-to-maturity as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively. The preferred stock shown above as of December 31, 2015 (Successor Company) is included in the equity securities total as of December 31, 2014 (Predecessor Company).

Fixed Maturity Investments

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As of December 31, 2015 (Successor Company), our fixed maturity investment holdings were approximately \$36.2 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	Successor Company As of December 31, 2015	Predecessor Company As of December 31, 2014
AAA	14.4%	12.3%
AA	7.9	7.3
A	32.1	33.1
BBB	39.0	40.9
Below investment grade	4.9	5.2
Not rated	1.7	1.2
	100.0%	100.0%

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Table of Contents

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

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

Changes in fair value for our available-for-sale portfolio, net of tax and the related impact on certain insurance assets and liabilities are recorded directly to shareholder s equity. Declines in fair value that are other-than-temporary are recorded as realized losses in the consolidated condensed statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income (loss).

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

Type	Successor Company As of December 31, 2015 (Dollars In Millions)	Predecessor Company As of December 31, 2014 (Dollars In Millions)
Corporate securities	\$ 27,184.3	\$ 28,857.6
Residential mortgage-backed securities	2,051.9	1,706.4
Commercial mortgage-backed securities	1,433.6	1,328.4
Other asset-backed securities	1,072.5	1,114.0
U.S. government-related securities	1,770.5	1,679.3
Other government-related securities	76.6	77.2
States, municipals, and political subdivisions	1,917.0	2,013.1
Preferred stock	66.9	
Other	593.3	435.0
Total fixed income portfolio	\$ 36,166.6	\$ 37,211.0

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

Within our fixed maturity investments, we maintain portfolios classified as available-for-sale , trading , and held-to-maturity . We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified \$32.9 billion, or 91.0%, of our fixed maturities as available-for-sale as of December 31, 2015 (Successor Company). These securities are carried at fair value on our consolidated balance sheets.

Fixed maturities with respect to which we have both the positive intent and ability to hold to maturity are classified as held-to-maturity . We classified \$593.3 million, or 1.6%, of our fixed maturities as held-to-maturity as of December 31, 2015 (Successor Company). These securities are carried at amortized cost on our consolidated balance sheets.

Table of Contents

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounted for \$2.7 billion, or 7.4%, of our fixed maturities and \$61.7 million of short-term investments as of December 31, 2015 (Successor Company). Changes in fair value on the Modco trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	Successor Company		Predecessor Company	
	As of		As of	
	December 31, 2015		December 31, 2014	
	(Dollars In Thousands)		(Dollars In Thousands)	
AAA	\$	542,080	\$	478,632
AA		309,852		290,255
A		752,419		910,669
BBB		771,501		824,143
Below investment grade		288,197		312,594
Total Modco trading fixed maturities	\$	2,664,049	\$	2,816,293

A portion of our bond portfolio is invested in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS). ABS are securities that are backed by a pool of assets. These holdings as of December 31, 2015 (Successor Company), were approximately \$4.6 billion. Mortgage-backed securities (MBS) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

Table of Contents

Residential Mortgage-Backed Securities As of December 31, 2015 (Successor Company), our RMBS portfolio was approximately \$2.1 billion. As of December 31, 2014 (Predecessor Company), our RMBS portfolio was approximately \$1.7 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities (PACs) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

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

<u>Type</u>	Percentage of Residential Mortgage-Backed Securities
Sequential	36.3%
PAC	29.2
Pass Through	12.8
Other	21.7
	100.0%

<u>Rating</u>	Percentage of Residential Mortgage-Backed Securities
AAA	77.3%
AA	0.1
A	0.2
BBB	0.3
Below investment grade	22.1%
	100.0%

Table of Contents*Alt-A Collateralized Holdings*

As of December 31, 2015 (Successor Company), we held securities with a fair value of \$304.5 million, or 0.7% of invested assets, supported by collateral classified as Alt-A. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$351.6 million supported by collateral classified as Alt-A. We include in this classification certain whole loan securities where such securities have underlying mortgages with a high level of limited loan documentation. As of December 31, 2015 (Successor Company), these securities had a fair value of \$113.7 million and an unrealized loss of \$2.5 million.

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

<u>Rating</u>	Percentage of Alt-A Securities
BBB	0.9%
Below investment grade	99.1
	100.0%

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

Alt-A Collateralized Holdings

<u>Rating</u>	Estimated Fair Value of Security by Year of Security Origination					Total
	2011 and Prior	2012	2013	2014	2015	
	(Dollars In Millions)					
BBB	\$ 2.8	\$	\$	\$	\$	\$ 2.8
Below investment grade	301.7					301.7
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 304.5	\$	\$	\$	\$	\$ 304.5

<u>Rating</u>	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					Total
	2011 and Prior	2012	2013	2014	2015	
	(Dollars In Millions)					
BBB	\$	\$	\$	\$	\$	\$
Below investment grade	(6.4)					(6.4)
	\$ (6.4)	\$	\$	\$	\$	\$ (6.4)

Total mortgage-backed securities collateralized by
Alt-A mortgage loans

79

Table of Contents

Sub-Prime Collateralized Holdings

As of December 31, 2015 (Successor Company), we held securities with a total fair value of \$1.4 million that were supported by collateral classified as sub-prime. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$1.7 million that were supported by collateral classified as sub-prime.

Prime Collateralized Holdings

As of December 31, 2015 (Successor Company), we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of \$1.7 billion, or 3.9%, of total invested assets. As of December 31, 2014 (Predecessor Company), we held securities with a fair value of \$1.4 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

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

<u>Rating</u>	Percentage of Prime Securities
AAA	90.8%
AA	0.1
A	0.2
BBB	0.2
Below investment grade	8.7
	100.0%

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

Prime Collateralized Holdings

<u>Rating</u>	Estimated Fair Value of Security by Year of Security Origination					
	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ 735.1	\$ 74.2	\$ 157.2	\$ 160.2	\$ 458.7	\$ 1,585.4
AA				1.4		1.4
A	3.5					3.5

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BBB		2.8						2.8				
Below investment grade		152.9						152.9				
Total mortgage-backed securities collateralized by prime mortgage loans	\$	894.3	\$	74.2	\$	157.2	\$	161.6	\$	458.7	\$	1,746.0

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

<u>Rating</u>		2011 and Prior	2012	2013	2014	2015	Total					
		(Dollars In Millions)										
AAA	\$	(1.9)	\$	(1.6)	\$	(3.6)	\$	1.0	\$	0.6	\$	(5.5)
AA												
A												
BBB												
Below investment grade		(0.7)					(0.7)					
Total mortgage-backed securities collateralized by prime mortgage loans	\$	(2.6)	\$	(1.6)	\$	(3.6)	\$	1.0	\$	0.6	\$	(6.2)

Table of Contents

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

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

Rating	Percentage of Commercial Mortgage-Backed Securities
AAA	69.9%
AA	17.7
A	11.5
BBB	0.9
	100.0%

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

Commercial Mortgage-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ 330.1	\$ 312.3	\$ 148.4	\$ 157.6	\$ 54.0	\$ 1,002.4
AA	57.9	42.8	29.9	59.0	63.9	253.5
A	78.9	14.4	19.9		51.3	164.5
BBB	13.2					13.2
Total commercial mortgage-backed securities	\$ 480.1	\$ 369.5	\$ 198.2	\$ 216.6	\$ 169.2	\$ 1,433.6

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ (8.3)	\$ (10.8)	\$ (5.4)	\$ (8.2)	\$ (0.7)	\$ (33.4)
AA	(2.2)	(1.4)	(1.0)	(3.8)	(0.2)	(8.6)
A	(0.9)	(0.3)	(0.9)		(0.7)	(2.8)
BBB						
Total commercial mortgage-backed securities	\$ (11.4)	\$ (12.5)	\$ (7.3)	\$ (12.0)	\$ (1.6)	\$ (44.8)

Table of Contents

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

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

Rating	Percentage of Other Asset- Backed Securities
AAA	55.5%
AA	18.4
A	14.3
BBB	1.3
Below investment grade	10.5
	100.0%

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

Other Asset-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ 489.9	\$ 41.6	\$ 18.4	\$ 29.8	\$ 15.5	\$ 595.2
AA	149.5	47.6				197.1
A	60.6	47.4	30.5	13.3	2.0	153.8
BBB	13.5					13.5
Below investment grade	112.9					112.9
Total other asset-backed securities	\$ 826.4	\$ 136.6	\$ 48.9	\$ 43.1	\$ 17.5	\$ 1,072.5

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2011 and Prior	2012	2013	2014	2015	Total
	(Dollars In Millions)					
AAA	\$ (10.1)	\$ (1.7)	\$ (1.0)	\$ (0.8)	\$ (0.1)	\$ (13.7)

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AA	2.4	(0.7)							1.7
A	(4.4)	(0.5)	(0.6)	(0.7)					(6.2)
BBB	(0.1)								(0.1)
Below investment grade	(1.2)								(1.2)
Total other asset-backed securities	\$ (13.4)	\$ (2.9)	\$ (1.6)	\$ (1.5)	\$ (0.1)	\$		\$	(19.5)

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Table of Contents

We obtained ratings of our fixed maturities from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and/or Fitch Ratings (Fitch). If a fixed maturity is not rated by Moody's, S&P, or Fitch, we use ratings from the National Association of Insurance Commissioners (NAIC), or we rate the fixed maturity based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of December 31, 2015 (Successor Company), over 98.3% of our fixed maturities were rated by Moody's, S&P, Fitch, and/or the NAIC.

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

	Successor Company		Predecessor Company	
	As of December 31, 2015 (Dollars In Thousands)	% Fair Value	As of December 31, 2014 (Dollars In Thousands)	% Fair Value
Banking	\$ 3,373,418	9.3%	\$ 2,933,212	7.9%
Other finance	482,676	1.3	666,403	1.8
Electric utility	3,709,684	10.2	4,062,991	10.9
Energy and natural gas	3,948,469	10.9	4,598,633	12.4
Insurance	2,929,190	8.1	2,972,363	8.0
Communications	1,338,544	3.7	1,504,581	4.0
Basic industrial	1,483,634	4.1	1,764,175	4.7
Consumer noncyclical	3,139,178	8.7	3,247,522	8.7
Consumer cyclical	1,717,786	4.7	1,989,115	5.3
Finance companies	118,214	0.3	242,081	0.7
Capital goods	1,422,675	3.9	1,371,046	3.7
Transportation	972,341	2.7	995,112	2.7
Other industrial	315,961	0.9	338,285	0.9
Brokerage	550,787	1.5	607,445	1.6
Technology	1,326,057	3.7	1,079,840	2.9
Real estate	189,955	0.5	246,712	0.7
Other utility	232,601	0.6	238,088	0.6
Commercial mortgage-backed securities	1,433,630	4.0	1,328,363	3.6
Other asset-backed securities	1,072,474	3.0	1,113,955	3.0
Residential mortgage-backed non-agency securities	1,102,310	3.0	779,612	2.1
Residential mortgage-backed agency securities	949,621	2.6	926,760	2.5
U.S. government-related securities	1,770,524	4.9	1,679,356	4.5
Other government-related securities	76,567	0.2	77,204	0.2
State, municipals, and political divisions	1,916,954	5.3	2,013,135	5.4
Other	593,314	1.9	435,000	1.2
Total	\$ 36,166,564	100.0%	\$ 37,210,989	100.0%

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

Our investments classified as available-for-sale and trading in debt and equity securities are reported at fair value. Our investments classified as held-to-maturity are reported at amortized cost. As of December 31, 2015 (Successor Company), our fixed maturity investments (bonds and redeemable preferred stocks) had a fair value of \$36.2 billion, which was 7.7% below amortized cost of \$39.2 billion. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

Fair values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate fair value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to fair value, management makes a determination as to the appropriate valuation amount.

Table of Contents

Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of December 31, 2015 (Successor Company), our mortgage loan holdings were approximately \$5.7 billion. We have specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). We believe that these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history. The majority of our mortgage loans portfolio was underwritten and funded by us. From time to time, we may acquire loans in conjunction with an acquisition.

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

Certain of the mortgage loans have call options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options on our existing mortgage loans commensurate with the significantly increased market rates. As of December 31, 2015 (Successor Company), assuming the loans are called at their next call dates, approximately \$143.5 million will be due in 2016, \$854.5 million in 2017 through 2021, \$242.5 million in 2022 through 2026, and \$11.3 million thereafter.

We also offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), approximately \$449.2 million and \$553.6 million, respectively, of our mortgage loans had this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the period of February 1, 2015 to December 31, 2015 (Successor Company), the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the year ended December 31, 2014 (Predecessor Company), we recognized \$29.8 million, \$0.1 million, and \$16.7 million of participating mortgage loan income, respectively.

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of December 31, 2015 (Successor Company) there were no allowances for mortgage loan credit losses and as of December 31, 2014 (Predecessor Company), our allowance for mortgage loan credit losses was \$5.7 million. While our mortgage loans do not have quoted market values, as of December 31, 2015 (Successor Company), we estimated the fair value of our mortgage loans to be \$5.5 billion (using discounted cash flows from the next call date), which was approximately 2.3% less than the amortized cost, less any related loan loss reserve.

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

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As of December 31, 2015 (Successor Company), approximately \$4.7 million of invested assets consisted of nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate properties since February 1, 2015 (Successor Company). We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. During the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we entered into certain mortgage loan transactions that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included either the acceptance of assets in satisfaction of principal during the respective periods or at a future date, and were the result of agreements between the creditor and the debtor. During the period of February 1, 2015 to December 31, 2015 (Successor Company), we accepted or agreed to accept assets of \$15.8 million in satisfaction of \$21.1 million of principal and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we accepted or agreed to accept assets of \$11.3 million in satisfaction of \$13.8 million of principal. Of the amounts accepted or agreed to accept in satisfaction of principal during the period of February 1, 2015 to December 31, 2015 (Successor Company), \$3.7 million related to foreclosures. These transactions resulted in no material realized losses in our investment in mortgage loans net of existing allowances for mortgage loans losses for the period of February 1, 2015 to December 31, 2015 (Successor Company). Of the mortgage loan transactions

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Table of Contents

accounted for as troubled debt restructurings, none remain on our balance sheet as of December 31, 2015 (Successor Company).

Our mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of December 31, 2015 (Successor Company), \$4.7 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate properties since February 1, 2015 (Successor Company). We foreclosed on \$3.7 million nonperforming loans during the period of February 1, 2015 to December 31, 2015 (Successor Company). We did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

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

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

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

Risk Management and Impairment Review

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

<u>Rating</u>	Fair Value (Dollars In Thousands)	Percent of Fair Value
AAA	\$ 4,681,576	14.2%
AA	2,555,877	7.8
A	10,847,711	33.0
BBB	13,332,612	40.5
Investment grade	31,417,776	95.5
BB	1,027,982	3.1
B	134,766	0.4
CCC or lower	328,677	1.0
Below investment grade	1,491,425	4.5
Total	\$ 32,909,201	100.0%

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Not included in the table above are \$2.4 billion of investment grade and \$288.2 million of below investment grade fixed maturities classified as trading securities and \$593.3 million of fixed maturities classified as held-to-maturity.

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Table of Contents

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

<u>Creditor</u>	Fair Value of		Total Fair Value
	Funded Securities	Unfunded Exposures (Dollars In Millions)	
Federal National Mortgage Association	\$ 211.5	\$	\$ 211.5
Wells Fargo & Co.	198.8	2.3	201.1
AT&T Inc.	199.1		199.1
Berkshire Hathaway Inc.	198.9		198.9
JP Morgan Chase and Company	158.9	22.3	181.2
Bank of America Corp.	175.3	0.9	176.2
General Electric	174.4		174.4
Duke Energy Corp.	174.3		174.3
Comcast Corp.	169.2		169.2
Nextera Energy Inc.	159.7		159.7
Total	\$ 1,820.1	\$ 25.5	\$ 1,845.6

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

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

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

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of our intent to sell the security (including a more likely than not assessment of whether we will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment

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performance, collateral position, and continued viability of the issuer are significant measures considered, along with an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the period of February 1, 2015 to December 31, 2015 (Successor Company), we concluded that approximately \$27.0 million of investment securities in an unrealized loss position were other-than-temporarily impaired, due to credit related factors, resulting in a charge to earnings. Additionally, we recognized \$1.6 million of non-credit losses in other comprehensive income (loss). For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we concluded that approximately \$0.5 million of investment securities in an unrealized loss position were other-than-temporarily

Table of Contents

impaired, due to credit-related factors, resulting in a charge to earnings as well as \$0.1 million of non-credit losses recorded in other comprehensive income.

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

During 2014 and 2015, the energy and natural gas sector experienced increased volatility due to the decline in oil prices. A prolonged decline in oil prices could have a broad economic impact and put financial stress on companies in this sector. We continue to monitor our exposure to companies within and exposed to this sector closely. Our current exposure is predominantly with investment grade securities of companies with ample liquidity to weather a prolonged decline in oil prices. Many of these companies have displayed financial discipline by reducing capital expenditures to conserve cash and maintain their credit ratings. For the period of February 1, 2015 to December 31, 2015 (Successor Company), we concluded that certain investment securities within the energy and natural gas sector that were in an unrealized loss position were other-than-temporarily impaired due to credit related factors, resulting in a \$0.1 million impairment recognized in net income.

The energy and natural gas sector securities in an unrealized loss position held as of December 31, 2015 (Successor Company) are presented in the following tables:

	Fair Value	Energy and Natural Gas Amortized Cost (Dollars In Thousands)	Unrealized Loss	% Unrealized Loss
Midstream	\$ 1,477,271	\$ 1,800,248	\$ (322,977)	46.7%
Integrated	588,821	697,921	(109,100)	15.8
Distributors	580,423	658,836	(78,413)	11.3
Independent	395,383	466,186	(70,803)	10.2
Oil Field Services	533,523	618,864	(85,341)	12.3
Refining	149,860	174,645	(24,785)	3.7
Total	\$ 3,725,281	\$ 4,416,700	\$ (691,419)	100.0%

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Table of Contents

Rating	Issuer Type	Energy and Natural Gas			
		Fair Value	Amortized Cost (Dollars In Thousands)	Unrealized Loss	% Unrealized Loss
AAA/AA/A	Distributors	\$ 314,281	\$ 342,217	\$ (27,936)	4.1%
	Independent	49,034	53,309	(4,275)	0.6
	Integrated	253,735	295,450	(41,715)	6.0
	Midstream	156,410	182,688	(26,278)	3.8
	Oil Field Services	151,194	166,476	(15,282)	2.2
BBB	Distributors	248,845	289,484	(40,639)	5.9
	Independent	341,382	407,777	(66,395)	9.6
	Integrated	311,377	372,930	(61,553)	8.9
	Midstream	1,183,792	1,448,195	(264,403)	38.2
	Oil Field Services	311,158	373,729	(62,571)	9.1
	Refining	139,815	164,244	(24,429)	3.5
Total investment grade		3,461,023	4,096,499	(635,476)	91.9
Below investment grade	Distributors	17,298	27,135	(9,837)	1.4
	Independent	4,967	5,100	(133)	
	Integrated	23,709	29,542	(5,833)	0.8
	Midstream	137,069	169,365	(32,296)	4.7
	Oil Field Services	71,170	78,658	(7,488)	1.1
	Refining	10,045	10,401	(356)	0.1
Total below investment grade		264,258	320,201	(55,943)	8.1
Total energy and natural gas		\$ 3,725,281	\$ 4,416,700	\$ (691,419)	100.0%

During 2015, the metals and mining sector (a sub-sector of the basic industrial sector) experienced increased volatility due to the decline in precious and base metal prices. A prolonged decline in these prices could have a broad economic impact and put financial stress on companies in this sector. We continue to monitor our exposure to companies within and exposed to this sector closely. Our current exposure is predominantly with investment grade securities of companies with ample liquidity to weather a prolonged decline in these prices. Many of these companies have displayed financial discipline by reducing capital expenditures and reducing dividends to conserve cash and maintain their credit ratings. For the period of February 1, 2015 to December 31, 2015 (Successor Company), we concluded that certain investment securities within the metals and mining sector that were in an unrealized loss position were other-than-temporarily impaired due to credit related factors, resulting in a \$26.5 million impairment recognized in net income.

The basic industrial sector securities in an unrealized loss position held as of December 31, 2015 (Successor Company) are presented in the following tables:

	Fair Value	Basic Industrial Amortized Cost (Dollars In Thousands)	Unrealized Loss	% Unrealized Loss
Chemicals	\$ 664,746	\$ 759,098	\$ (94,352)	37.1%
Metals and Mining	600,528	749,438	(148,910)	58.6
Paper	138,738	149,764	(11,026)	4.3

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Total	\$	1,404,012	\$	1,658,300	\$	(254,288)	100.0%
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Table of Contents

Rating	Issuer Type	Basic Industrial			% Unrealized Loss
		Fair Value	Amortized Cost (Dollars In Thousands)	Unrealized Loss	
AAA/AA/A	Chemicals	\$ 272,199	\$ 304,022	\$ (31,823)	12.5%
	Metals and Mining	189,633	220,968	(31,335)	12.3
BBB	Chemicals	392,107	453,596	(61,489)	24.2
	Metals and Mining	245,332	309,048	(63,716)	25.1
	Paper	138,738	149,764	(11,026)	4.3
Total investment grade		1,238,009	1,437,398	(199,389)	78.4
Below investment grade	Chemicals	440	1,480	(1,040)	0.4
	Metals and Mining	165,563	219,422	(53,859)	21.2
Total below investment grade		166,003	220,902	(54,899)	21.6
Total basic industrial		\$ 1,404,012	\$ 1,658,300	\$ (254,288)	100.0%

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

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

Table of Contents

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

Financial Instrument and Country	Non-sovereign Debt		Total Gross Funded Exposure
	Financial	Non-financial (Dollars In Millions)	
Securities:			
United Kingdom	\$ 508.0	\$ 759.3	\$ 1,267.3
Netherlands	161.4	189.4	350.8
Switzerland	164.6	148.0	312.6
France	106.6	193.9	300.5
Germany	113.9	115.0	228.9
Spain	23.1	198.4	221.5
Sweden	129.9	31.5	161.4
Norway	12.1	88.1	100.2
Italy		92.5	92.5
Belgium		88.5	88.5
Ireland	11.0	55.9	66.9
Luxembourg		43.4	43.4
Total securities	1,230.6	2,003.9	3,234.5
Derivatives:			
Germany	30.8		30.8
United Kingdom	29.6		29.6
Switzerland	9.3		9.3
France	4.4		4.4
Total derivatives	74.1		74.1
Total securities	\$ 1,304.7	\$ 2,003.9	\$ 3,308.6

Table of Contents**Realized Gains and Losses**

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

	Successor Company		Predecessor Company	
	February 1, 2015	January 1, 2015	For The Year Ended	December 31,
	to	to	December 31,	2013
	December 31, 2015	January 31, 2015	2014	
	(Dollars In Thousands)		(Dollars In Thousands)	
Fixed maturity gains - sales	\$ 8,650	\$ 6,920	\$ 76,327	\$ 69,515
Fixed maturity losses - sales	(7,368)	(29)	(1,168)	(6,335)
Equity gains - sales	95		1,793	3,276
Equity losses - sales	(1,096)			
Impairments on fixed maturity securities	(26,993)	(481)	(7,275)	(19,100)
Impairments on equity securities				(3,347)
Modco trading portfolio	(167,359)	73,062	142,016	(178,134)
Other	192	1,200	(13,566)	(11,859)
Total realized gains (losses) - investments	\$ (193,879)	\$ 80,672	\$ 198,127	\$ (145,984)
Derivatives related to VA contracts:				
Interest rate futures - VA	\$ (14,818)	\$ 1,413	\$ 27,801	\$ (31,216)
Equity futures - VA	(5,033)	9,221	(26,104)	(52,640)
Currency futures - VA	7,169	7,778	14,433	(469)
Variance swaps - VA			(744)	(11,310)
Equity options - VA	(27,733)	3,047	(41,216)	(95,022)
Volatility options - VA				(115)
Interest rate swaptions - VA	(13,354)	9,268	(22,280)	1,575
Interest rate swaps - VA	(85,942)	122,710	214,164	(157,408)
Embedded derivative- GMWB	4,412	(207,018)	(401,354)	325,497
Total derivatives related to VA contracts	(135,299)	(53,581)	(235,300)	(21,108)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(738)	1,769	(16,932)	(942)
Equity futures - FIA	(355)	(184)	870	173
Volatility futures - FIA	5		20	(5)
Equity options - FIA	1,211	(2,617)	9,906	1,866
Total derivatives related to FIA contracts	123	(1,032)	(6,136)	1,092
Derivatives related to IUL contracts:				
Embedded derivative - IUL	(614)	(486)	(8)	
Equity futures - IUL	144	3	15	
Equity options - IUL	(540)	(115)	150	
Total derivatives related to IUL contracts	(1,010)	(598)	157	
Embedded derivative - Modco				
reinsurance treaties	166,092	(68,026)	(105,276)	205,176
Interest rate swaps				2,985
Other derivatives	91	(37)	(323)	(14)
Total realized gains (losses) - derivatives	\$ 29,997	\$ (123,274)	\$ (346,878)	\$ 188,131

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments and Modco trading portfolio activity during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1,

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2015 to January 31, 2015 (Predecessor Company), primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment, as well as tax planning strategies designed to utilize capital loss carryforwards.

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Table of Contents

Realized losses are comprised of both write-downs of other-than-temporary impairments and actual sales of investments. For the period of February 1, 2015 to December 31, 2015 (Successor Company), we concluded that approximately \$27.0 million of investment securities in an unrealized loss position were other-than-temporarily impaired, due to credit related factors, resulting in a charge to earnings. Additionally, \$1.6 million of non-credit losses was recorded in other comprehensive income (loss). For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we recognized pre-tax other-than-temporary impairments of \$0.5 million due to credit-related factors, resulting in a charge to earnings as well as \$0.1 million of non-credit losses recorded in other comprehensive income. For the year ended December 31, 2014 (Predecessor Company), we recognized pre-tax other-than-temporary impairments of \$7.3 million. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments, net of Modco recoveries, are presented in the chart below:

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Millions)	January 1, 2015 to January 31, 2015 (Dollars In Millions)	For The Year Ended December 31, 2014 (Dollars In Millions)	
Alt-A MBS	\$ 27.0	\$ 0.3	\$ 3.6	
Other MBS	0.2	0.2	2.9	
Corporate securities	26.6			
Other	0.2		0.8	
Total	\$ 27.0	\$ 0.5	\$ 7.3	

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold them until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized loss position with a fair value of \$178.4 million and \$0.4 million, respectively. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below for the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company):

	<u>Successor Company</u>			
	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 24,700	13.8 %	\$ (1,570)	18.6 %
>90 days but <= 180 days	44,860	25.2	(2,513)	29.7
>180 days but <= 270 days	57,411	32.2	(3,358)	39.7
>270 days but <= 1 year	51,444	28.8	(1,023)	12.0
>1 year				
Total	\$ 178,415	100.0 %	\$ (8,464)	100.0 %

Predecessor Company

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	Proceeds		% Proceeds		Realized Loss		% Realized Loss	
					(Dollars In Thousands)			
<= 90 days	\$	87	20.1	%	\$	(6)	20.8	%
>90 days but <= 180 days								
>180 days but <= 270 days								
>270 days but <= 1 year		4	0.9				1.5	
>1 year		344	79.0			(23)	77.7	
Total	\$	435	100.0	%	\$	(29)	100.0	%

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Table of Contents

For the period of February 1, 2015 to December 31, 2015 (Successor Company) we sold securities in an unrealized loss position with a fair value (proceeds) of \$178.4 million. The loss realized on the sale of these securities was \$8.5 million for the period of February 1, 2015 to December 31, 2015 (Successor Company). We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized loss position with a fair value (proceeds) of \$0.4 million. We had an immaterial loss for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we sold securities in an unrealized gain position with a fair value of \$950.9 million and \$172.6 million, respectively. The gain realized on the sale of these securities was \$8.7 million and \$6.9 million, respectively.

The \$0.2 million of other realized gains recognized for the period of February 1, 2015 to December 31, 2015 (Successor Company), consisted of realized gains of \$1.4 million related to the sale of a partnership and \$2.5 million related to a decrease in mortgage loan reserves. These gains were partially offset by realized losses of \$3.7 million related to mortgage loans.

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

For the period of February 1, 2015 to December 31, 2015 (Successor Company) net losses of \$167.4 million primarily related to changes in fair value on our Modco trading portfolios were included in realized gains and losses. Of this amount, approximately \$7.0 million of losses were realized through the sale of certain securities, which will be reimbursed by our reinsurance partners over time through the reinsurance settlement process for this block of business.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), net gains of \$73.1 million primarily related to changes in fair value on our Modco trading portfolios were included in realized gains and losses. Of this amount, approximately \$1.3 million of gains were realized through the sale of certain securities, which will be reimbursed to our reinsurance partners over time through the reinsurance settlement process for this block of business.

The Modco embedded derivative associated with the trading portfolios had realized pre-tax gains of \$166.1 million during the period of February 1, 2015 to December 31, 2015 (Successor Company). These gains were due to higher credit spreads and treasury yields.

The Modco embedded derivative associated with the trading portfolios had realized pre-tax losses of \$68.0 million during the period of January 1, 2015 to January 31, 2015 (Predecessor Company). These losses were due to lower treasury yields.

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

We use various derivative instruments to manage risks related to certain life insurance and annuity products. We can use these derivatives as economic hedges against risks inherent in the products. These risks have a direct impact on the cost of these products and are correlated with the equity markets, interest rates, foreign currency levels, and overall volatility. The hedged risks are recorded through the recognition of embedded derivatives associated with the products. These products include the GMWB rider associated with the variable annuity, fixed indexed annuity products as well as indexed universal life products. During the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we experienced net realized losses on derivatives related to VA contracts of approximately \$135.3 million and \$53.6 million, respectively. These net losses on derivatives related to VA contracts in addition to capital market impacts were affected by changes in the lowering of assumed lapses used to value the GMWB embedded derivatives.

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

Table of Contents**Unrealized Gains and Losses Available-for-Sale Securities**

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after December 31, 2015 (Successor Company), the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a bright line test to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. We had an overall net unrealized loss of \$2.9 billion, prior to tax and the related impact of certain insurance assets and liabilities offsets, as of December 31, 2015 (Successor Company), and an overall net unrealized gain of \$3.1 billion as of December 31, 2014 (Predecessor Company).

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

	Fair	% Fair	Amortized	% Amortized	Unrealized	% Unrealized
	Value	Value	Cost	Cost	Loss	Loss
(Dollars In Thousands)						
<= 90 days	\$ 10,420,338	34.4 %	\$ 11,272,462	33.9 %	\$ (852,124)	29.1 %
>90 days but <= 180 days	1,995,841	6.6	2,165,404	6.6	(169,563)	5.8
>180 days but <= 270 days	2,756,527	9.1	3,033,060	9.1	(276,533)	9.4
>270 days but <= 1 year	15,114,113	49.9	16,746,333	50.4	(1,632,220)	55.7
>1 year but <= 2 years						
>2 years but <= 3 years						
>3 years but <= 4 years						
>4 years but <= 5 years						
>5 years						
Total	\$ 30,286,819	100.0 %	\$ 33,217,259	100.0 %	\$ (2,930,440)	100.0 %

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

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As of December 31, 2015 (Successor Company), the Barclays Investment Grade Index was priced at 161.7 bps versus a 10 year average of 171.4 bps. Similarly, the Barclays High Yield Index was priced at 706.56 bps versus a 10 year average of 624.61 bps. As of December 31, 2015 (Successor Company), the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 1.761%, 2.27%, and 3.016%, as compared to 10 year averages of 2.253%, 3.095%, and 3.868%, respectively.

As of December 31, 2015 (Successor Company), 93.9% of the unrealized loss was associated with securities that were rated investment grade. We have examined the performance of the underlying collateral and cash flows and expect that our investments will continue to perform in accordance with their contractual terms. Factors such as credit enhancements within the deal structures and the underlying collateral performance/characteristics support the recoverability of the investments. Based on the factors discussed, we do not consider these unrealized loss positions to be other-than-temporary. However, from time to time, we may sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield enhancement, asset/liability management, and liquidity requirements.

Expectations that investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions that a market participant would use in determining the current fair value. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such an event may lead to adverse changes in the cash flows on our holdings of these types of securities. This could

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Table of Contents

lead to potential future write-downs within our portfolio of mortgage-backed and asset-backed securities. Expectations that our investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize potential future write-downs within our portfolio of corporate securities. It is also possible that such unanticipated events would lead us to dispose of those certain holdings and recognize the effects of any such market movements in our financial statements.

As of December 31, 2015 (Successor Company), there were estimated gross unrealized losses of \$4.6 million related to our mortgage-backed securities collateralized by Alt-A mortgage loans. Gross unrealized losses in our securities collateralized by Alt-A residential mortgage loans as of December 31, 2015 (Successor Company), were primarily the result of continued widening spreads, representing marketplace uncertainty arising from higher defaults in Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by Alt-A residential mortgage loans.

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

	Fair	% Fair	Amortized	% Amortized	Unrealized	% Unrealized
	Value	Value	Cost	Cost	Loss	Loss
	(Dollars In Thousands)					
Banking	\$ 2,908,692	9.6%	\$ 3,024,232	9.1%	\$ (115,540)	3.9%
Other finance	437,939	1.4	453,491	1.4	(15,552)	0.5
Electric utility	3,396,360	11.2	3,790,953	11.4	(394,593)	13.5
Energy and natural gas	3,725,281	12.3	4,416,700	13.3	(691,419)	23.6
Insurance	2,699,313	8.9	2,984,867	9.0	(285,554)	9.7
Communications	1,207,227	4.0	1,396,152	4.5	(188,925)	6.5
Basic industrial	1,404,012	4.6	1,658,300	5.0	(254,288)	8.7
Consumer noncyclical	2,780,597	9.2	3,036,815	9.1	(256,218)	8.7
Consumer cyclical	1,512,885	4.9	1,627,750	4.9	(114,865)	3.9
Finance companies	102,526	0.3	111,112	0.3	(8,586)	0.3
Capital goods	1,269,025	4.2	1,368,468	4.1	(99,443)	3.4
Transportation	858,122	2.8	944,190	2.8	(86,068)	2.9
Other industrial	275,478	0.9	301,883	0.9	(26,405)	0.9
Brokerage	480,565	1.6	516,367	1.6	(35,802)	1.2
Technology	1,152,738	3.8	1,247,429	3.8	(94,691)	3.2
Real estate	139,853	0.5	142,483	0.4	(2,630)	0.1
Other utility	216,013	0.7	236,052	0.7	(20,039)	0.7
Commercial mortgage-backed securities	1,233,518	4.1	1,275,376	3.5	(41,858)	1.4
Other asset-backed securities	633,274	2.1	652,037	2.0	(18,763)	0.6
Residential mortgage-backed non-agency securities	562,686	1.9	572,327	1.7	(9,641)	0.3
Residential mortgage-backed agency securities	414,747	1.4	422,218	1.3	(7,471)	0.3
U.S. government-related securities	1,291,476	4.3	1,326,008	4.0	(34,532)	1.2

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Other government-related securities	17,740	0.1	18,483	0.1	(743)	
States, municipals, and political divisions	1,566,752	5.2	1,693,566	5.1	(126,814)	4.5
Total	\$ 30,286,819	100.0%	\$ 33,217,259	100.0%	\$ (2,930,440)	100.0%

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Table of Contents

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

	Successor Company		Predecessor Company	
	As of		As of	
	December 31, 2015		December 31, 2014	
Banking	3.9	%	9.2	%
Other finance	0.5		0.8	
Electric utility	13.5		0.6	
Energy and natural gas	23.6		22.9	
Insurance	9.7		4.0	
Communications	6.5		2.6	
Basic industrial	8.7		18.4	
Consumer noncyclical	8.7		3.8	
Consumer cyclical	3.9		4.4	
Finance companies	0.3		0.4	
Capital goods	3.4		1.0	
Transportation	2.9		0.1	
Other industrial	0.9		0.6	
Brokerage	1.2		0.2	
Technology	3.2		2.8	
Real estate	0.1			
Other utility	0.7			
Commercial mortgage-backed securities	1.4		1.1	
Other asset-backed securities	0.6		16.8	
Residential mortgage-backed non-agency securities	0.3		5.4	
Residential mortgage-backed agency securities	0.3		0.4	
U.S. government-related securities	1.2		4.3	
Other government-related securities				
States, municipals, and political divisions	4.5		0.2	
Total	100.0	%	100.0	%

The range of maturity dates for securities in an unrealized loss position as of December 31, 2015 (Successor Company) varies, with 20.3% maturing in less than 5 years, 22.2% maturing between 5 and 10 years, and 57.5% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of December 31, 2015 (Successor Company):

<u>S&P or Equivalent Designation</u>	Fair	% Fair	Amortized	% Amortized	Unrealized	% Unrealized
	Value	Value	Cost	Cost	Loss	Loss
(Dollars In Thousands)						
AAA/AA/A	\$ 16,144,727	53.3 %	\$ 17,317,189	52.1 %	\$ (1,172,462)	40.0 %
BBB	12,988,126	42.9	14,567,733	43.9	(1,579,607)	53.9
Investment grade	29,132,853	96.2	31,884,922	96.0	(2,752,069)	93.9
BB	853,418	2.8	980,949	3.0	(127,531)	4.4

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B	74,425	0.2	99,889	0.3	(25,464)	0.9
CCC or lower	226,123	0.8	251,499	0.7	(25,376)	0.8
Below investment grade	1,153,966	3.8	1,332,337	4.0	(178,371)	6.1
Total	\$ 30,286,819	100.0 %	\$ 33,217,259	100.0 %	\$ (2,930,440)	100.0 %

As of December 31, 2015 (Successor Company), we held a total of 2,548 positions that were in an unrealized loss position. Included in that amount were 166 positions of below investment grade securities with a fair value of \$1.2 billion that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were \$178.4 million, none of which had been in an unrealized loss position for more than twelve months. Below investment grade securities in an unrealized loss position were 2.6% of invested assets.

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Table of Contents

As of December 31, 2015 (Successor Company), securities in an unrealized loss position that were rated as below investment grade represented 3.8% of the total fair value and 6.1% of the total unrealized loss. We have the ability and intent to hold these securities to maturity. After a review of each security and its expected cash flows, we believe the decline in market value to be temporary.

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

	Fair		% Fair		Amortized		% Amortized		Unrealized		% Unrealized	
	Value		Value		Cost		Cost		Loss		Loss	
	(Dollars In Thousands)											
<= 90 days	\$ 382,157		33.1	%	\$ 427,176		32.1	%	\$ (45,019)		25.2	%
>90 days but <= 180 days	326,654		28.3		393,917		29.6		(67,263)		37.7	
>180 days but <= 270 days	250,936		21.7		294,481		22.1		(43,545)		24.4	
>270 days but <= 1 year	194,219		16.9		216,763		16.2		(22,544)		12.7	
>1 year but <= 2 years												
>2 years but <= 3 years												
>3 years but <= 4 years												
>4 years but <= 5 years												
>5 years												
Total	\$ 1,153,966		100.0	%	\$ 1,332,337		100.0	%	\$ (178,371)		100.0	%

The majority of our RMBS holdings as of December 31, 2015 (Successor Company) were super senior or senior bonds in the capital structure. Our total non-agency portfolio has a weighted-average life of 7.98 years. The following table categorizes the weighted-average life for our non-agency portfolio, by category of material holdings, as of December 31, 2015 (Successor Company):

	Weighted-Average
<u>Non-agency portfolio</u>	Life
Prime	8.89
Alt-A	4.59
Sub-prime	3.66

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. We meet our liquidity requirements primarily through positive cash flows from our operating subsidiaries. Primary sources of cash from the operating subsidiaries are premiums, deposits for policyholder accounts, investment sales and maturities, and investment income. Primary uses of cash include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, interest payments, and other operating expenses. We believe that we have sufficient liquidity to fund our cash needs under normal operating scenarios.

In the event of significant unanticipated cash requirements beyond our normal liquidity needs, we have additional sources of liquidity available depending on market conditions and the amount and timing of the liquidity need. These additional sources of liquidity include cash flows from operations, the sale of liquid assets, accessing our credit facility, and other sources described herein.

Our decision to sell investment assets could be impacted by accounting rules, including rules relating to the likelihood of a requirement to sell securities before recovery of our cost basis. Under stressful market and economic conditions, liquidity may broadly deteriorate, which could negatively impact our ability to sell investment assets. If we require on short notice significant amounts of cash in excess of normal requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

While we anticipate that the cash flows of our operating subsidiaries will be sufficient to meet our investment commitments and operating cash needs in a normal credit market environment, we recognize that investment commitments

Table of Contents

scheduled to be funded may, from time to time, exceed the funds then available. Therefore, we have established repurchase agreement programs for certain of our insurance subsidiaries to provide liquidity when needed. We expect that the rate received on our investments will equal or exceed our borrowing rate. Under this program, we may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of December 31, 2015 (Successor Company), the fair value of securities pledged under the repurchase program was \$479.9 million and the repurchase obligation of \$438.2 million was included in our consolidated balance sheets (at an average borrowing rate of 36 basis points). During the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the maximum balance outstanding at any one point in time related to these programs was \$912.7 million and \$175.0 million, respectively. The average daily balance was \$540.3 million and \$77.4 million (at an average borrowing rate of 20 and 16 basis points, respectively) during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. As of December 31, 2014 (Predecessor Company), we had a \$50.0 million outstanding balance related to such borrowings. During 2014, the maximum balance outstanding at any one point in time related to these programs was \$633.7 million. The average daily balance was \$470.4 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2014 (Predecessor Company).

Additionally, we may, from time to time, sell short-duration stable value products to complement our cash management practices. Depending on market conditions, we may also use securitization transactions involving our commercial mortgage loans to increase liquidity for the operating subsidiaries.

Credit Facility

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

On February 2, 2015, we amended and restated the Credit Facility (the 2015 Credit Facility). Under the 2015 Credit Facility, we have the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. We have the right in certain circumstances to request that the commitment under the 2015 Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the 2015 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of our Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The 2015 Credit Facility also provided for a facility fee at a rate that varies with the ratings of our Senior Debt and that is calculated on the aggregate amount of commitments under the 2015 Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon our subsequent ratings upgrade on February 2, 2015. The 2015 Credit Facility provides that we are liable for the full amount of any obligations for

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borrowings or letters of credit, including those of PLICO, under the 2015 Credit Facility. The maturity date of the 2015 Credit Facility is February 2, 2020. We are not aware of any non-compliance with the financial debt covenants of the Credit Facility as of February 2, 2015 or the 2015 Credit Facility as of December 31, 2015 (Successor Company). There was an outstanding balance of \$485.0 million bearing interest at a rate of LIBOR plus 1.00% as of December 31, 2015 (Successor Company). As of December 31, 2015 (Successor Company), PLICO had canceled the \$55.0 million Letter of Credit under the Credit Facility for the benefit of an affiliated captive reinsurance subsidiary of the Company.

Table of Contents

Sources and Use of Cash

Our primary sources of funding are dividends from our operating subsidiaries; revenues from investments, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These sources of cash support our general corporate needs including our common stock dividends and debt service. The states in which our insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay us dividends. These restrictions are based in part on the prior year's statutory income and/or surplus. Generally, these restrictions pose no short-term liquidity concerns. We plan to retain portions of the earnings of our insurance subsidiaries in those companies primarily to support their future growth.

Through our subsidiaries, we are members of the FHLB of Cincinnati and the FHLB of New York. FHLB advances provide an attractive funding source for short-term borrowing and for the sale of funding agreements. Membership in the FHLB requires that we purchase FHLB capital stock based on a minimum requirement and a percentage of the dollar amount of advances outstanding. Our borrowing capacity is determined by criteria established by each respective bank.

We held \$65.7 million of FHLB common stock as of December 31, 2015 (Successor Company), which is included in equity securities. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of December 31, 2015 (Successor Company), we had \$722.1 million of funding agreement-related advances and accrued interest outstanding under the FHLB program.

As of December 31, 2015 (Successor Company), we reported approximately \$587.0 million (fair value) of Auction Rate Securities (ARS) in non-Modco portfolios. As of December 31, 2015 (Successor Company), 100% of these ARS were rated Aaa/AA+. While the auction rate market has experienced liquidity constraints, we believe that based on our current liquidity position and our operating cash flows, any lack of liquidity in the ARS market will not have a material impact on our liquidity, financial condition, or cash flows. For information on how we determine the fair value of these securities refer to Note 23, *Fair Value of Financial Instruments*, of the consolidated financial statements.

The liquidity requirements of our regulated insurance subsidiaries primarily relate to the liabilities associated with their various insurance and investment products, operating expenses, and income taxes. Liabilities arising from insurance and investment products include the payment of policyholder benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans, and obligations to redeem funding agreements.

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits and expected surrenders, withdrawals, loans, and redemption obligations without forced sales of investments. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund our expected operating expenses, surrenders, and withdrawals. As of December 31, 2015 (Successor Company), our total cash and invested assets were \$45.6 billion. The life insurance subsidiaries were committed as of December 31, 2015 (Successor Company), to fund mortgage loans in the amount of \$601.9 million.

Our positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. Our insurance

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subsidiaries held approximately \$476.2 million in cash and short-term investments as of December 31, 2015 (Successor Company), and we held approximately \$68.6 million in cash available for general corporate purposes.

The Company expects to use a portion of its positive cash flow from operations to pay dividends to its parent, Dai-ichi Life. The Company did not pay any dividends during the period from February 1, 2015 to December 31, 2015 (Predecessor), but expects to pay a dividend of approximately \$89.3 million during 2016.

The following chart includes the cash flows provided by or used in operating, investing, and financing activities for the following periods:

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015	For The Year Ended December 31, 2014 2013 (Dollars In Thousands)	
Net cash provided by operating activities	\$ 355,628	\$ 191,223	\$ 723,497	\$ 499,550
Net cash (used in) provided by investing activities	(1,492,815)	22,994	88,916	(1,044,658)
Net cash provided by (used in) financing activities	1,070,549	(130,918)	(899,544)	642,849
Total	\$ (66,638)	\$ 83,299	\$ (87,131)	\$ 97,741

Table of Contents

For The Period of February 1, 2015 to December 31, 2015 (Successor Company) and For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)

Net cash provided by operating activities - Cash flows from operating activities are affected by the timing of premiums received, fees received, investment income, and expenses paid. Principal sources of cash include sales of our products and services. We typically generate positive cash flows from operating activities, as premiums and policy fees collected from our insurance and investment products exceed benefit payments and redemptions, and we invest the excess. Accordingly, in analyzing our cash flows we focus on the amount of cash provided by or used in investing and financing activities.

Net cash (used in) provided by investing activities - Changes in cash from investing activities primarily related to the activity in our investment portfolio.

Net cash provided by (used in) financing activities - Changes in cash from financing activities included \$388.2 million of inflows from repurchase program borrowings for the period of February 1, 2015 to December 31, 2015 (Successor Company) and \$625.5 million inflows of investment product and universal life net activity. Net activity related to credit facility resulted in outflows of \$8.1 million for the period of February 1, 2015 to December 31, 2015 (Successor Company). Net issuance of non-recourse funding obligations was \$65.0 million during the period of February 1, 2015 to December 31, 2015 (Successor Company).

Changes in cash from financing activities included \$70.9 million outflows of investment product and universal life net activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). Net activity related to our credit facility resulted in \$60.0 million of outflows for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

Capital Resources

Our primary sources of capital are through retained income from our operating subsidiaries, capital infusions from our parent, Dai-ichi Life, as well as our ability to access debt financing markets. Additionally, we have access to the Credit Facility discussed above.

Captive Reinsurance Companies

Our life insurance subsidiaries are subject to a regulation entitled Valuation of Life Insurance Policies Model Regulation, commonly known as Regulation XXX, and a supporting guideline entitled The Application of the Valuation of Life Insurance Policies Model Regulation, commonly known as Guideline AXXX. The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life

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insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves either through the issuance of non-recourse funding obligations by the captives or obtaining Letters of Credit from third-party financial institutions. For more information regarding our use of captives and their impact on our financial statements, please refer to Note 12, *Debt and Other Obligations*.

Our captive reinsurance companies assume business from affiliates only. Our captives are capitalized to a level we believe is sufficient to support the contractual risks and other general obligations of the respective captive entity. All of our captive reinsurance companies are wholly owned subsidiaries and are located domestically. The captive insurance companies are subject to regulations in the state of domicile.

The National Association of Insurance Commissioners (NAIC), through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers. The Financial Condition (E) Committee of the NAIC recently established a Variable Annuity Issues Working Group to examine company use of variable annuity captives. The Committee has proposed changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and results of operations.

The Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, adopted the conceptual framework contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the Rector Report), that contains numerous recommendations pertaining to the regulation and use of certain captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in various stages of discussions regarding recommendations. One recommendation of the Rector Report has been adopted as Actuarial Guideline XLVIII (AG48). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. Other

Table of Contents

recommendations in the Rector Report are subject to ongoing comment and revision. It is unclear at this time to what extent the recommendations in the Rector Report, or additional or revised recommendations relating to captive transactions or reinsurance transactions in general, will be adopted by the NAIC. If the recommendations proposed in the Rector Report are implemented, it will likely be difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Rector Report, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. Additionally, in some circumstances AG48 and the implementation of the recommendations in the Rector Report could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

We also use a captive reinsurance company to reinsure risks associated with GMWB and GMDB riders which helps us to manage those risks on an economic basis. In an effort to mitigate the equity market risks relative to our RBC ratio, in the fourth quarter of 2012, we established an indirect wholly owned insurance subsidiary, Shades Creek Captive Insurance Company (Shades Creek), to which PLICO has reinsured GMWB and GMDB riders related to its VA contracts. The purpose of Shades Creek is to reduce the volatility in RBC due to non-economic variables included within the RBC calculation.

During 2012, we entered into an intercompany capital support agreement with Shades Creek. The agreement provides through a guarantee that we will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek's regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. Under this support agreement, PLICO issued a \$55 million Letter of Credit on December 31, 2014 (Predecessor Company). As of December 31, 2015 (Successor Company), this Letter of Credit was no longer issued and outstanding. Also in accordance with this support agreement, \$120 million of additional capital was provided to Shades Creek by the Company through cash capital contributions during the period February 1, 2015 to December 31, 2015 (Successor Company). As of December 31, 2015 (Successor Company), Shades Creek maintained capital levels in excess of the required minimum thresholds. The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

For additional information regarding risks, uncertainties, and other factors that could affect our use of captive reinsurers, please see Part I, Item 1A, *Risk Factors*, of this report.

Debt

Our aggregate debt (long-term debt with maturities greater than 1 year, subordinated debt securities, and a revolving line of credit) decreased \$69.9 million during the year ended December 31, 2015 (Successor Company), as compared to a decrease of \$285.0 million during the year ended December 31, 2014 (Predecessor Company).

Debt changes during the period February 1, 2015 to December 31, 2015 (Successor Company) and during 2014 (Predecessor Company), are detailed below:

Successor Company

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<u>Description</u>	<u>Amount</u> (Dollars In Thousands)
February 1, 2015 to December 31, 2015	
6.125% Subordinated Debentures (2004), due 2034, callable 2009 (par value: \$103,093)	\$ (104,936)

Predecessor Company

<u>Description</u>	<u>Amount</u> (Dollars In Thousands)
2014	
4.875% Senior Notes (2004), due 2014	\$ (150,000)
8.00% Senior Notes (2009), due 2024, callable 2014	(100,000)

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Table of Contents

Debt increases (reductions) in the revolving line of credit during 2015 and 2014 are detailed below:

<u>Description</u>	<u>Successor Company</u>		<u>Interest Rate</u>
	Amount (Dollars In Thousands)		
2015			
Revolving line of credit	\$	35,000	LIBOR + 1.00%
<u>Description</u>	<u>Predecessor Company</u>		<u>Interest Rate</u>
	Amount (Dollars In Thousands)		
2014			
Revolving line of credit	\$	(35,000)	LIBOR + 1.20%

During the year ended December 31, 2014 (Predecessor Company), we did not repurchase any of our common stock.

A life insurance company's statutory capital is computed according to rules prescribed by the NAIC, as modified by state law. Generally speaking, other states in which a company does business defer to the interpretation of the domiciliary state with respect to NAIC rules, unless inconsistent with the other state's regulations. Statutory accounting rules are different from GAAP and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as an ordinary dividend to us from our insurance subsidiaries in 2016 is approximately to be \$541.3 million.

State insurance regulators and the NAIC have adopted risk-based capital (RBC) requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense, and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to RBC. We manage our capital consumption by using the ratio of our total adjusted capital, as defined by the insurance regulators, to our company action level RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2015 (Successor Company), our total adjusted capital and company action level RBC were approximately \$4.1 billion and \$720.6 million, respectively, providing an RBC ratio of approximately 562%.

Statutory reserves established for VA contracts are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees and product design. As a result, the relationship between reserve changes and equity market performance

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may be non-linear during any given reporting period. Market conditions greatly influence the capital required due to their impact on the valuation of reserves and derivative investments mitigating the risk in these reserves. For example, if the level of the S&P 500 had been 10% lower as of December 31, 2015 (Successor Company), we estimate that our RBC ratio would have declined by an insignificant amount. Likewise, if the level of the S&P 500 had been 10% higher as of December 31, 2015 (Successor Company), we estimate that our RBC ratio would have changed by an insignificant amount. Risk mitigation activities may result in material and sometimes counterintuitive impacts on statutory surplus and RBC ratio. Notably, as changes in these market and non-market factors occur, both our potential obligation and the related statutory reserves and/or required capital can vary at a non-linear rate.

Our statutory surplus is impacted by credit spreads as a result of accounting for the assets and liabilities on our fixed MVA annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit

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Table of Contents

markets, actual credit spreads on investment assets may increase or decrease sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value gains or losses. As actual credit spreads are not fully reflected in current crediting rates based on U.S. Treasuries, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in a change in statutory surplus. The result of this mismatch had a negative impact to our statutory surplus of approximately \$136 million on a pre-tax basis for the year ended December 31, 2015, as compared to a negative impact to our statutory surplus of approximately \$3 million on a pre-tax basis for the year ended December 31, 2014.

On October 1, 2013 PLICO completed the acquisition contemplated by the master agreement (the *MONEY Master Agreement*) dated April 10, 2013 and incorporated by reference in this Annual Report on Form 10-K as Exhibit 2. Pursuant to the *MONEY Master Agreement* with AXA Financial, Inc. (*AXA*) and AXA Equitable Financial Services, LLC (*AEFS*), PLICO acquired the stock of *MONEY Life Insurance Company* (*MONEY*) 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 *MONEY Life Insurance Company of America* (*MLOA*). The final aggregate purchase price of *MONEY* was \$689 million. The ceding commission for the reinsurance of the *MLOA Business* was \$370 million. Together, the purchase of *MONEY* and reinsurance of the *MLOA Business* are hereto referred to as (the *MONEY acquisition*). The *MONEY* acquisition allowed us to invest our capital and increase the scale of its Acquisitions segment. The *MONEY* acquisition business is comprised of traditional and universal life insurance policies and fixed and variable annuities, most of which were written prior to 2004.

We cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations that it assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. For period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we ceded premiums to third party reinsurers amounting to \$1.2 billion and \$90.0 million, respectively. In addition, we had receivables from reinsurers amounting to \$5.5 billion as of December 31, 2015 (Successor Company). We review reinsurance receivable amounts for collectability and establish bad debt reserves if deemed appropriate. For additional information related to our reinsurance exposure, see Note 11, *Reinsurance*, to the consolidated financial statements included in this report.

Ratings

Various Nationally Recognized Statistical Rating Organizations (*rating organizations*) review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in an insurer's products, its ability to market its products and its competitive position. The following table summarizes the current financial strength ratings of our significant member companies from the major independent rating organizations:

<u>Ratings</u>	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A	AA	A2
West Coast Life Insurance Company	A+	A	AA	A2
Protective Life and Annuity Insurance Company	A+	A	AA	
Lyndon Property Insurance Company	A			
MONEY Life Insurance Company	A+	A	A+	A2

Our ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of our insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. The rating agencies may take various actions, positive or negative, with respect to the financial strength ratings of our insurance subsidiaries, including as a result of our status as a subsidiary of Dai-ichi Life.

On April 28, 2015, Fitch announced a one-notch downgrade of the insurance financial strength ratings of PLICO, West Coast Life Insurance Company, Protective Life and Annuity Insurance Company and MONY Life Insurance Company to A from A+ following the downgrade of Japan's Long-Term Local Currency Issuer Default Rating (IDR) to A from A+. Fitch stated that such life insurance companies cannot be rated above the sovereign currency rating applicable to their ultimate parent

Table of Contents

company, Dai-ichi Life, based in Japan. Our credit rating was not affected by these actions. The ratings downgrades announced by Fitch did not trigger any requirements for us or our subsidiaries to post collateral or otherwise negatively impact current obligations.

Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access credit markets and other types of liquidity. Ratings are not recommendations to buy our securities or products. A downgrade or other negative action by a ratings organization with respect to our credit rating could limit our access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require us to post collateral. The rating agencies may take various actions, positive or negative, with respect to our debt ratings, including as a result of our status as a subsidiary of Dai-ichi Life.

LIABILITIES

Many of our products contain surrender charges and other features that are designed to reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue.

As of December 31, 2015 (Successor Company), we had policy liabilities and accruals of approximately \$30.4 billion. Our interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.48%.

Contractual Obligations

We enter into various obligations to third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed solely based upon an analysis of these obligations. The most significant factors affecting our future cash flows are our ability to earn and collect cash from our customers, and the cash flows arising from our investment program. Future cash outflows, whether they are contractual obligations or not, will also vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates, market performance, or surrender provisions. Many of our obligations are linked to cash-generating contracts. In addition, our operations involve significant expenditures that are not based upon contractual obligations. These include expenditures for income taxes and payroll.

As of December 31, 2015 (Successor Company), we carried a \$13.1 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

Table of Contents

The table below sets forth future maturities of our contractual obligations.

	Payments due by period					
	Total	Less than 1 year		1 - 3 years	3 - 5 years	More than 5 years
	(Dollars In Thousands)					
Debt(1)	\$ 2,095,981	\$ 70,852	\$ 282,504	\$ 966,256	\$ 776,369	
Non-recourse funding obligations(2)	2,035,852	35,618	81,984	94,698	1,823,552	
Subordinated debt securities(3)	1,151,426	26,969	53,938	53,938	1,016,581	
Stable value products(4)	2,218,285	625,340	1,068,312	464,489	60,144	
Operating leases(5)	32,666	4,406	7,871	7,244	13,145	
Home office lease(6)	79,122	1,385	77,737			
Mortgage loan and investment commitments	1,051,454	980,610	70,844			
Repurchase program borrowings(7)	438,189	438,189				
Policyholder obligations(8)	41,147,295	1,648,160	3,218,638	3,298,244	32,982,253	
Total(9)	\$ 50,250,270	\$ 3,831,529	\$ 4,861,828	\$ 4,884,869	\$ 36,672,044	

(1) Debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.

(2) Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, \$1.8 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.

(3) Subordinated debt securities includes all principal amounts and interest payments due over the term of the obligations.

(4) Anticipated stable value products cash flows including interest.

(5) Includes all lease payments required under operating lease agreements.

(6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreement, which was entered in December 2013.

(7) Represents secured borrowings as part of our repurchase program as well as related interest.

(8) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market

growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.

(9) Excluded from this table are certain pension obligations.

Employee Benefit Plans

We sponsor a defined benefit pension plan covering substantially all of our employees. In addition, we sponsor an unfunded excess benefit plan and provide other postretirement benefits to eligible employees.

We report the net funded status of our pension and other postretirement plans in the consolidated balance sheet. The net funded status represents the differences between the fair value of plan assets and the projected benefit obligation.

Our funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act (ERISA) plus such additional amounts as we may determine to be appropriate from time to time. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. We 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.

We have not yet determined the total amount we will fund during 2016, but we estimate that the amount will be between \$1 million and \$10 million.

For a complete discussion of our benefit plans, additional information related to the funded status of our benefit plans, and our funding policy, see Note 16, *Employee Benefit Plans*, to the consolidated financial statements included in this report.

Table of Contents

FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB guidance defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term "fair value" in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 23, *Fair Value of Financial Instruments*, to the consolidated financial statements included in this report.

OFF-BALANCE SHEET ARRANGEMENTS

We have entered into indemnity agreements with each of our directors as well as operating leases that do not result in an obligation being recorded on the balance sheet. Refer to Note 13, *Commitments and Contingencies*, of the consolidated financial statements for more information.

MARKET RISK EXPOSURES

Our financial position and earnings are subject to various market risks including changes in interest rates, the yield curve, spreads between risk-adjusted and risk-free interest rates, foreign currency rates, used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. See Note 24, *Derivative Financial Instruments*, to the consolidated financial statements included in this report for additional information on our financial instruments.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one year of one another, although, from time to time, a broader interval may be allowed.

We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us, net of collateral held, based upon current market conditions. In addition, we periodically assess exposure related to potential payment obligations between us and our counterparties. We minimize the credit risk in derivative financial instruments by entering into transactions with high quality counterparties, (A-rated or higher at the time we enter into the contract), and we maintain credit support annexes with certain of those counterparties.

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We utilize a risk management strategy that includes the use of derivative financial instruments. Derivative instruments expose us to credit market and basis risk. Such instruments can change materially in value from period- to-period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market and basis risks by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures. In addition, all derivative programs are monitored by our risk management department.

Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate options. Our inflation risk management strategy involves the use of swaps that require us to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (CPI).

We may use the following types of derivative contracts to mitigate our exposure to certain guaranteed benefits related to variable annuity, fixed indexed annuity, and indexed universal life contracts:

- Foreign Currency Futures
- Variance Swaps
- Interest Rate Futures
- Equity Options
- Equity Futures

Table of Contents

- Credit Derivatives
- Interest Rate Swaps
- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps

We believe that our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements, implied volatility, policyholder behavior, and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

The following table sets forth the estimated market values of our fixed maturity investments and mortgage loans resulting from a hypothetical immediate 100 basis point increase in interest rates from levels prevailing as of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company), and the percent change in fair value the following estimated fair values would represent:

<u>Successor Company</u>		
<u>As of December 31,</u>	Amount	Percent Change
(Dollars In Millions)		
2015		
Fixed maturities	\$ 33,381.7	(7.7)%
Mortgage loans	5,247.2	(5.1)

<u>Predecessor Company</u>		
<u>As of December 31,</u>	Amount	Percent Change
(Dollars In Millions)		
2014		
Fixed maturities	\$ 34,282.5	(7.9)%
Mortgage loans	5,274.4	(4.5)

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Estimated fair values were derived from the durations of our fixed maturities and mortgage loans. Duration measures the change in fair value resulting from a change in interest rates. While these estimated fair values provide an indication of how sensitive the fair values of our fixed maturities and mortgage loans are to changes in interest rates, they do not represent management's view of future fair value changes or the potential impact of fluctuations in credit spreads. Actual results may differ from these estimates.

In the ordinary course of our commercial mortgage lending operations, we may commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates.

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Table of Contents

As of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company), we had outstanding mortgage loan commitments of \$601.9 million at an average rate of 4.4% and \$537.7 million at an average rate of 4.6%, respectively, with estimated fair values of \$622.0 million and \$576.9 million, respectively (using discounted cash flows from the first call date). The following table sets forth the estimated fair value of our mortgage loan commitments resulting from a hypothetical immediate 100 basis point increase in interest rate levels prevailing as of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company), and the percent change in fair value that the following estimated fair values would represent:

<u>Successor Company</u>		
<u>As of December 31,</u>	<u>Amount</u>	<u>Percent Change</u>
(Dollars In Millions)		
2015	\$ 595.4	(4.3)%

<u>Predecessor Company</u>		
<u>As of December 31,</u>	<u>Amount</u>	<u>Percent Change</u>
(Dollars In Millions)		
2014	\$ 549.9	(4.7)%

The estimated fair values were derived from the durations of our outstanding mortgage loan commitments. While these estimated fair values provide an indication of how sensitive the fair value of our outstanding commitments are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

As previously discussed, we utilize a risk management strategy that involves the use of derivative financial instruments. Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures.

As of December 31, 2015 (Successor Company), total derivative contracts with a notional amount of \$21.4 billion were in a \$508.8 million net loss position. Included in the \$21.4 billion is a notional amount of \$2.5 billion in a \$177.1 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$10.3 billion in a \$181.6 million net loss position that relates to our GMWB embedded derivatives, \$1.1 billion in a \$100.3 million net loss position that relates to our FIA embedded derivatives, and \$57.8 million in a \$29.6 million net loss position that relates to our IUL embedded derivatives. As of December 31, 2014 (Predecessor Company), total derivative contracts with a notional amount of \$18.9 billion were in a \$765.3 million net loss position. Included in the \$18.9 billion is a notional amount of \$2.6 billion in a \$310.7 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$9.8 billion in a \$245.1 million net loss position that relates to our GMWB embedded derivatives, \$0.7 billion in a \$124.5 million net loss position that relates to our FIA embedded derivatives, and \$12.0 million in a \$6.7 million net loss position that relates to our IUL embedded derivatives. We recognized gains of \$30.0 million, losses of \$346.9 million, and gains of \$188.1 million related to derivative financial instruments for the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the years ended December 31, 2014 and 2013 (Predecessor Company), respectively.

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Table of Contents

The following table sets forth the notional amount and fair value of our interest rate risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing as of December 31, 2015 (Successor Company):

	Notional Amount	Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference Interest Rates	
			+100 bps	100 bps
(Dollars In Millions)				
2015 (Successor Company)				
Futures	\$ 1,076.1	\$	\$ (69.6)	\$ 80.6
Interest Rate Swaptions	225.0	3.7	14.8	(1.1)
Floating to fixed Swaps	270.0	0.3	7.1	(6.4)
Fixed to floating Swaps	1,640.0	49.5	(149.3)	295.5
Total	\$ 3,211.1	\$ 53.5	\$ (197.0)	\$ 368.6

- (1) Interest rate change scenario subject to floor, based on treasury rates as of December 31, 2015.
- (2) Includes an effect for inflation.

The following table sets forth the notional amount and fair value of our interest rate risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing as of December 31, 2014 (Predecessor Company):

	Notional Amount	Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference Interest Rates	
			+100 bps	100 bps
(Dollars In Millions)				
2014 (Predecessor Company)				
Futures	\$ 28.0	\$ 0.9	\$ (3.5)	\$ 6.5
Interest Rate Swaptions	625.0	8.0	19.6	42.7
Floating to fixed Swaps	240.5	0.9	6.3	(4.6)
Fixed to floating Swaps	1,625.0	46.1	(135.0)	264.2
Total	\$ 2,518.5	\$ 55.9	\$ (112.6)	\$ 308.8

- (1) Interest rate change scenario subject to floor, based on treasury rates as of December 31, 2014.

- (2) Includes an effect for inflation.

Table of Contents

The following table sets forth the notional amount and fair value of our equity risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in equity level from levels prevailing as of December 31:

		<u>Successor Company</u>			<u>Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference Index Equity Level</u>	
	<u>Notional Amount</u>	<u>Fair Value as of December 31,</u>	<u>+10%</u>	<u>10%</u>		
(Dollars In Millions)						
2015						
Futures	\$ 495.9	\$ (1.3)	\$ (37.7)	\$	\$	35.0
Options	3,403.8	157.6	126.7			196.5
Total	\$ 3,899.7	\$ 156.3	\$ 89.0	\$	\$	231.5

		<u>Predecessor Company</u>			<u>Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference Index Equity Level</u>	
	<u>Notional Amount</u>	<u>Fair Value as of December 31,</u>	<u>+10%</u>	<u>10%</u>		
(Dollars In Millions)						
2014						
Futures	\$ 411.7	\$ (14.6)	\$ (54.9)	\$	\$	25.7
Options	2,620.7	116.5	94.3			146.7
Total	\$ 3,032.4	\$ 101.9	\$ 39.4	\$	\$	172.4

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Table of Contents

The following table sets forth the notional amount and fair value of our currency risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in currency level from levels prevailing as of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company):

		<u>Successor Company</u>				
		Notional Amount	Fair Value as of December 31,	+10%	-10%	Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference in Currency Level
(Dollars In Millions)						
2015						
Currency futures	\$	273.6	\$	1.4	\$	(25.8) \$ 28.6

		<u>Predecessor Company</u>				
		Notional Amount	Fair Value as of December 31,	+10%	-10%	Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference in Currency Level
(Dollars In Millions)						
2014						
Currency futures	\$	197.6	\$	2.4	\$	(17.1) \$ 21.9

Estimated gains and losses were derived using pricing models specific to derivative financial instruments. While these estimated gains and losses provide an indication of how sensitive our derivative financial instruments are to changes in interest rates, volatility, equity levels, and credit spreads, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Our stable value contract and annuity products tend to be more sensitive to market risks than our other products. As such, many of these products contain surrender charges and other features that reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue. Additionally, approximately \$326.5 million of our stable value contracts have no early termination rights.

As of December 31, 2015 (Successor Company), we had \$2.1 billion of stable value product account balances with an estimated fair value of \$2.1 billion (using discounted cash flows) and \$10.7 billion of annuity account balances with an estimated fair value of \$10.3 billion (using

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discounted cash flows). As of December 31, 2014 (Predecessor Company), we had \$2.0 billion of stable value product account balances with an estimated fair value of \$2.0 billion (using discounted cash flows) and \$11.0 billion of annuity account balances with an estimated fair value of \$10.5 billion (using discounted cash flows).

Table of Contents

The following table sets forth the estimated fair values of our stable value and annuity account balances resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing and the percent change in fair value that the following estimated fair values would represent:

	<u>Successor Company</u>		
	Fair Value as of December 31,	+100 bps	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference Interest Rates 100 bps
	(Dollars In Millions)		
2015			
Stable value product account balances	\$ 2,124.7	\$ 2,080.7	\$ 2,168.7
Annuity account balances	10,274.6	10,125.3	10,389.8

	<u>Predecessor Company</u>		
	Fair Value as of December 31,	+100 bps	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference Interest Rates 100 bps
	(Dollars In Millions)		
2014			
Stable value product account balances	\$ 1,973.6	\$ 1,943.2	\$ 2,004.0
Annuity account balances	10,491.8	10,329.2	10,612.8

Estimated fair values were derived from the durations of our stable value and annuity account balances. While these estimated fair values provide an indication of how sensitive the fair values of our stable value and annuity account balances are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Certain of our liabilities relate to products whose profitability could be significantly affected by changes in interest rates. In addition to traditional whole life and term insurance, many universal life policies with secondary guarantees that insurance coverage will remain in force (subject to the payment of specified premiums) have such characteristics. These products do not allow us to adjust policyholder premiums after a policy is issued, and most of these products do not have significant account values upon which we credit interest. If interest rates fall, these products could have both decreased interest earnings and increased amortization of deferred acquisition costs, and the converse could occur if interest rates rise.

Impact of Continued Low Interest Rate Environment

Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between the interest rate earned on investments and the interest rate credited to in-force policies and contracts. In addition, certain of our insurance and investment products guarantee a minimum guaranteed interest rate (MGIR). In periods of prolonged low interest rates, the interest spread earned may be negatively impacted to the extent our ability to reduce policyholder crediting rates is limited by the guaranteed minimum credited interest rates. Additionally, those policies without account values may exhibit lower profitability in periods of prolonged low interest rates due to reduced investment income.

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Table of Contents

The tables below present account values by range of current minimum guaranteed interest rates and current crediting rates for our universal life and deferred fixed annuity products as of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company):

Credited Rate Summary

Minimum Guaranteed Interest Rate	As of December 31, 2015 (Successor Company)			Total
	At	1 - 50 bps	More than	
Account Value	MGIR	MGIR	above MGIR	
(Dollars In Millions)				
Universal Life Insurance				
>2% - 3%	\$ 197	\$ 1,033	\$ 2,016	\$ 3,246
>3% - 4%	3,648	1,603	27	5,278
>4% - 5%	1,983	14		1,997
>5% - 6%	215			215
Subtotal	6,043	2,650	2,043	10,736
Fixed Annuities				
1%	\$ 663	\$ 169	\$ 138	\$ 970
>1% - 2%	569	496	131	1,196
>2% - 3%	2,083	248	11	2,342
>3% - 4%	278			278
>4% - 5%	287			287
>5% - 6%	3			3
Subtotal	3,883	913	280	5,076
Total	\$ 9,926	\$ 3,563	\$ 2,323	\$ 15,812
Percentage of Total	63 %	23 %	14 %	100 %

Credited Rate Summary

Minimum Guaranteed Interest Rate	As of December 31, 2014 (Predecessor Company)			Total
	At	1 - 50 bps	More than	
Account Value	MGIR	MGIR	above MGIR	
(Dollars In Millions)				
Universal Life Insurance				
>2% - 3%	\$ 188	\$ 958	\$ 2,018	\$ 3,164
>3% - 4%	3,526	1,670	138	5,334

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>4% - 5%	2,035	15		2,050
>5% - 6%	224			224
Subtotal	5,973	2,643	2,156	10,772
Fixed Annuities				
1%	\$ 602	\$ 179	\$ 239	\$ 1,020
>1% - 2%	597	516	197	1,310
>2% - 3%	2,005	368	203	2,576
>3% - 4%	297			297
>4% - 5%	295			295
>5% - 6%	3			3
Subtotal	3,799	1,063	639	5,501
Total	\$ 9,772	\$ 3,706	\$ 2,795	\$ 16,273
Percentage of Total	60 %	23 %	17 %	100 %

Table of Contents

We are active in mitigating the impact of a continued low interest rate environment through product design, as well as adjusting crediting rates on current in-force policies and contracts. We also manage interest rate and reinvestment risks through our asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations; cash flow testing under various interest rate scenarios; and the regular rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk.

Employee Benefit Plans

Pursuant to the accounting guidance related to our obligations to employees under our pension plan and other postretirement benefit plans, we are required to make a number of assumptions to estimate related liabilities and expenses. Our most significant assumptions are those for the discount rate and expected long-term rate of return.

Discount Rate Assumption

The assumed discount rates used to determine the benefit obligations were based on an analysis of future benefits expected to be paid under the plans. The assumed discount rate reflects the interest rate at which an amount that is invested in a portfolio of high-quality debt instruments on the measurement date would provide the future cash flows necessary to pay benefits when they come due.

The following presents our estimates of the hypothetical impact to the December 31, 2015 (Successor Company) benefit obligation and to the 2016 benefit cost, associated with sensitivities related to the discount rate assumption:

	Defined Benefit		Other	
	Pension Plan		Postretirement	
	Benefit Plans(1)			
	(Dollars in Thousands)			
Increase (Decrease) in Benefit Obligation:				
100 basis point increase	\$	(23,218)	\$	(3,777)
100 basis point decrease		27,903		4,425
Increase (Decrease) in Benefit Cost:				
100 basis point increase	\$	(1,643)	\$	280
100 basis point decrease		(270)		(206)

(1) Includes excess pension plan, retiree medical plan, and postretirement life insurance plan.

Long-Term Rate of Return Assumption

To determine an appropriate long-term rate of return assumption for our defined benefit pension plan, we obtained 25 year annualized returns for each of the represented asset classes. In addition, we received evaluations of market performance based on the Company's asset allocation as provided by external consultants. A combination of these statistical analytics provided results that the Company utilized to determine an appropriate long-term rate of return assumption.

For our postretirement life insurance plan, we utilized 25 year average and annualized return results on the Barclays short treasury index to determine an appropriate long-term rate of return assumption.

The following presents our estimates of the hypothetical impact to the 2016 benefit cost, associated with sensitivities related to the long-term rate of return assumption:

	Defined Benefit Pension Plan	Other Postretirement Benefit Plans(1)
	(Dollars in Thousands)	
Increase (Decrease) in Benefit Cost:		
100 basis point increase	\$ (1,928)	\$ (57)
100 basis point decrease	1,928	57

(1) Includes excess pension plan, retiree medical plan, and postretirement life insurance plan.

Table of Contents

IMPACT OF INFLATION

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising interest rates. During the periods covered by this report, we believe inflation has not had a material impact on our business.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in this report for information regarding recently issued accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

The following financial statements are located in this report on the pages indicated.

	Page
<u>Consolidated Statements of Income For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company) and For The Years Ended December 31, 2014 and 2013 (Predecessor Company)</u>	117
<u>Consolidated Statements of Comprehensive Income (Loss) For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company) and For The Years Ended December 31, 2014 and 2013 (Predecessor Company)</u>	118
<u>Consolidated Balance Sheets as of December 31, 2015 (Successor Company) and as of December 31, 2014 (Predecessor Company)</u>	119
<u>Consolidated Statements of Shareowner's Equity For Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company) and For The Years Ended December 31, 2014 and 2013 (Predecessor Company)</u>	121
<u>Consolidated Statements of Cash Flows For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company) and For The Years Ended December 31, 2014 and 2013 (Predecessor Company)</u>	122
<u>Notes to Consolidated Financial Statements</u>	123
<u>Report of Independent Registered Public Accounting Firm</u>	217

Predecessor and Successor Company information is not comparable.

For supplemental quarterly financial information, please see Note 27, *Consolidated Quarterly Results Unaudited* of the notes to consolidated financial statements included herein.

Table of Contents

PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Successor Company		Predecessor Company	
	February 1, 2015 to December 31, 2015 (Dollars In Thousands)	January 1, 2015 to January 31, 2015 (Dollars In Thousands, Except Per Share Amounts)	2014	2013 For The Year Ended December 31,
Revenues				
Premiums and policy fees	\$ 3,008,050	\$ 261,866	\$ 3,297,768	\$ 2,981,651
Reinsurance ceded	(1,154,978)	(89,956)	(1,373,597)	(1,377,195)
Net of reinsurance ceded	1,853,072	171,910	1,924,171	1,604,456
Net investment income	1,632,948	175,180	2,197,724	1,918,081
Realized investment gains (losses):				
Derivative financial instruments				