

PROTECTIVE LIFE CORP  
Form 10-K  
February 25, 2016  
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**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:

| <b>Title of each class</b>             | <b>Name of each exchange on which registered</b> |
|--|--|
| 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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**PROTECTIVE LIFE CORPORATION**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR FISCAL YEAR ENDED DECEMBER 31, 2015**

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**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:

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

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**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<br>Annuities | Variable<br>Annuities | Total<br>Annuities |
|--|--------------------|-----------------------|--------------------|
|--|--------------------|-----------------------|--------------------|

(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<br>January 31, 2015 | 28       | 59       | 87       |

### Successor Company

|  | Fixed<br>Annuities | Variable<br>Annuities | Total<br>Annuities |
|--|--------------------|-----------------------|--------------------|
|--|--------------------|-----------------------|--------------------|

(Dollars In Millions)

|  |        |          |          |
|--|--------|----------|----------|
| For the period of February 1, 2015 to<br>December 31, 2015 | \$ 566 | \$ 1,096 | \$ 1,662 |
|--|--------|----------|----------|

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**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:

| <b>Predecessor Company</b>                            |                              |                               |              |     |
|---|------------------------------|-------------------------------|--------------|-----|
| <b><u>For The Year Ended December 31,</u></b>         | <b>GICs</b>                  | <b>Funding<br/>Agreements</b> | <b>Total</b> |     |
|   | <b>(Dollars In Millions)</b> |                               |              |     |
| 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 |                              |                               |              |     |
| <b>Successor Company</b>                              |                              |                               |              |     |
|   | <b>GICs</b>                  | <b>Funding<br/>Agreements</b> | <b>Total</b> |     |
|   | <b>(Dollars In Millions)</b> |                               |              |     |

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

|    |     |    |     |    |     |
|----|-----|----|-----|----|-----|
| \$ | 115 | \$ | 699 | \$ | 814 |
|----|-----|----|-----|----|-----|

### 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.

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

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

  

| <b>Successor Company</b>                                |    | <b>Sales</b>                 |
|---|----|------------------------------|
|   |    | <b>(Dollars In Millions)</b> |
| 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:

| For The Year<br>Ended December 31, | Predecessor Company   |                             |  |  |                          |
|------------------------------------|---|-----------------------------|--|--|--------------------------|
|                                    | Cash, Accrued<br>Investment<br>Income, and<br>Investments as of<br>December 31, | Net<br>Investment<br>Income | Percentage<br>Earned on<br>Average of<br>Cash and<br>Investments | Realized Investment<br>Gains (Losses)  |                          |
|                                    |   |                             |  | Derivative<br>Financial<br>Instruments | All Other<br>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                  |

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| For The Period of                   | Predecessor Company         |  |                          |
|-------------------------------------|-----------------------------|--|--------------------------|
|                                     | Net<br>Investment<br>Income | Realized Investment<br>Gains (Losses)  |                          |
|                                     |                             | Derivative<br>Financial<br>Instruments | All Other<br>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<br>Investment<br>Income, and<br>Investments as of<br>December 31, | Net<br>Investment<br>Income | Percentage<br>Earned on<br>Average of<br>Cash and<br>Investments | Realized Investment<br>Gains (Losses)  |                          |
|                                       |   |                             |  | Derivative<br>Financial<br>Instruments | All Other<br>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 &<br>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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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<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | 2014          | For The Year Ended December 31,<br>2013                      2012                      2011<br>(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<br>December 31, 2015<br>(Dollars In Thousands) | 2014           | 2013           | As of December 31,<br>2012                      2011<br>(Dollars In Thousands) |                |  |
| 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.

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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:

| <b>Predecessor Company</b>       |  | <b>Ratio of<br/>Voluntary<br/>Termination</b> |
|----------------------------------|--|---|
| <b><u>As of December 31,</u></b> |  |   |
| 2011                             |  | 5.0%  |
| 2012                             |  | 5.0   |
| 2013                             |  | 5.1   |
| 2014                             |  | 4.7   |
| <b>Successor Company</b>         |  | <b>Ratio of<br/>Voluntary<br/>Termination</b> |
| <b><u>As of December 31,</u></b> |  |   |
| 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.

| <b>Predecessor Company</b>       |                                  |   |                               |
|----------------------------------|----------------------------------|---|-------------------------------|
| <b><u>As of December 31,</u></b> | <b>Stable Value<br/>Products</b> | <b>Fixed<br/>Annuities<br/>(Dollars In Thousands)</b> | <b>Variable<br/>Annuities</b> |
| 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                    |
| <b>Successor Company</b>         |                                  |   |                               |
| <b><u>As of December 31,</u></b> | <b>Stable Value<br/>Products</b> | <b>Fixed<br/>Annuities</b>                            | <b>Variable<br/>Annuities</b> |

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(Dollars In Thousands)

|      |    |           |    |            |    |            |
|------|----|-----------|----|------------|----|------------|
| 2015 | \$ | 2,131,822 | \$ | 10,719,862 | \$ | 12,829,188 |
|------|----|-----------|----|------------|----|------------|

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**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.

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**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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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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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.

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**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](http://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](http://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](http://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](http://www.protective.com).

**Executive Officers**

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

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| <b>Name</b>       | <b>Age</b> | <b>Position</b>  |
|-------------------|------------|--|
| 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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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

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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

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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

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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

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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.

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***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.

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***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.

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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

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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.

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***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.

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*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.

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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

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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,

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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

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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.

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***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

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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

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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

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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

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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

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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

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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 |
|----------------|----------|-------|----------|-----------|
| <b>2014</b>    |          |       |          |           |
| 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.

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|   | Successor Company   |   | Predecessor Company                                      |                   |                   |                   |  |
|---|---|---|--|-------------------|-------------------|-------------------|--|
|   | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | 2014<br>(Dollars In Thousands, Except Per Share Amounts) | 2013              | 2012              | 2011              |  |
| <b>INCOME STATEMENT DATA</b>                                    |   |   |  |                   |                   |                   |  |
| 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           |  |
| <b>Net income</b>   | <b>268,299</b>  | <b>1,509</b>                              | <b>384,875</b>   | <b>393,464</b>    | <b>302,452</b>    | <b>315,637</b>    |  |
| Less: Net income attributable to noncontrolling interests       |   |   |  |                   |                   | 245               |  |
| <b>Net income available to PLC s common shareowners(1)</b>      | <b>\$ 268,299</b>   | <b>\$ 1,509</b>                           | <b>\$ 384,875</b>  | <b>\$ 393,464</b> | <b>\$ 302,452</b> | <b>\$ 315,392</b> |  |
| <b>PER SHARE DATA</b>   |   |   |  |                   |                   |                   |  |
| 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<br>(Dollars In Thousands) | 2014          | 2013<br>(Dollars In Thousands) | 2012          | 2011          |
|--|--------------------------------|---------------|--------------------------------|---------------|---------------|
| <b>BALANCE SHEET DATA</b>                                |                                |               |                                |               |               |
| 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 )

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**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](http://www.sec.gov) that contains these reports and other information filed electronically by us. We make available through our website, [www.protective.com](http://www.protective.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. We will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

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

**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

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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.



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**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;

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- 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

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(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.

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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

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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

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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

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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.

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**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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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<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended<br>December 31,<br>2014<br>2013<br>(Dollars In Thousands) |              |
| <b>Segment Operating Income (Loss)</b>   |   |   |  |              |
| 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) -<br>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<br>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

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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.

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- 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<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |   | Predecessor Company<br>For The Year Ended<br>December 31,<br>2014<br>(Dollars In Thousands) |              |
|---|--|---|---|--------------|
|   | January 1, 2015<br>to<br>January 31, 2015  | January 1, 2015<br>to<br>January 31, 2015 | 2014  | 2013         |
| <b>REVENUES</b>   |  |   |   |              |
| 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    |
| <b>BENEFITS AND EXPENSES</b>  |  |   |   |              |
| 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    |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>                                  |  |   |   |              |
|   | 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)        |
| <b>OPERATING INCOME (LOSS)</b>  | \$ 57,414  | \$ (1,618)                                | \$ 121,448  | \$ 110,298   |

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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) |                |
| <b>Sales By Product</b>                   |                        |                  |                        |                |
| 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     |
| <b>Sales By Distribution Channel</b>      |                        |                  |                        |                |
| 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     |
| <b>Average Life Insurance In-force(1)</b> |                        |                  |                        |                |
| 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 |
| <b>Average Account Values</b>             |                        |                  |                        |                |
| 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) |            |
| <b>Insurance companies:</b> |                        |                  |                        |            |
| 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            |
| <b>Marketing companies:</b>                            |                   |                  |                   |                   |
| 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           |
| <b>Other operating expenses</b>                        | <b>\$ 165,317</b> | <b>\$ 18,705</b> | <b>\$ 169,373</b> | <b>\$ 163,174</b> |

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*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.



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*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

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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) |              |  |
| <b>REVENUES</b>   |                        |                  |                        |              |  |
| Reinsurance ceded   | \$ (671,487)           | \$ (51,142)      | \$ (830,207)           | \$ (838,023) |  |
| <b>BENEFITS AND EXPENSES</b>                              |                        |                  |                        |              |  |
| 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)  |  |
| <b>NET IMPACT OF REINSURANCE</b>                          | \$ 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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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<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014                      2013<br>(Dollars In Thousands) |                   |
|---|--|---|--|-------------------|
| <b>REVENUES</b>   |  |   |  |                   |
| 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           |
| <b>BENEFITS AND EXPENSES</b>  |  |   |  |                   |
| 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               |
| <b>INCOME BEFORE INCOME TAX</b>                                     | <b>173,953</b>   | <b>23,761</b>                             | <b>289,963</b>   | <b>184,187</b>    |
| Less: amortization related to benefits and settlement expenses      | (12,884)   | (1,233)                                   | (20,085)   | (11,770)          |
| <b>OPERATING INCOME</b>   | <b>\$ 194,654</b>  | <b>\$ 20,134</b>                          | <b>\$ 254,021</b>  | <b>\$ 154,003</b> |

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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) |                |  |
| <b>Average Life Insurance In-Force(1)(4)</b>       |                        |                  |                        |                |  |
| 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 |  |
| <b>Average Account Values(5)</b>                   |                        |                  |                        |                |  |
| 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   |  |
| <b>Interest Spread UL &amp; Fixed Annuities(5)</b> |                        |                  |                        |                |  |
| 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.

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*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) |                    |
| <b>REVENUES</b>                            |                        |                  |                        |                    |
| Reinsurance ceded                          | \$ (332,672)           | \$ (26,512)      | \$ (399,530)           | \$ (409,648)       |
| <b>BENEFITS AND EXPENSES</b>               |                        |                  |                        |                    |
| 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)          |
| <b>NET IMPACT OF REINSURANCE(1)</b>        | <b>\$ 36,940</b>       | <b>\$ 3,200</b>  | <b>\$ 598</b>          | <b>\$ (20,368)</b> |

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

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



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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) |            |
| <b>REVENUES</b>   |                        |                  |                        |            |
| 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    |
| <b>BENEFITS AND EXPENSES</b>  |                        |                  |                        |            |
| 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    |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>                                  | 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)   |
| <b>OPERATING INCOME</b>   | \$ 180,231             | \$ 13,164        | \$ 227,611             | \$ 184,130 |

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The following table summarizes key data for the Annuities segment:

|   | Successor Company   |   | Predecessor Company  |               |
|---|---|---|--|---------------|
|   | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended<br>December 31,<br>2014<br>2013<br>(Dollars In Thousands) |               |
| <b>Sales</b>                              |   |   |  |               |
| 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  |
| <b>Average Account Values</b>             |   |   |  |               |
| 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 |
| <b>Interest Spread Fixed Annuities(2)</b> |   |   |  |               |
| 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<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended<br>December 31,<br>2014<br>2013<br>(Dollars In Thousands) |             |
| <b>Derivatives related to VA contracts:</b>  |   |   |  |             |
| 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)    |
| <b>Derivatives related to FIA contracts:</b> |   |   |  |             |
| 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.).

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

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*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) |            |
| <b>REVENUES</b>                  |                        |                  |                        |            |
| 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    |
| <b>BENEFITS AND EXPENSES</b>     |                        |                  |                        |            |
| 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     |
| <b>INCOME BEFORE INCOME TAX</b>  | 57,659                 | 5,822            | 90,301                 | 78,794     |
| Less: realized gains (losses)    | 1,078                  | 1,293            | 16,947                 | (1,767)    |
| <b>OPERATING INCOME</b>          | \$ 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) |              |
| <b>Sales</b>                  |                        |                  |                        |              |
| GIC                           | \$ 114,700             | \$               | \$ 41,650              | \$ 494,582   |
| GFA Direct Institutional      | 699,648                |                  | 50,000                 |              |
|                               | \$ 814,348             | \$               | \$ 91,650              | \$ 494,582   |
| <b>Average Account Values</b> |                        |                  |                        |              |
|                               | \$ 1,933,838           | \$ 1,932,722     | \$ 2,384,824           | \$ 2,537,307 |
| <b>Ending Account Values</b>  | \$ 2,131,822           | \$ 1,911,751     | \$ 1,959,488           | \$ 2,559,552 |
| <b>Operating Spread</b>       |                        |                  |                        |              |

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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.

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***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<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |                  |
|----------------------------------|--|---|--|------------------|
| <b>REVENUES</b>                  |  |   |  |                  |
| 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          |
| <b>BENEFITS AND EXPENSES</b>     |  |   |  |                  |
| 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          |
| <b>INCOME BEFORE INCOME TAX</b>  | <b>20,627</b>  | <b>2,420</b>                              | <b>32,480</b>  | <b>26,795</b>    |
| <b>OPERATING INCOME</b>          | <b>\$ 20,627</b>   | <b>\$ 2,420</b>                           | <b>\$ 32,480</b>   | <b>\$ 26,795</b> |

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

|                       | Successor Company<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |                   |
|-----------------------|--|---|--|-------------------|
| <b>Sales</b>          |  |   |  |                   |
| 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            |
|                       | <b>\$ 482,096</b>  | <b>\$ 37,241</b>                          | <b>\$ 486,978</b>  | <b>\$ 469,797</b> |
| <b>Loss Ratios(1)</b> |  |   |  |                   |
| 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.

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*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) |                  |                     |              |
| <b>REVENUES</b>              |                        |                  |                     |              |
| Reinsurance ceded            | \$ (150,599)           | \$ (12,302)      | \$ (143,849)        | \$ (129,513) |
| <b>BENEFITS AND EXPENSES</b> |                        |                  |                     |              |

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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)           |
| <b>NET IMPACT OF REINSURANCE(1)</b> | <b>\$ (79,905)</b> | <b>\$ (6,592)</b> | <b>\$ (70,259)</b> | <b>\$ (60,694)</b> |

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

*For The Period of February 1, 2015 to 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.

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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:

|   | <b>Successor Company</b>      |                         | <b>Predecessor Company</b>             |                    |
|---|-------------------------------|-------------------------|--|--------------------|
|   | <b>February 1, 2015</b>       | <b>January 1, 2015</b>  | <b>For The Year Ended December 31,</b> |                    |
|   | <b>to</b>                     | <b>to</b>               | <b>2014</b>                            | <b>2013</b>        |
|   | <b>December 31, 2015</b>      | <b>January 31, 2015</b> | <b>(Dollars In Thousands)</b>          |                    |
|   | <b>(Dollars In Thousands)</b> |                         | <b>(Dollars In Thousands)</b>          |                    |
| <b>REVENUES</b>                           |                               |                         |  |                    |
| 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            |
| <b>BENEFITS AND EXPENSES</b>              |                               |                         |  |                    |
| 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            |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>    | <b>(27,239)</b>               | <b>(4,770)</b>          | <b>(61,214)</b>                        | <b>(31,807)</b>    |
| Less: realized gains (losses) investments | (2,254)                       | 4,919                   | (3,885)                                | 3,363              |
| Less: realized gains (losses) derivatives | 82                            | 455                     | (609)                                  | 5,392              |
| <b>OPERATING INCOME (LOSS)</b>            | <b>\$ (25,067)</b>            | <b>\$ (10,144)</b>      | <b>\$ (56,720)</b>                     | <b>\$ (40,562)</b> |

*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.

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*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<br>As of<br>December 31, 2015<br>(Dollars In Thousands) |            | Predecessor Company<br>As of<br>December 31, 2014<br>(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:

| <b>Rating</b>          | <b>Successor Company<br/>As of<br/>December 31, 2015</b> | <b>Predecessor Company<br/>As of<br/>December 31, 2014</b> |
|------------------------|--|--|
| 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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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 shareowner'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:

| <b>Type</b>                                    | <b>Successor Company<br/>As of<br/>December 31, 2015<br/>(Dollars In Millions)</b> | <b>Predecessor Company<br/>As of<br/>December 31, 2014<br/>(Dollars In Millions)</b> |
|--|--|--|
| 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.



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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:

| <b>Rating</b>                        | <b>Successor Company</b>      |           | <b>Predecessor Company</b>    |           |
|--------------------------------------|-------------------------------|-----------|-------------------------------|-----------|
|                                      | <b>As of</b>                  |           | <b>As of</b>                  |           |
|                                      | <b>December 31, 2015</b>      |           | <b>December 31, 2014</b>      |           |
|                                      | <b>(Dollars In Thousands)</b> |           | <b>(Dollars In Thousands)</b> |           |
| 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.

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**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>  | <b>Percentage of<br/>Residential<br/>Mortgage-Backed<br/>Securities</b> |
|--------------|---|
| Sequential   | 36.3%   |
| PAC          | 29.2  |
| Pass Through | 12.8  |
| Other        | 21.7  |
|              | 100.0%  |

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

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*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<br>Alt-A<br>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<br>of Security Origination |      |      |      |      | Total    |
|--|---|------|------|------|------|----------|
|  | 2011 and<br>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<br>Alt-A mortgage loans | \$ 304.5  | \$   | \$   | \$   | \$   | \$ 304.5 |

| <u>Rating</u>          | Estimated Unrealized Gain (Loss) of Security<br>by Year of Security Origination |      |      |      |      | Total    |
|------------------------|---|------|------|------|------|----------|
|                        | 2011 and<br>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

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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):

| <b><u>Rating</u></b>   | <b>Percentage of<br/>Prime<br/>Securities</b> |
|------------------------|---|
| 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**

| <b><u>Rating</u></b> | <b>Estimated Fair Value of Security by Year<br/>of Security Origination</b> |             |             |             |             |              |
|----------------------|---|-------------|-------------|-------------|-------------|--------------|
|                      | <b>2011 and<br/>Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b> |
|                      | <b>(Dollars In Millions)</b>  |             |             |             |             |              |
| 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 |

| <b>Rating</b>   | <b>Estimated Unrealized Gain (Loss) of Security<br/>by Year of Security Origination</b> |             |             |             |             |       | <b>Total</b> |     |    |     |    |       |
|---|---|-------------|-------------|-------------|-------------|-------|--------------|-----|----|-----|----|-------|
|   | <b>2011 and<br/>Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> |       |              |     |    |     |    |       |
|   | <b>(Dollars In Millions)</b>  |             |             |             |             |       |              |     |    |     |    |       |
| 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) |

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**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):

| <b>Rating</b> | <b>Percentage of Commercial Mortgage-Backed Securities</b> |
|---------------|--|
| 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**

| <b>Rating</b>                               | <b>Estimated Fair Value of Security by Year of Security Origination</b> |             |             |             |             |              |
|---|---|-------------|-------------|-------------|-------------|--------------|
|   | <b>2011 and Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b> |
|   | <b>(Dollars In Millions)</b>  |             |             |             |             |              |
| 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   |

| <b>Rating</b>                               | <b>Estimated Unrealized Gain (Loss) of Security by Year of Security Origination</b> |             |             |             |             |              |
|---|---|-------------|-------------|-------------|-------------|--------------|
|   | <b>2011 and Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b> |
|   | <b>(Dollars In Millions)</b>  |             |             |             |             |              |
| 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)    |



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**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):

| <b>Rating</b>          | <b>Percentage of<br/>Other Asset-<br/>Backed<br/>Securities</b> |
|------------------------|---|
| 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**

| <b>Rating</b>                       | <b>Estimated Fair Value of Security<br/>by Year of Security Origination</b> |             |             |             |             |              |
|-------------------------------------|---|-------------|-------------|-------------|-------------|--------------|
|                                     | <b>2011 and<br/>Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b> |
|                                     | <b>(Dollars In Millions)</b>  |             |             |             |             |              |
| 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   |

| <b>Rating</b> | <b>Estimated Unrealized Gain (Loss) of Security<br/>by Year of Security Origination</b> |             |             |             |             |              |
|---------------|---|-------------|-------------|-------------|-------------|--------------|
|               | <b>2011 and<br/>Prior</b>   | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>Total</b> |
|               | <b>(Dollars In Millions)</b>  |             |             |             |             |              |
| 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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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<br>December 31, 2015<br>(Dollars In Thousands) | % Fair<br>Value | As of<br>December 31, 2014<br>(Dollars In Thousands) | % Fair<br>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             |
| <b>Total</b>                                      | <b>\$ 36,166,564</b>                                 | <b>100.0%</b>   | <b>\$ 37,210,989</b>                                 | <b>100.0%</b>   |

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.

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**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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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):

| <b><u>Rating</u></b>   | <b>Fair Value</b><br><b>(Dollars In Thousands)</b> | <b>Percent of</b><br><b>Fair Value</b> |
|------------------------|--|--|
| 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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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<br>Fair Value |
|---------------------------------------|----------------------|--|---------------------|
|                                       | Funded<br>Securities | Unfunded<br>Exposures<br>(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               |
| <b>Total</b>                          | <b>\$ 1,820.1</b>    | <b>\$ 25.5</b>                                 | <b>\$ 1,845.6</b>   |

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

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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<br>(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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| Rating                              | Issuer Type        | Energy and Natural Gas |  |                     |                   |
|-------------------------------------|--------------------|------------------------|--|---------------------|-------------------|
|                                     |                    | Fair Value             | Amortized Cost<br>(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               |
| <b>Total investment grade</b>       |                    | <b>3,461,023</b>       | <b>4,096,499</b>                         | <b>(635,476)</b>    | <b>91.9</b>       |
| 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               |
| <b>Total below investment grade</b> |                    | <b>264,258</b>         | <b>320,201</b>                           | <b>(55,943)</b>     | <b>8.1</b>        |
| <b>Total energy and natural gas</b> |                    | <b>\$ 3,725,281</b>    | <b>\$ 4,416,700</b>                      | <b>\$ (691,419)</b> | <b>100.0%</b>     |

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<br>(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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| Rating                              | Issuer Type       | Basic Industrial    |  |                     | % Unrealized Loss |
|-------------------------------------|-------------------|---------------------|--|---------------------|-------------------|
|                                     |                   | Fair Value          | Amortized Cost<br>(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               |
| <b>Total investment grade</b>       |                   | <b>1,238,009</b>    | <b>1,437,398</b>                         | <b>(199,389)</b>    | <b>78.4</b>       |
| Below investment grade              | Chemicals         | 440                 | 1,480                                    | (1,040)             | 0.4               |
|                                     | Metals and Mining | 165,563             | 219,422                                  | (53,859)            | 21.2              |
| <b>Total below investment grade</b> |                   | <b>166,003</b>      | <b>220,902</b>                           | <b>(54,899)</b>     | <b>21.6</b>       |
| <b>Total basic industrial</b>       |                   | <b>\$ 1,404,012</b> | <b>\$ 1,658,300</b>                      | <b>\$ (254,288)</b> | <b>100.0%</b>     |

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.

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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.

| <b>Financial Instrument and Country</b> | <b>Non-sovereign Debt</b> |  | <b>Total Gross<br/>Funded<br/>Exposure</b> |
|---|---------------------------|--|--|
|   | <b>Financial</b>          | <b>Non-financial<br/>(Dollars In Millions)</b> |  |
| <b>Securities:</b>                      |                           |  |  |
| 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                                    |
| <b>Derivatives:</b>                     |                           |  |  |
| 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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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<br>to<br>December 31, 2015<br>(Dollars In Millions) | January 1, 2015<br>to<br>January 31, 2015<br>(Dollars In Millions) | For The Year Ended<br>December 31, 2014<br>(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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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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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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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&amp;P or Equivalent Designation</u> | Fair Value    | % Fair Value | Amortized Cost<br>(Dollars In Thousands) | % Amortized Cost | Unrealized Loss | % Unrealized Loss |
|--|---------------|--------------|--|------------------|-----------------|-------------------|
| 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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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



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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.

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**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<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended<br>December 31,<br>2014                      2013<br>(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   |

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*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

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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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**Description**

**Amount**  
**(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**

**Description**

**Amount**  
**(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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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> |
|--------------------------|---|--------|----------------------|
|                          | <u>Amount</u><br>(Dollars In Thousands) |        |                      |
| <b>2015</b>              |   |        |                      |
| Revolving line of credit | \$                                      | 35,000 | LIBOR + 1.00%        |

| <u>Description</u>       | <u>Predecessor Company</u>              |          | <u>Interest Rate</u> |
|--------------------------|---|----------|----------------------|
|                          | <u>Amount</u><br>(Dollars In Thousands) |          |                      |
| <b>2014</b>              |   |          |                      |
| 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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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:

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

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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.

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

|  | Payments due by period |                     |                     |                     |                      |                      |
|--|------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
|  | Total                  | Less than<br>1 year |                     | 1 - 3 years         | 3 - 5 years          | More than<br>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           |                      |
| <b>Total(9)</b>                          | <b>\$ 50,250,270</b>   | <b>\$ 3,831,529</b> | <b>\$ 4,861,828</b> | <b>\$ 4,884,869</b> | <b>\$ 36,672,044</b> |                      |

(1) Debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.

(2) Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, \$1.8 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.

(3) Subordinated debt securities includes all principal amounts and interest payments due over the term of the obligations.

(4) Anticipated stable value products cash flows including interest.

(5) Includes all lease payments required under operating lease agreements.

(6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreement, which was entered in December 2013.

(7) Represents secured borrowings as part of our repurchase program as well as related interest.

(8) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market

growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.

(9) Excluded from this table are certain pension obligations.

### **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.

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**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

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- 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> | <u>Amount</u> | <u>Percent Change</u> |
| (Dollars In Millions)     |               |                       |
| <b>2015</b>               |               |                       |
| Fixed maturities          | \$ 33,381.7   | (7.7)%                |
| Mortgage loans            | 5,247.2       | (5.1)                 |

| <u>Predecessor Company</u> |               |                       |
|----------------------------|---------------|-----------------------|
| <u>As of December 31,</u>  | <u>Amount</u> | <u>Percent Change</u> |
| (Dollars In Millions)      |               |                       |
| <b>2014</b>                |               |                       |
| 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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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> | Amount   | Percent Change |
| (Dollars In Millions)     |          |                |
| 2015                      | \$ 595.4 | (4.3)%         |

| <u>Predecessor Company</u> |          |                |
|----------------------------|----------|----------------|
| <u>As of December 31,</u>  | Amount   | Percent Change |
| (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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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)           |                 |                               |  |          |
| <b>2015 (Successor Company)</b> |                 |                               |  |          |
| 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)             |                 |                               |  |          |
| <b>2014 (Predecessor Company)</b> |                 |                               |  |          |
| 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.

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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>            |           |          | Fair Value<br>Resulting From an<br>Immediate<br>+/- 10% Change<br>in the Underlying<br>Reference Index<br>Equity Level |  |
|-----------------------|--------------------|-------------------------------------|-----------|----------|--|--|
|                       | Notional<br>Amount | Fair Value<br>as of<br>December 31, | +10%      | -10%     |  |  |
| (Dollars In Millions) |                    |                                     |           |          |  |  |
| <b>2015</b>           |                    |                                     |           |          |  |  |
| 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>          |           |          | Fair Value<br>Resulting From an<br>Immediate<br>+/- 10% Change<br>in the Underlying<br>Reference Index<br>Equity Level |  |
|-----------------------|--------------------|-------------------------------------|-----------|----------|--|--|
|                       | Notional<br>Amount | Fair Value<br>as of<br>December 31, | +10%      | -10%     |  |  |
| (Dollars In Millions) |                    |                                     |           |          |  |  |
| <b>2014</b>           |                    |                                     |           |          |  |  |
| 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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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):

|                              |    | <b><u>Successor Company</u></b> |                                     |      |      |   |
|------------------------------|----|---------------------------------|-------------------------------------|------|------|---|
|                              |    | Notional<br>Amount              | Fair Value<br>as of<br>December 31, | +10% | -10% | Fair Value<br>Resulting From an<br>Immediate<br>+/- 10% Change<br>in the Underlying<br>Reference in<br>Currency Level |
| <b>(Dollars In Millions)</b> |    |                                 |                                     |      |      |   |
| <b>2015</b>                  |    |                                 |                                     |      |      |   |
| Currency futures             | \$ | 273.6                           | \$                                  | 1.4  | \$   | (25.8)      \$      28.6  |

|                              |    | <b><u>Predecessor Company</u></b> |                                     |      |      |   |
|------------------------------|----|-----------------------------------|-------------------------------------|------|------|---|
|                              |    | Notional<br>Amount                | Fair Value<br>as of<br>December 31, | +10% | -10% | Fair Value<br>Resulting From an<br>Immediate<br>+/- 10% Change<br>in the Underlying<br>Reference in<br>Currency Level |
| <b>(Dollars In Millions)</b> |    |                                   |                                     |      |      |   |
| <b>2014</b>                  |    |                                   |                                     |      |      |   |
| 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).

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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:

|                                       | <b><u>Successor Company</u></b>     |            |   |
|---------------------------------------|-------------------------------------|------------|---|
|                                       | Fair Value<br>as of<br>December 31, | +100 bps   | Fair Value<br>Resulting From an<br>Immediate<br>+/- 100 bps Change<br>in the Underlying<br>Reference<br>Interest Rates<br>100 bps |
|                                       | (Dollars In Millions)               |            |   |
| <b>2015</b>                           |                                     |            |   |
| 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  |

|                                       | <b><u>Predecessor Company</u></b>   |            |   |
|---------------------------------------|-------------------------------------|------------|---|
|                                       | Fair Value<br>as of<br>December 31, | +100 bps   | Fair Value<br>Resulting From an<br>Immediate<br>+/- 100 bps Change<br>in the Underlying<br>Reference<br>Interest Rates<br>100 bps |
|                                       | (Dollars In Millions)               |            |   |
| <b>2014</b>                           |                                     |            |   |
| 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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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)            |   |            |            |           |
| <b>Universal Life Insurance</b>  |   |            |            |           |
| >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    |
| <b>Fixed Annuities</b>           |   |            |            |           |
| 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)            |   |            |            |          |
| <b>Universal Life Insurance</b>  |   |            |            |          |
| >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    |
| <b>Fixed Annuities</b> |          |          |          |           |
| 1%                     | \$ 602   | \$ 179   | \$ 239   | \$ 1,020  |
| >1% - 2%               | 597      | 516      | 197      | 1,310     |
| >2% - 3%               | 2,005    | 368      | 203      | 2,576     |
| >3% - 4%               | 297      |          |          | 297       |
| >4% - 5%               | 295      |          |          | 295       |
| >5% - 6%               | 3        |          |          | 3         |
| Subtotal               | 3,799    | 1,063    | 639      | 5,501     |
| Total                  | \$ 9,772 | \$ 3,706 | \$ 2,795 | \$ 16,273 |
| Percentage of Total    | 60 %     | 23 %     | 17 %     | 100 %     |

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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:

|   | <b>Defined Benefit</b>        |          | <b>Other</b>            |         |
|---|-------------------------------|----------|-------------------------|---------|
|   | <b>Pension Plan</b>           |          | <b>Postretirement</b>   |         |
|   | <b>Pension Plan</b>           |          | <b>Benefit Plans(1)</b> |         |
|   | <b>(Dollars in Thousands)</b> |          |                         |         |
| <b>Increase (Decrease) in Benefit Obligation:</b> |                               |          |                         |         |
| 100 basis point increase                          | \$                            | (23,218) | \$                      | (3,777) |
| 100 basis point decrease                          |                               | 27,903   |                         | 4,425   |
| <b>Increase (Decrease) in Benefit Cost:</b>       |                               |          |                         |         |
| 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:

|   | <b>Defined Benefit<br/>Pension Plan</b> | <b>Other<br/>Postretirement<br/>Benefit Plans(1)</b> |
|---|---|--|
|   | <b>(Dollars in Thousands)</b>           |  |
| <b>Increase (Decrease) in Benefit Cost:</b> |   |  |
| 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.



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**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*.

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**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.

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**PROTECTIVE LIFE CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

|   | Successor Company                           |                 | Predecessor Company  |                   |
|---|---|-----------------|--|-------------------|
|   | January 1, 2015                             |                 | For The Year Ended December 31,                                  |                   |
|   | February 1, 2015<br>to<br>December 31, 2015 |                 | to<br>January 31, 2015   |                   |
|   | (Dollars In Thousands)                      |                 | 2014<br>2013<br>(Dollars In Thousands, Except Per Share Amounts) |                   |
| <b>Revenues</b>   |   |                 |  |                   |
| 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  | 29,997                                      | (123,274)       | (346,878)  | 188,131           |
| All other investments   | (166,886)                                   | 81,153          | 205,402  | (123,537)         |
| Other-than-temporary impairment losses  | (28,659)                                    | (636)           | (2,589)  | (10,941)          |
| Portion recognized in other comprehensive income (before taxes)   | 1,666                                       | 155             | (4,686)  | (11,506)          |
| Net impairment losses recognized in earnings  | (26,993)                                    | (481)           | (7,275)  | (22,447)          |
| Other income  | 388,531                                     | 36,421          | 430,428  | 394,315           |
| Total revenues  | 3,710,669                                   | 340,909         | 4,403,572  | 3,958,999         |
| <b>Benefits and expenses</b>  |   |                 |  |                   |
| Benefits and settlement expenses, net of reinsurance ceded: (2015 Successor - \$1,025,596); (Predecessor 2015 - \$87,674; 2014 - \$1,226,307; 2013 - \$1,209,783) | 2,539,943                                   | 267,287         | 2,791,610  | 2,479,757         |
| Amortization of deferred policy acquisition costs and value of business acquired  | 94,056                                      | 4,072           | 257,309  | 192,898           |
| Other operating expenses, net of reinsurance ceded: (2015 Successor - \$191,346); (Predecessor 2015 - \$35,036; 2014 - \$196,923; 2013 - \$196,311)               | 676,828                                     | 68,368          | 771,364  | 695,971           |
| Total benefits and expenses   | 3,310,827                                   | 339,727         | 3,820,283  | 3,368,626         |
| <b>Income before income tax</b>   | <b>399,842</b>                              | <b>1,182</b>    | <b>583,289</b>   | <b>590,373</b>    |
| Income tax expense  |   |                 |  |                   |
| Current   | 1,471                                       | (31,118)        | 197,943  | 21,855            |
| Deferred  | 130,072                                     | 30,791          | 471  | 175,054           |
| Total income tax expense  | 131,543                                     | (327)           | 198,414  | 196,909           |
| <b>Net income</b>   | <b>\$ 268,299</b>                           | <b>\$ 1,509</b> | <b>\$ 384,875</b>  | <b>\$ 393,464</b> |
| Net income basic  |   | \$ 0.02         | \$ 4.81  | \$ 4.96           |
| Net income diluted  |   | \$ 0.02         | \$ 4.73  | \$ 4.86           |

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|                                    |    |            |            |    |            |
|------------------------------------|----|------------|------------|----|------------|
| Cash dividends paid per share      | \$ | \$         | 0.92       | \$ | 0.78       |
| Average shares outstanding basic   |    | 80,452,848 | 80,065,217 |    | 79,395,622 |
| Average shares outstanding diluted |    | 81,759,287 | 81,375,496 |    | 80,925,713 |

See Notes to Consolidated Financial Statements

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

|  | <b>Successor Company</b><br><b>February 1, 2015</b><br><b>to</b><br><b>December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>January 1, 2015</b><br><b>to</b><br><b>January 31, 2015</b> | <b>Predecessor Company</b><br><b>For The Year Ended December 31,</b><br><b>2014</b><br><b>(Dollars In Thousands)</b> |                     |
|--|---|--|--|---------------------|
|  |   |  | <b>2014</b>  | <b>2013</b>         |
| <b>Net income</b>  | \$ 268,299  | \$ 1,509   | \$ 384,875   | \$ 393,464          |
| <b>Other comprehensive income (loss):</b>  |   |  |  |                     |
| Change in net unrealized gains (losses) on investments, net of income tax: (2015 Successor - \$(680,634)); (Predecessor 2015 - \$259,738; 2014 - \$531,439; 2013 - \$(673,345))  | (1,264,034)   | 482,370  | 986,958  | (1,250,498)         |
| Reclassification adjustment for investment amounts included in net income, net of income tax: (2015 Successor - \$9,349); (Predecessor 2015 - \$(2,244); 2014 - \$(24,387); 2013 - \$(15,403))   | 17,362  | (4,166)  | (45,290)   | (28,606)            |
| Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2015 Successor - \$(212)); (Predecessor 2015 - \$(131); 2014 - \$1,883; 2013 - \$2,472) | (393)   | (243)  | 3,498  | 4,591               |
| Change in accumulated (loss) gain derivatives, net of income tax: (2015 Successor - \$(45)); (Predecessor 2015 - \$5; 2014 - \$(1); 2013 - \$395)  | (86)  | 9  | (2)  | 734                 |
| Reclassification adjustment for derivative amounts included in net income, net of income tax: (2015 Successor - \$45); (Predecessor 2015 - \$13; 2014 - \$622; 2013 - \$822)   | 86  | 23   | 1,155  | 1,527               |
| Change in postretirement benefits liability adjustment, net of income tax: (2015 Successor - \$3,194); (Predecessor 2015 - \$(6,475); 2014 - \$(12,013); 2013 - \$15,936)  | 5,931   | (12,025)   | (22,309)   | 29,596              |
| <b>Total other comprehensive income (loss)</b>   | <b>(1,241,134)</b>  | <b>465,968</b>   | <b>924,010</b>   | <b>(1,242,656)</b>  |
| <b>Total comprehensive income (loss)</b>   | <b>\$ (972,835)</b>   | <b>\$ 467,477</b>  | <b>\$ 1,308,885</b>  | <b>\$ (849,192)</b> |

See Notes to Consolidated Financial Statements

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

|  | Successor Company<br>As of<br>December 31, 2015<br>(Dollars In Thousands) | Predecessor Company<br>As of<br>December 31, 2014<br>(Dollars In Thousands) |
|--|---|---|
| <b>Assets</b>  |   |   |
| Fixed maturities, at fair value (amortized cost: 2015 Successor - \$38,457,049; 2014 Predecessor - \$33,738,242) | \$ 35,573,250   | \$ 36,775,989   |
| Fixed maturities, at amortized cost (fair value: 2015 Successor - \$515,000; 2014 Predecessor - \$485,422)       | 593,314   | 435,000   |
| Equity securities, at fair value (cost: 2015 Successor - \$732,485; 2014 Predecessor - \$778,744)                | 739,263   | 803,230   |
| Mortgage loans (related to securitizations: 2015 Successor - \$359,181; 2014 Predecessor - \$455,250)            | 5,662,812   | 5,133,780   |
| Investment real estate, net of accumulated depreciation (2015 Successor - \$133; 2014 Predecessor - \$246)       | 11,118  | 5,918   |
| Policy loans   | 1,699,508   | 1,758,237   |
| Other long-term investments  | 622,567   | 514,639   |
| Short-term investments   | 268,718   | 250,645   |
| Total investments  | 45,170,550  | 45,677,438  |
| Cash   | 396,072   | 379,411   |
| Accrued investment income  | 473,598   | 474,522   |
| Accounts and premiums receivable   | 62,459  | 84,458  |
| Reinsurance receivables  | 5,536,751   | 6,106,113   |
| Deferred policy acquisition costs and value of business acquired   | 1,558,808   | 3,294,570   |
| Goodwill   | 732,443   | 102,365   |
| Other intangibles, net of accumulated depreciation (2015 Successor - \$37,869)                                   | 645,131   |   |
| Property and equipment, net of accumulated depreciation (2015 Successor - \$8,277; 2014 Predecessor - \$118,487) | 102,865   | 52,853  |
| Other assets   | 153,222   | 316,207   |
| Assets related to separate accounts  |   |   |
| Variable annuity   | 12,829,188  | 13,157,429  |
| Variable universal life  | 827,610   | 834,940   |
| <b>Total assets</b>  | <b>\$ 68,488,697</b>  | <b>\$ 70,480,306</b>  |

See Notes to Consolidated Financial Statements



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

(continued)

|  | <b>Successor Company</b>      | <b>Predecessor Company</b>    |
|--|-------------------------------|-------------------------------|
|  | <b>As of</b>                  | <b>As of</b>                  |
|  | <b>December 31, 2015</b>      | <b>December 31, 2014</b>      |
|  | <b>(Dollars In Thousands)</b> | <b>(Dollars In Thousands)</b> |
| <b>Liabilities</b>   |                               |                               |
| Future policy benefits and claims  | \$ 29,703,897                 | \$ 29,944,890                 |
| Unearned premiums  | 723,536                       | 1,574,077                     |
| Total policy liabilities and accruals  | 30,427,433                    | 31,518,967                    |
| Stable value product account balances  | 2,131,822                     | 1,959,488                     |
| Annuity account balances   | 10,719,862                    | 10,950,729                    |
| Other policyholders funds  | 1,069,572                     | 1,430,325                     |
| Other liabilities  | 1,693,310                     | 1,621,168                     |
| Income tax payable   | 49,957                        | 23,901                        |
| Deferred income taxes  | 997,281                       | 1,545,478                     |
| Non-recourse funding obligations   | 685,684                       | 582,404                       |
| Repurchase program borrowings  | 438,185                       | 50,000                        |
| Debt   | 1,588,806                     | 1,300,000                     |
| Subordinated debt securities   | 448,763                       | 540,593                       |
| Liabilities related to separate accounts   |                               |                               |
| Variable annuity   | 12,829,188                    | 13,157,429                    |
| Variable universal life  | 827,610                       | 834,940                       |
| Total liabilities  | 63,907,473                    | 65,515,422                    |
| <b>Commitments and contingencies Note 13</b>   |                               |                               |
| <b>Shareowner s equity</b>   |                               |                               |
| Preferred Stock; (Predecessor) \$1 par value, shares authorized: 4,000,000;<br>Issued: None  |                               |                               |
| Common Stock, 2015 (Successor) and 2014 (Predecessor) - \$.01 par value and<br>\$.50 par value; shares authorized: 5,000 and 160,000,000; shares issued: 1,000<br>and 88,776,960, respectively                           |                               | 44,388                        |
| Additional paid-in-capital   | 5,554,059                     | 606,125                       |
| Treasury stock, at cost (2014 Predecessor - 9,435,255 shares)  |                               | (185,705)                     |
| Retained earnings  | 268,299                       | 3,082,000                     |
| Accumulated other comprehensive income (loss):   |                               |                               |
| Net unrealized gains (losses) on investments, net of income tax: (2015<br>Successor - \$(671,285); 2014 Predecessor - \$796,960)   | (1,246,672)                   | 1,480,068                     |
| Net unrealized (losses) gains relating to other-than-temporary impaired<br>investments for which a portion has been recognized in earnings, net of income<br>tax: (2015 Successor - \$(212); 2014 Predecessor - \$2,208) | (393)                         | 4,101                         |



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|  |    |            |    |            |
|--|----|------------|----|------------|
| Accumulated loss derivatives, net of income tax: (2015 Successor - \$0; 2014 Predecessor - \$(45))                         |    |            |    | (82)       |
| Postretirement benefits liability adjustment, net of income tax: (2015 Successor - \$3,194; 2014 Predecessor - \$(35,545)) |    | 5,931      |    | (66,011)   |
| Total shareowner s equity  |    | 4,581,224  |    | 4,964,884  |
| <b>Total liabilities and shareowner s equity</b>   | \$ | 68,488,697 | \$ | 70,480,306 |

See Notes to Consolidated Financial Statements

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## PROTECTIVE LIFE CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREOWNER'S EQUITY

|  | Additional             |            | Accumulated  |              | Total         |               |             |              |
|--|------------------------|------------|--------------|--------------|---------------|---------------|-------------|--------------|
|  | Common                 | Paid-In-   | Treasury     | Retained     | Other         | Corporation s | Non         | Total        |
|  | Stock                  | Capital    | Stock        | Earnings     | Comprehensive | shareowners   | controlling | Equity       |
|  |                        |            |              |              | Income (Loss) | equity        | Interest    |              |
|  | (Dollars In Thousands) |            |              |              |               |               |             |              |
| <b>Predecessor Company</b>   |                        |            |              |              |               |               |             |              |
| Balance, December 31, 2012   | \$ 44,388              | \$ 606,369 | \$ (209,840) | \$ 2,437,544 | \$ 1,736,722  | \$ 4,615,183  | \$ (750)    | \$ 4,614,433 |
| Net income for 2013  |                        |            |              | 393,464      |               | 393,464       |             | 393,464      |
| Other comprehensive loss   |                        |            |              |              | (1,242,656)   | (1,242,656)   |             | (1,242,656)  |
| Comprehensive loss for 2013  |                        |            |              |              |               | (849,192)     |             | (849,192)    |
| Cash dividends (\$0.78 per share)  |                        |            |              | (61,186)     |               | (61,186)      |             | (61,186)     |
| Noncontrolling interests   |                        | (750)      |              |              |               | (750)         | 750         |              |
| Stock-based compensation   |                        | 1,315      | 9,424        |              |               | 10,739        |             | 10,739       |
| Balance, December 31, 2013   | \$ 44,388              | \$ 606,934 | \$ (200,416) | \$ 2,769,822 | \$ 494,066    | \$ 3,714,794  | \$          | \$ 3,714,794 |
| Net income for 2014  |                        |            |              | 384,875      |               | 384,875       |             | 384,875      |
| Other comprehensive income   |                        |            |              |              | 924,010       | 924,010       |             | 924,010      |
| Comprehensive income for 2014  |                        |            |              |              |               | 1,308,885     |             | 1,308,885    |
| Cash dividends (\$0.92 per share)  |                        |            |              | (72,697)     |               | (72,697)      |             | (72,697)     |
| Noncontrolling interests   |                        |            |              |              |               |               |             |              |
| Stock-based compensation   |                        | (809)      | 14,711       |              |               | 13,902        |             | 13,902       |
| Balance, December 31, 2014   | \$ 44,388              | \$ 606,125 | \$ (185,705) | \$ 3,082,000 | \$ 1,418,076  | \$ 4,964,884  | \$          | \$ 4,964,884 |
| Net income for the period of January 1, 2015 to January 31, 2015           |                        |            |              | 1,509        |               | 1,509         |             | 1,509        |
| Other comprehensive income   |                        |            |              |              | 465,968       | 465,968       |             | 465,968      |
| Comprehensive income for the period of January 1, 2015 to January 31, 2015 |                        |            |              |              |               | 467,477       |             | 467,477      |
| Stock-based compensation   |                        | 1,550      |              |              |               | 1,550         |             | 1,550        |
| Balance, January 31, 2015  | \$ 44,388              | \$ 607,675 | \$ (185,705) | \$ 3,083,509 | \$ 1,884,044  | \$ 5,433,911  | \$          | \$ 5,433,911 |

|  | Additional             |              | Accumulated |            |                | Total        |
|--|------------------------|--------------|-------------|------------|----------------|--------------|
|  | Common                 | Paid-In-     | Treasury    | Retained   | Other          | Shareowner s |
|  | Stock                  | Capital      | Stock       | Earnings   | Comprehensive  | equity       |
|  |                        |              |             |            | Income (Loss)  |              |
|  | (Dollars In Thousands) |              |             |            |                |              |
| <b>Successor Company</b>   |                        |              |             |            |                |              |
| Balance, February 1, 2015  | \$                     | \$ 5,554,059 | \$          | \$         | \$             | \$ 5,554,059 |
| Net income for the period of February 1, 2015 to December 31, 2015         |                        |              |             | 268,299    |                | 268,299      |
| Other comprehensive loss   |                        |              |             |            | (1,241,134)    | (1,241,134)  |
| Comprehensive loss for the period of February 1, 2015 to December 31, 2015 |                        |              |             |            |                | (972,835)    |
| Balance, December 31, 2015   | \$                     | \$ 5,554,059 | \$          | \$ 268,299 | \$ (1,241,134) | \$ 4,581,224 |

See Notes to Consolidated Financial Statements

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## PROTECTIVE LIFE CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | 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) |                |
| <b>Cash flows from operating activities</b>  |                        |                  |                        |                |
| Net income   | \$ 268,299             | \$ 1,509         | \$ 384,875             | \$ 393,464     |
| Adjustments to reconcile net income to net cash provided by operating activities:                  |                        |                  |                        |                |
| Realized investment (gains) losses   | 163,882                | 42,602           | 148,751                | (42,147)       |
| Amortization of deferred policy acquisition costs and value of business acquired                   | 94,056                 | 4,072            | 257,309                | 192,898        |
| Capitalization of deferred policy acquisition costs  | (296,795)              | (22,489)         | (288,532)              | (341,121)      |
| Depreciation and amortization expense  | 49,741                 | 820              | 7,701                  | 6,769          |
| Deferred income tax  | 130,072                | 30,791           | 471                    | 175,054        |
| Accrued income tax   | 65,415                 | (32,803)         | 11,140                 | 70,635         |
| Interest credited to universal life and investment products  | 682,836                | 79,088           | 824,418                | 875,180        |
| Policy fees assessed on universal life and investment products                                     | (1,056,092)            | (90,288)         | (1,038,180)            | (894,176)      |
| Change in reinsurance receivables  | 187,269                | (85,081)         | 69,002                 | 52,978         |
| Change in accrued investment income and other receivables  | 24,202                 | (5,789)          | 13,794                 | 2,448          |
| Change in policy liabilities and other policyholders funds of traditional life and health products | (164,232)              | 176,980          | 102,524                | 99,535         |
| Trading securities:  |                        |                  |                        |                |
| Maturities and principal reductions of investments   | 114,501                | 17,946           | 114,793                | 179,180        |
| Sale of investments  | 135,465                | 26,422           | 353,250                | 256,938        |
| Cost of investments acquired   | (220,094)              | (27,289)         | (320,928)              | (380,836)      |
| Other net change in trading securities   | 73,376                 | (26,901)         | (69,641)               | 38,999         |
| Amortization of premiums and accretion of discounts on investments and mortgage loans              | 373,636                | 12,930           | 56,574                 | (462)          |
| Change in other liabilities  | (206,765)              | 238,592          | 180,717                | (137,103)      |
| Other income gains on repurchase of non-recourse funding obligations                               |                        |                  | (10,480)               | (20,047)       |
| Other, net   | (63,144)               | (149,889)        | (74,061)               | (28,636)       |
| <b>Net cash provided by operating activities</b>   | <b>355,628</b>         | <b>191,223</b>   | <b>723,497</b>         | <b>499,550</b> |
| <b>Cash flows from investing activities</b>  |                        |                  |                        |                |
| Maturities and principal reductions of investments, available-for-sale                             | 1,052,198              | 59,028           | 1,198,690              | 1,094,862      |
| Sale of investments, available-for-sale  | 1,336,350              | 191,062          | 2,271,611              | 3,239,222      |
| Cost of investments acquired, available-for-sale   | (3,546,474)            | (149,887)        | (3,603,567)            | (5,082,264)    |
| Change in investments, held-to-maturity  | (65,000)               |                  | (70,000)               | (65,000)       |
| Mortgage loans:  |                        |                  |                        |                |
| New lendings   | (1,466,020)            | (100,530)        | (925,910)              | (583,822)      |
| Repayments   | 1,306,034              | 45,741           | 1,285,489              | 863,262        |
| Change in investment real estate, net  | (3,662)                | 7                | 15,344                 | (2,576)        |
| Change in policy loans, net  | 52,364                 | 6,365            | 57,507                 | 17,181         |
| Change in other long-term investments, net   | (73,907)               | (25,339)         | (87,580)               | (197,742)      |
| Change in short-term investments, net  | (11,221)               | (40,314)         | (73,822)               | 148,124        |

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|   |                    |                   |                   |                    |
|---|--------------------|-------------------|-------------------|--------------------|
| Net unsettled security transactions                               | (64,615)           | 37,510            | 30,212            | 7,373              |
| Purchase of property and equipment                                | (8,862)            | (649)             | (8,152)           | (11,621)           |
| Sales of property and equipment                                   |                    |                   |                   | 57                 |
| Payments for business acquisitions, net of cash acquired          |                    |                   | (906)             | (471,714)          |
| <b>Net cash (used in) provided by investing activities</b>        | <b>(1,492,815)</b> | <b>22,994</b>     | <b>88,916</b>     | <b>(1,044,658)</b> |
| <b>Cash flows from financing activities</b>                       |                    |                   |                   |                    |
| Borrowings under line of credit arrangements and debt             | 330,000            |                   | 500,000           | 605,000            |
| Principal payments on line of credit arrangement and debt         | (338,093)          | (60,000)          | (785,000)         | (420,000)          |
| Issuance (repayment) of non-recourse funding obligations          | 65,000             |                   | 20,000            | (26,100)           |
| Repurchase program borrowings                                     | 388,185            |                   | (300,000)         | 200,000            |
| Dividends to shareowners  |                    |                   | (72,697)          | (61,186)           |
| Withholdings of share-based payment arrangements settled in cash  |                    |                   | (32,173)          |                    |
| Excess tax benefits from share-based payment arrangements         |                    |                   | 20,948            |                    |
| Investment product deposits and change in universal life deposits | 3,064,373          | 169,233           | 2,576,727         | 3,219,561          |
| Investment product withdrawals                                    | (2,438,916)        | (240,147)         | (2,827,305)       | (2,874,426)        |
| Other financing activities, net                                   |                    | (4)               | (44)              |                    |
| <b>Net cash provided by (used in) financing activities</b>        | <b>1,070,549</b>   | <b>(130,918)</b>  | <b>(899,544)</b>  | <b>642,849</b>     |
| <b>Change in cash</b>   | <b>(66,638)</b>    | <b>83,299</b>     | <b>(87,131)</b>   | <b>97,741</b>      |
| <b>Cash at beginning of period</b>                                | <b>462,710</b>     | <b>379,411</b>    | <b>466,542</b>    | <b>368,801</b>     |
| <b>Cash at end of period</b>                                      | <b>\$ 396,072</b>  | <b>\$ 462,710</b> | <b>\$ 379,411</b> | <b>\$ 466,542</b>  |

See Notes to Consolidated Financial Statements

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**PROTECTIVE LIFE CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

**Basis of Presentation**

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

The Merger was accounted for by the Company under the acquisition method of accounting under ASC Topic 805 *Business Combinations*. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The Company elected to apply pushdown accounting by applying the guidance allowed by ASC Topic 805, *Business Combinations*, including the initial recognition of most of the Company's assets and liabilities at fair value as of the acquisition date, and similarly recognizing goodwill calculated based on the terms of the transaction and the fair value of the new basis of net assets of the Company. The new basis of accounting will be the basis of the accounting records in the preparation of future financial statements and related disclosures after the Merger date. Goodwill of \$735.7 million was recorded as of the acquisition date which represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. During the measurement period subsequent to February 1, 2015, the Company has 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.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities (see also Note 22, *Statutory Reporting Practices and Other Regulatory Matters*).

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

**Entities Included**

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include those used in determining deferred policy acquisition costs ( DAC ) and related amortization periods, goodwill recoverability, value of business acquired ( VOBA ), investment and certain derivatives fair values, other-than-temporary impairments, future policy benefits, pension and other postretirement benefits, provisions for income taxes, reserves for contingent liabilities, reinsurance risk transfer assessments, and reserves for losses in connection with unresolved legal matters.

### **Significant Accounting Policies**

#### **Valuation of Investment Securities**

The Company determines the appropriate classification of investment securities at the time of purchase and periodically re-evaluates such designations. Investment securities are classified as either trading, available-for-sale, or held-to-maturity

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securities. Investment securities classified as trading are recorded at fair value with changes in fair value recorded in realized gains (losses). Investment securities purchased for long term investment purposes are classified as available-for-sale and are recorded at fair value with changes in unrealized gains and losses, net of taxes, reported as a component of other comprehensive income (loss). Investment securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity and are reported at amortized cost. Interest income on available-for-sale and held-to-maturity securities includes the amortization of premiums and accretion of discounts and are recorded in investment income.

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which the Company purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party service or an independent broker quotation. Included in the pricing of other asset-backed securities, collateralized mortgage obligations ( CMOs ), and mortgage-backed securities ( MBS ) are estimates of the rate of future prepayments of principal and underlying collateral support over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. The basis for the cost of securities sold was determined at the Committee on Uniform Securities Identification Procedures ( CUSIP ) level. The committee supplies a unique nine-character identification, called a CUSIP number, for each class of security approved for trading in the U.S., to facilitate clearing and settlement. These numbers are used when any buy and sell orders are recorded.

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes 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 the Company's intent to sell the security (including a more likely than not assessment of whether the Company 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 the Company's 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 the Company does not intend to sell and does 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 ), the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers 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 the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.



**Cash**

Cash includes all demand deposits reduced by the amount of outstanding checks and drafts. As a result of the Company's cash management system, checks issued from a particular bank but not yet presented for payment may create negative book cash balances with the bank. Such negative balances are included in other liabilities and was \$70.3 million as of December 31, 2015 (Successor Company) and was immaterial as of December 31, 2014 (Predecessor Company), respectively. The Company

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has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of a material loss.

**Deferred Policy Acquisition Costs**

The incremental direct costs associated with successfully acquired insurance policies, are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products. DAC are subject to recoverability testing at the end of each accounting period. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization.

The Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates (equal to the rate used to compute liabilities for future policy benefits, currently 1.0% to 8%) the Company expects to experience in future periods when determining the present value of estimated gross profits. These assumptions are best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

**Value of Businesses Acquired**

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

**Intangible Assets**

Intangible assets with definite lives are amortized over the estimated useful life of the asset and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Amortizable intangible assets primarily consist of distribution relationships, trade names, and technology. Intangible assets with indefinite lives, primarily insurance licenses, are not amortized, but are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

**Property and Equipment**

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

The Company depreciates its assets using the straight-line method over the estimated useful lives of the assets. The Company's furniture is depreciated over a ten year useful life, office equipment and machines are depreciated over a five year useful life, and software and computers are depreciated over a three year useful life. Major repairs or improvements are capitalized and depreciated over the estimated useful lives of the assets. Other repairs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or retired are removed from the accounts, and resulting gains or losses are included in income.

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Property and equipment consisted of the following:

|  | <b>Successor Company</b><br><b>As of December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>Predecessor Company</b><br><b>As of December 31, 2014</b><br><b>(Dollars In Thousands)</b> |
|--|---|---|
| Home office building                       | \$ 90,617   | \$ 75,109   |
| Data processing equipment                  | 14,607  | 40,919  |
| Other, principally furniture and equipment | 5,918   | 55,312  |
|  | 111,142   | 171,340   |
| Accumulated depreciation                   | (8,277)   | (118,487)   |
| Total property and equipment               | \$ 102,865  | \$ 52,853   |

**Separate Accounts**

The separate account assets represent funds for which the Company does not bear the investment risk. These assets are carried at fair value and are equal to the separate account liabilities, which represent the policyholder's equity in those assets. The investment income and investment gains and losses on the separate account assets accrue directly to the policyholder. These amounts are reported separately as assets and liabilities related to separate accounts in the accompanying consolidated financial statements. Amounts assessed against policy account balances for the costs of insurance, policy administration, and other services are included in premiums and policy fees in the accompanying consolidated statements of income.

**Stable Value Product Account Balances**

The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the 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 deposits for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan. During 2015, the Company terminated its funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC) and, on October 2, 2015, established an unregistered funding agreement-backed notes program.

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. Stable value product account balances include GICs and funding agreements the Company has issued. As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had \$400.7 million and \$39.8 million, respectively, of stable value product account balances marketed through structured programs. Most GICs and funding agreements the Company has written have maturities of one to ten years.

As of December 31, 2015 (Successor Company), future maturities of stable value products were as follows:

| <u>Year of Maturity</u> | <u>Amount</u><br>(Dollars In Millions) |
|-------------------------|--|
| 2016                    | \$ 534.7                               |
| 2017 - 2018             | 1,068.1                                |
| 2019 - 2020             | 451.2                                  |
| Thereafter              | 62.3                                   |

### Derivative Financial Instruments

The Company records its derivative financial instruments in the consolidated balance sheet in other long-term investments and other liabilities in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in the other comprehensive income (loss), depending upon whether the derivative instrument qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists. For cash flow hedges, the effective portion of their gain or loss is reported as a component of other comprehensive income (loss) and reclassified into earnings in the period during which the hedged item impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Effectiveness of the Company's hedge relationships is assessed on a quarterly basis. The Company reports changes in fair values of derivatives that

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are not part of a qualifying hedge relationship in earnings. Changes in the fair value of derivatives that are recognized in current earnings are reported in Realized investment gains (losses) Derivative financial instruments . For additional information, see Note 24, *Derivative Financial Instruments*.

**Insurance Liabilities and Reserves**

Establishing an adequate liability for the Company's obligations to policyholders requires the use of certain 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 the Company's historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for the Company's property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. The Company's results depend significantly upon the extent to which its actual claims experience is consistent with the assumptions the Company used in determining its reserves and pricing its products. The Company's reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that it will pay for actual claims or the timing of those payments.

**Guaranteed Minimum Withdrawal Benefits**

The Company also establishes reserves for guaranteed minimum withdrawal benefits ( GMWB ) on its variable annuity ( VA ) products. The GMWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the 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 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. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In conjunction with the Merger, the Company updated the fair value of the GMWB reserves to reflect current assumptions as of February 1, 2015 (Successor Company). As a result of the application of ASC Topic 805, the Company reset the hedge premium rates utilized in the valuation for all policies to be equal to the present value of future claims with the reset hedge premium rates being capped at the actual charges to the policyholder. This update resulted in a decrease in the net liability of approximately \$266.1 million on the Merger date. As of December 31, 2015 (Successor Company), our net GMWB liability held was \$181.6 million.

**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. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting

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unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates, which 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 February 1,

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2015, the Company has 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, the Company performed its annual evaluation of goodwill based on information as of September 30, 2015 (Successor Company) 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 the Company's conclusion and no such events were identified. As of December 31, 2015 (Successor Company), we had goodwill of \$732.4 million.

**Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. In general, income tax provisions are based on the income reported for financial statement purposes. Deferred 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.

The Company analyzes whether it needs to establish a valuation allowance on each of its deferred tax assets. In performing this analysis, the Company first considers the need for a valuation allowance on each separate deferred tax asset. Ultimately, it analyzes this need in the aggregate in order to prevent the double-counting of expected future taxable income in each of the foregoing separate analyses.

**Variable Interest Entities**

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the FASB ASC (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity (VIE). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. For more information on the Company's investment in a VIE refer to Note 6, *Investment Operations*, to the consolidated financial statements.

**Policyholder Liabilities, Revenues, and Benefits Expense**

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



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Traditional life insurance products consist principally of those products with fixed and guaranteed premiums and benefits, and they include whole life insurance policies, term and term-like life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies. In accordance with ASC 805, the liabilities for future policy benefits on traditional life insurance products, when combined with the associated VOBA, were recorded at fair value on the date of the Merger. These values were computed using assumptions that include interest rates, mortality, lapse rates, expense estimates, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation.

Liabilities for future policy benefits on traditional life insurance products have been computed using a net level method including assumptions as to investment yields, mortality, persistency, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Reserve investment yield assumptions on December 31, 2015 (Successor Company), range from approximately 2.8% to 4.5%. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported. Policy claims are charged to expense in the period in which the claims are incurred.

Traditional life insurance premiums are recognized as revenue when due. Health and credit insurance premiums are recognized as revenue over the terms of the policies. Benefits and expenses are associated with earned premiums so that profits are recognized over the life of the contracts. This is accomplished by means of the provision for liabilities for future policy benefits and the amortization of DAC and VOBA. Gross premiums in excess of net premiums related to immediate annuities are deferred and recognized over the life of the policy.

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

|  | Successor Company                                    |                           | Predecessor Company                                  |            |
|--|--|---------------------------|--|------------|
|  | As of December 31,<br>2015<br>(Dollars In Thousands) | As of January 31,<br>2015 | As of December 31,<br>2014<br>(Dollars In Thousands) | 2013       |
| Balance beginning of year                | \$ 403,009   | \$ 419,401                | \$ 334,450   | \$ 326,633 |
| Less: reinsurance                        | 149,618  | 163,671                   | 117,502  | 155,341    |
| Net balance beginning of year            | 253,391  | 255,730                   | 216,948  | 171,292    |
| Incurred related to:                     |  |                           |  |            |
| Current year                             | 973,175  | 97,573                    | 1,075,005  | 698,028    |
| Prior year                               | 95,977   | 9,360                     | 102,936  | 68,396     |
| Total incurred                           | 1,069,152  | 106,933                   | 1,177,941  | 766,424    |
| Paid related to:                         |  |                           |  |            |
| Current year                             | 939,824  | 98,281                    | 1,017,193  | 682,877    |
| Prior year                               | 111,222  | 10,991                    | 121,966  | 85,146     |
| Total paid                               | 1,051,046  | 109,272                   | 1,139,159  | 768,023    |
| Other changes:                           |  |                           |  |            |
| Acquisition and reserve transfers<br>(1) |  |                           |  | 47,255     |
| Net balance end of year                  | 271,497  | 253,391                   | 255,730  | 216,948    |
| Add: reinsurance                         | 112,537  | 149,618                   | 163,671  | 117,502    |
| Balance end of year                      | \$ 384,034   | \$ 403,009                | \$ 419,401   | \$ 334,450 |

(1) This amount represents the net liability, before reinsurance, for unpaid claims as of December 31, 2013 (Predecessor Company) for MONY Life Insurance Company. The claims activity from the acquisition date of October 1, 2013 through December 31, 2013 (Predecessor Company) for MONY Life Insurance Company is not reflected in this chart.

**Universal Life and Investment Products**

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Premiums and policy fees for universal life and investment products consist of fees that have been assessed against policy account balances for the costs of insurance, policy administration, and surrenders. Such fees are recognized when assessed and earned. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. Interest rates credited to universal life products ranged from 1.0% to 8.75% and investment products ranged from 0.2% to 9.8% in 2015.

The Company establishes liabilities for fixed indexed annuity ( FIA ) products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC or Codification ) Topic 815 - *Derivatives and Hedging* which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The future changes in the fair value of the liability for these FIA products are recorded in *Benefit and settlement expenses* with the liability being recorded in *Annuity account balances*. For more information regarding the determination of fair value of annuity account balances please refer to Note 23, *Fair Value of Financial Instruments*. *Premiums and policy fees* for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

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

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*(losses) - Derivative financial instruments.* For more information regarding the determination of fair value of the FIA embedded derivative refer to Note 23, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 -*Financial Services - Insurance* and is recorded in *Annuity account balances* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

The Company markets universal life products with a guaranteed minimum interest rate plus a contingent return based on equity market performance and are considered hybrid financial instruments under the FASB's ASC Topic 815 - *Derivatives and Hedging*. The Company did not elect to value these IUL products at fair value prior to the Merger date. As a result, the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. Changes in the fair value of the embedded derivative are recorded in *Realized investment gains (losses) - Derivative financial instruments*. For more information regarding the determination of fair value of the IUL embedded derivative refer to Note 23, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 - *Financial Services - Insurance* and is recorded in *Future policy benefits and claims* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

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

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

### **Property and Casualty Insurance Products**

Property and casualty insurance products include service contract business, surety bonds, and guaranteed asset protection ( GAP ). Premiums for service contracts and GAP products are recognized based on expected claim patterns. For all other products, premiums are generally recognized over the terms of the contract on a pro-rata basis. Fee income from providing administrative services is recognized as earned when the related services are performed. Unearned premium reserves are maintained for the portion of the premiums that is related to the unexpired period of the policy. Benefit reserves are recorded when insured events occur. Benefit reserves include case basis reserves for known but unpaid claims as of the balance sheet date as well as incurred but not reported ( IBNR ) reserves for claims where the insured event has occurred but has not been reported to the Company as of the balance sheet date. The case basis reserves and IBNR are calculated based on historical experience and on assumptions relating to claim severity and frequency, the level of used vehicle prices, and other factors. These assumptions are modified as necessary to reflect anticipated trends.

## Reinsurance

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

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

The Company utilizes reinsurance on certain short duration insurance contracts (primarily issued through the Asset Protection segment). As part of these reinsurance transactions the Company receives reinsurance allowances which reimburse the Company for acquisition costs such as commissions and premium taxes. A ceding fee is also collected to cover other

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administrative costs and profits for the Company. As a component of reinsurance costs, reinsurance allowances are accounted for in accordance with the relevant provisions of ASC Financial Services Insurance Topic, which state that reinsurance costs should be amortized over the contract period of the reinsurance if the contract is short-duration. Accordingly, reinsurance allowances received related to short-duration contracts are capitalized and charged to expense in proportion to premiums earned. Ceded unamortized acquisition costs are netted with direct unamortized acquisition costs in the balance sheet.

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

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

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

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

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

The Company determines its cost of reinsurance to include amounts paid to the reinsurer (ceded premiums) net of amounts reimbursed by the reinsurer (in the form of allowances). As noted within ASC Financial Services Insurance Topic, The difference, if any, between amounts paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts is part of the estimated cost to be amortized. The Company's policy is to amortize the cost of reinsurance over the life of the underlying reinsured contracts (for long-duration policies) in a manner consistent with the way in which benefits and expenses on the underlying contracts are recognized. For the Company's long-duration contracts, it is the Company's practice to defer reinsurance allowances as a component of the cost of reinsurance and recognize the portion related to the recovery of acquisition costs as a reduction of applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. The remaining balance of reinsurance allowances are included as a component of the cost of reinsurance and those allowances which are allocable to the current period are recorded as

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

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

**Reinsurance Assets and Liabilities** Claim liabilities and policy benefits are calculated consistently for all policies, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are

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

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

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

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

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

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

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

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

**Accounting Pronouncements Recently Adopted**



**Accounting Standards Update ( ASU ) No. 2014-08 Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity.** This Update changes the requirements for reporting discontinued operations and related disclosures. The Update limits the definition of a discontinued operation to disposals that represent strategic shifts that will have a major effect on an entity's operation and financial results. Additionally, the Update requires enhanced disclosures about the components of discontinued operations and the financial effects of the disposal. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2014. The Company has reviewed the additional disclosures required by the Update, and will apply the revised guidance to any disposals occurring after the effective date.

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

**ASU No. 2014-17-Business Combinations (Topic 805).** This Update relates to pushdown accounting, which refers to pushing down the acquirer's accounting and reporting basis (which is recognized in conjunction with its accounting for a business combination) to the acquiree's standalone financial statements. The new guidance makes pushdown accounting optional for an acquiree that is a business or nonprofit activity when there is a change-in-control event (e.g., the acquirer in a business combination obtains control over the acquiree). In addition, the staff of the SEC released Staff Accounting Bulletin ( SAB ) No. 115, which rescinds SAB Topic 5J, *New Basis of Accounting Required in Certain Circumstances* (the SEC staff's pre-existing guidance on pushdown accounting) and conforms SEC guidance on pushdown accounting to the FASB's new guidance. Revised SEC guidance was codified in ASU No. 2015-08, issued in May 2015. The new pushdown accounting guidance became effective upon its issuance on November 18, 2014. Although now optional, the Company has applied pushdown accounting to its standalone financial statements effective with the Company becoming a wholly owned subsidiary of Dai-ichi Life on February 1, 2015. The presentation within this report for predecessor and successor periods is consistent with this Update.

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**ASU No. 2015-16 - Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments.** This Update provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period following a business combination in the reporting period in which the adjustment amounts are determined. This Update is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in the Update are to be applied prospectively for adjustments that occur after the effective date, with early adoption permitted for financial statements that have not been issued. The Company elected early adoption of the revised guidance in this Update by way of a change in accounting principle in the fourth quarter of 2015. The Company made adjustments to provisional amounts recorded as part of the Dai-ichi Merger which resulted in a decrease to goodwill of \$3.3 million. See Note 9, *Goodwill* for more details on the measurement period adjustment.

**Accounting Pronouncements Not Yet Adopted**

**ASU No. 2014-09-Revenue from Contracts with Customers (Topic 606).** This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update was originally effective for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU No. 2015-14 - *Revenues from Contracts with Customers: Deferral of the Effective Date*, to defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption will be allowed, but not before the original effective date. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption. The Company is currently assessing the impact this standard will have on its non-insurance operations.

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

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

amendments also clarify when fees and related party relationships should be considered in the consolidation of variable interest entities. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2015. The Company is prepared to comply with the revised guidance and does not expect a material financial or operational impact upon adoption.

**ASU No. 2015-03-Interest-Imputation of Interest.** The objective of this Update is to eliminate diversity in practice related to the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The Update is effective for fiscal years beginning after December 15, 2015, and requires revised presentation of debt issuance costs in all periods presented in the financial statements. The Company is prepared to comply with the revised guidance and does not believe it will materially impact the presentation of the Company's financial position.

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

**ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts.** The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The

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additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The Company is reviewing its products to determine the applicability and potential impact of the new disclosures.

**ASU No. 2015-12 - Plan Accounting - (Topics 960, 962 and 965).** This Update is a three-part standard that provides guidance on certain aspects of the accounting related to employee benefit plans. Part I requires an employee benefit plan to use contract value as the only measurement amount for fully-benefit responsive investment contracts. Part II simplifies and increases the effectiveness of plan investment disclosure requirements for employee benefit plans by eliminating certain disclosures related to individual investments over 5 percent and by eliminating the need to disaggregate investments in multiple ways. Part III provides a measurement-date practical expedient for plan investments when the fiscal year-end of a plan does not coincide with a month-end. The guidance is effective for fiscal years beginning after December 15, 2015 for all three parts and early adoption is permitted. For parts I and II, amendments should be applied retrospectively to all financial statements presented, while part III should be applied prospectively. The Company is reviewing its policies and procedures to ensure compliance with the revised guidance.

**ASU No. 2015-15 - Interest - Imputation of Interest - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.** The objective of this Update is to clarify the SEC Staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on the topic in ASU No. 2015-03. This Update reflects the SEC Staff's decision to not object when an entity defers and presents debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The Company is prepared to comply with the revised guidance.

**ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.** The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2017. The Company is reviewing its policies and processes to ensure compliance with the revised guidance.

### **3. RECENTLY ANNOUNCED REINSURANCE AND FINANCING TRANSACTIONS**

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). Pursuant to the Master Agreement, on January 15, 2016, PLICO

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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 Financial Regulation.

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**4. DAI-ICHI MERGER**

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

The Merger was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. On the date of the Merger, goodwill of \$735.7 million represented the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflected the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. During the measurement period subsequent to February 1, 2015, the Company has 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. None of the goodwill is tax deductible.

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

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

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|                            |    |                  |
|----------------------------|----|------------------|
| Variable universal life    |    | 819,188          |
| Total liabilities          |    | 65,405,599       |
| <b>Net assets acquired</b> | \$ | <b>5,554,059</b> |

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



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

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

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

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

| <b>Year</b> | <b>Amount<br/>(Dollars In Thousands)</b> |
|-------------|--|
| 2016        | \$ 41,313                                |
| 2017        | 41,313                                   |
| 2018        | 41,313                                   |
| 2019        | 41,313                                   |
| 2020        | 41,313                                   |

All tangible and intangible assets of the Company were allocated to applicable operating segments in connection with the recording of pushdown accounting. The purchase price was also allocated to each operating segment in accordance with the determined fair value of the operating segments, such that the total reconciled with the total consideration paid in the Merger. Subtraction of the fair value of the tangible and intangible assets for each operating segment from the allocated purchase price of that operating segment resulted in the goodwill allocated to each operating segment. The amount of goodwill allocated to each operating segment is reflected in Note 26, *Operating Segments*.

### **Treatment of certain acquisition related costs**

The Company recorded costs related to the Merger in either the predecessor or successor periods based on the specific facts and circumstances underlying each individual transaction. Certain of these costs were fully contingent on the consummation of the Merger on February 1, 2015 (Successor Company). These costs are not expensed in either the Predecessor or Successor Company Statements of Comprehensive Income

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(Loss). Liabilities for payment of these contingent costs are included in the opening balance sheet as of February 1, 2015 (Successor Company), and the nature and amount of the costs are discussed below.

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

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

### **Treatment of Benefit Plans**

At or immediately prior to the Merger, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a SAR) that were outstanding and unexercised immediately prior to the Merger and that had a base price per share of Common Stock underlying such SAR (the Base Price) that was less than the Per Share Merger

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Consideration (each such SAR, an In-the-Money SAR ), whether or not exercisable or vested, was cancelled and converted into the right to receive an amount in cash less any applicable withholding taxes, determined by multiplying (i) the excess of the Per Share Merger Consideration over the Base Price of such In-the-Money SAR by (ii) the number of shares of Common Stock subject to such In-the-Money SAR (such amount, the SAR Consideration ).

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

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

## 5. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY Life Insurance Company ( MONY ) converted from a mutual insurance company to a stock corporation ( demutualization ). In connection with its demutualization, an accounting mechanism known as a closed block (the Closed Block ) was established for certain individuals participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the acquisition of MONY in 2013.

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

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in accumulated other comprehensive income (loss) ( AOCI )) at the acquisition date of October 1, 2013, represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed Block remain in force. In connection with the acquisition of MONY, the Company developed an actuarial calculation of the expected timing of MONY s Closed Block s earnings as of October 1, 2013. Pursuant to the acquisition of the Company by Dai-ichi Life, this actuarial calculation of the expected timing of MONY s Closed Block earnings was recalculated and reset as of February 1, 2015, along with the establishment of a policyholder dividend obligation as of such date.

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If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company's net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that period, the policyholder dividend obligation would be reduced (but not below zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

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

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

|  | <b>Successor Company</b><br><b>As of December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>Predecessor Company</b><br><b>As of December 31, 2014</b><br><b>(Dollars In Thousands)</b> |
|--|---|---|
| <b>Closed block liabilities</b>  |   |   |
| Future policy benefits, policyholders' account balances and other policyholder liabilities   | \$ 6,010,520  | \$ 6,138,505  |
| Policyholder dividend obligation   |   | 366,745   |
| Other liabilities  | 22,917  | 53,838  |
| <b>Total closed block liabilities</b>  | <b>6,033,437</b>  | <b>6,559,088</b>  |
| <b>Closed block assets</b>   |   |   |
| Fixed maturities, available-for-sale, at fair value  | 4,426,090   | 4,524,037   |
| Equity securities, available-for-sale, at fair value   |   | 5,387   |
| Mortgage loans on real estate  | 247,162   | 448,855   |
| Policy loans   | 746,102   | 771,120   |
| Cash and other invested assets   | 34,420  | 30,984  |
| Other assets   | 166,445   | 221,270   |
| <b>Total closed block assets</b>   | <b>5,620,219</b>  | <b>6,001,653</b>  |
| Excess of reported closed block liabilities over closed block assets   | 413,218   | 557,435   |
| Portion of above representing accumulated other comprehensive income:  |   |   |
| Net unrealized investments gains (losses) net of policyholder dividend obligation of \$(179,360) (Successor) and \$106,886 (Predecessor) | (18,597)  |   |
| Future earnings to be recognized from closed block assets and closed block liabilities   | \$ 394,621  | \$ 557,435  |

Reconciliation of the policyholder dividend obligation is as follows:

|  | <b>Successor Company</b><br><b>February 1, 2015</b><br><b>to</b><br><b>December 31, 2015</b> | <b>Predecessor Company</b><br><b>January 1, 2015</b><br><b>to</b><br><b>January 31, 2015</b> | <b>Predecessor Company</b><br><b>For The Year Ended</b><br><b>December 31,</b><br><b>2014</b> |
|--|--|--|---|
| Policyholder dividend obligation, beginning balance  | \$ 323,432   | \$ 366,745   | \$ 190,494  |
| Applicable to net revenue (losses)   | (47,493)   | (1,369)  | (910)   |
| Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation; includes deferred tax benefits of \$(96,579) (Successor); \$47,277 (2015 - Predecessor); \$58,571 (2014 - Predecessor) | (275,939)  | 135,077  | 177,161   |
| <b>Policyholder dividend obligation, ending balance</b>  | <b>\$</b>  | <b>\$ 500,453</b>  | <b>\$ 366,745</b>   |



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Closed Block revenues and expenses were as follows:

|   | Successor Company   |         | Predecessor Company   |        |    |         |
|---|---|---------|---|--------|----|---------|
|   | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |         | January 1, 2015<br>to<br>January 31, 2015<br>(Dollars In Thousands) |        |    |         |
|   |   |         | For The Year Ended<br>December 31,<br>December 31, 2014             |        |    |         |
| <b>Revenues</b>                         |   |         |   |        |    |         |
| Premiums and other income               | \$  | 185,562 | \$  | 15,065 | \$ | 212,765 |
| Net investment income                   |   | 193,203 |   | 19,107 |    | 239,028 |
| Net investment gains                    |   | 3,333   |   | 568    |    | 10,528  |
| Total revenues                          |   | 382,098 |   | 34,740 |    | 462,321 |
| <b>Benefits and other deductions</b>    |   |         |   |        |    |         |
| Benefits and settlement expenses        |   | 336,629 |   | 31,152 |    | 417,667 |
| Other operating expenses                |   | 1,001   |   |        |    | 674     |
| Total benefits and other deductions     |   | 337,630 |   | 31,152 |    | 418,341 |
| <b>Net revenues before income taxes</b> |   | 44,468  |   | 3,588  |    | 43,980  |
| Income tax expense                      |   | 14,920  |   | 1,256  |    | 20,377  |
| <b>Net revenues</b>                     | \$  | 29,548  | \$  | 2,332  | \$ | 23,603  |

**6. INVESTMENT OPERATIONS**

Major categories of net investment income are summarized as follows:

|                        | Successor Company   |   | Predecessor Company   |         |    |           |    |           |
|------------------------|---|---|---|---------|----|-----------|----|-----------|
|                        | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |   | For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |         |    |           |    |           |
|                        |   | January 1, 2015<br>to<br>January 31, 2015 |   |         |    |           |    |           |
| Fixed maturities       | \$  | 1,267,900                                 | \$  | 140,104 | \$ | 1,712,297 | \$ | 1,509,544 |
| Equity securities      |   | 40,907                                    |   | 2,572   |    | 41,740    |    | 26,923    |
| Mortgage loans         |   | 252,577                                   |   | 24,977  |    | 360,778   |    | 333,145   |
| Investment real estate |   | 2,528                                     |   | 112     |    | 4,482     |    | 3,556     |
| Short-term investments |   | 93,982                                    |   | 9,713   |    | 112,292   |    | 75,984    |
|                        |   | 1,657,894                                 |   | 177,478 |    | 2,231,589 |    | 1,949,152 |

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|                           |    |           |    |         |    |           |    |           |
|---------------------------|----|-----------|----|---------|----|-----------|----|-----------|
| Other investment expenses |    | 24,946    |    | 2,298   |    | 33,865    |    | 31,071    |
| Net investment income     | \$ | 1,632,948 | \$ | 175,180 | \$ | 2,197,724 | \$ | 1,918,081 |

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

|   | Successor Company      |                  | Predecessor Company             |        |    |          |    |           |
|---|------------------------|------------------|---------------------------------|--------|----|----------|----|-----------|
|   | February 1, 2015       |                  | For The Year Ended December 31, |        |    |          |    |           |
|   | to                     |                  | 2014                            |        |    |          |    |           |
|   | December 31, 2015      | January 31, 2015 | 2014                            | 2013   |    |          |    |           |
|   | (Dollars In Thousands) |                  | (Dollars In Thousands)          |        |    |          |    |           |
| Fixed maturities                          | \$                     | 1,282            | \$                              | 6,891  | \$ | 75,159   | \$ | 63,180    |
| Equity securities                         |                        | (1,001)          |                                 |        |    | 1,793    |    | 3,276     |
| 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 investments                         |                        | 192              |                                 | 1,200  |    | (13,566) |    | (11,859)  |
| Total realized gains (losses) investments | \$                     | (193,879)        | \$                              | 80,672 | \$ | 198,127  | \$ | (145,984) |



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For the period of February 1, 2015 to December 31, 2015 (Successor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$8.7 million and gross realized losses were \$35.5 million, including \$27.0 million of impairment losses.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$6.9 million and gross realized losses were \$0.5 million, including \$0.4 million of impairment losses. For the year ended December 31, 2014 (Predecessor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$78.1 million and gross realized losses were \$8.1 million, including \$6.9 million of impairment losses. For the year ended December 31, 2013 (Predecessor Company), gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$72.8 million and gross realized losses were \$28.0 million, including \$21.7 million of impairment losses.

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

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$172.6 million. The gain realized on the sale of the securities was \$6.9 million. For the year ended December 31, 2014 (Predecessor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$1.7 billion. The gain realized on the sale of these securities was \$78.1 million. For the year ended December 31, 2013 (Predecessor Company), the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$2.3 billion. The gain realized on the sale of these securities was \$72.8 million.

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

For the year ended December 31, 2014 (Predecessor Company), the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$22.9 million. The loss realized on the sale of these securities was \$1.2 million. The Company made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the year ended December 31, 2013 (Predecessor Company), the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$398.2 million. The loss realized on the sale of these securities was \$6.3 million. The Company made the decision to exit these holdings in conjunction with our overall asset liability management process.



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

| <b>Successor Company</b>   |                |                        |                         |              |                                 |
|--|----------------|------------------------|-------------------------|--------------|---------------------------------|
| <b>As of December 31, 2015</b>   |                |                        |                         |              |                                 |
|  | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value   | Total OTTI Recognized in OCI(1) |
| (Dollars In Thousands)   |                |                        |                         |              |                                 |
| <b>Predecessor Company</b>   |                |                        |                         |              |                                 |
| <b>As of December 31, 2014</b>   |                |                        |                         |              |                                 |
| Fixed maturities:  |                |                        |                         |              |                                 |
| Residential mortgage-backed securities   | \$ 1,374,206   | \$ 56,330              | \$ (12,278)             | \$ 1,418,258 | \$ 6,404                        |
| Commercial mortgage-backed securities  | 1,119,979      | 59,637                 | (2,364)                 | 1,177,252    |                                 |
| Other asset-backed securities  | 857,441        | 17,885                 | (35,950)                | 839,376      | (95)                            |
| U.S. government-related securities   | 1,394,028      | 44,149                 | (9,282)                 | 1,428,895    |                                 |
| Other government-related securities<br>States, municipals, and political<br>subdivisions | 16,939         | 3,233                  |                         | 20,172       |                                 |
|  | 1,391,526      | 296,594                | (431)                   | 1,687,689    |                                 |
| Corporate securities   | 24,765,303     | 2,759,255              | (139,031)               | 27,385,527   |                                 |
|  | 30,919,422     | 3,237,083              | (199,336)               | 33,957,169   | 6,309                           |

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|                        |               |              |              |               |
|------------------------|---------------|--------------|--------------|---------------|
| Equity securities      | 757,259       | 38,669       | (14,182)     | 781,746       |
| Short-term investments | 155,500       |              |              | 155,500       |
|                        | \$ 31,832,181 | \$ 3,275,752 | \$ (213,518) | \$ 34,894,415 |
|                        |               |              |              | \$ 6,309      |

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

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).

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

|                                | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Total OTTI<br>Recognized<br>in OCI |
|--------------------------------|------------------------|------------------------------|-------------------------------|---------------|------------------------------------|
|                                | (Dollars In Thousands) |                              |                               |               |                                    |
| <b>Successor Company</b>       |                        |                              |                               |               |                                    |
| <b>As of December 31, 2015</b> |                        |                              |                               |               |                                    |
| Other                          | \$ 593,314             | \$                           | \$ (78,314)                   | \$ 515,000    | \$                                 |

|                                | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Total OTTI<br>Recognized<br>in OCI |
|--------------------------------|------------------------|------------------------------|-------------------------------|---------------|------------------------------------|
|                                | (Dollars In Thousands) |                              |                               |               |                                    |
| <b>Predecessor Company</b>     |                        |                              |                               |               |                                    |
| <b>As of December 31, 2014</b> |                        |                              |                               |               |                                    |
| Other                          | \$ 435,000             | \$ 50,422                    | \$                            | \$ 485,422    | \$                                 |

During the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the year ended December 31, 2014 (Predecessor Company), the Company did not record any other-than-temporary impairments on held-to-maturity securities. The Company's held-to-maturity securities had \$78.3 million of gross unrecognized holding losses for the period of February 1, 2015 to December 31, 2015 (Successor Company). For the year ended December 31, 2014 (Predecessor Company), the Company did not have any gross unrecognized holding losses. The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings, financial health of the issuer, continued access of the issuer to capital markets and other pertinent information.

As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had an additional \$2.7 billion and \$2.8 billion of fixed maturities, \$8.3 million and \$21.5 million of equity securities, and \$61.7 million and \$95.1 million of short-term investments classified as trading securities, respectively.

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

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|  | Available-for-sale     |               | Held-to-maturity       |            |
|--|------------------------|---------------|------------------------|------------|
|  | Amortized Cost         | Fair Value    | Amortized Cost         | Fair Value |
|  | (Dollars In Thousands) |               | (Dollars In Thousands) |            |
| Due in one year or less                | \$ 937,594             | \$ 935,860    | \$                     | \$         |
| Due after one year through five years  | 5,868,351              | 5,732,803     |                        |            |
| Due after five years through ten years | 7,840,167              | 7,542,055     |                        |            |
| Due after ten years                    | 21,146,888             | 18,698,483    | 593,314                | 515,000    |
|  | \$ 35,793,000          | \$ 32,909,201 | \$ 593,314             | \$ 515,000 |

During the period of February 1, 2015 to December 31, 2015 (Successor Company), the Company recorded pre-tax other-than-temporary impairments of investments of \$28.7 million, all of which were related to fixed maturities. Credit impairments recorded in earnings during the period of February 1, 2015 to December 31, 2015 (Successor Company), were \$27.0 million. During the period of February 1, 2015 to December 31, 2015 (Successor Company), \$1.7 million of non-credit impairment losses were recorded in other comprehensive income. There were no other-than-temporary impairments related to fixed

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

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

During the year ended December 31, 2014 (Predecessor Company), the Company recorded pre-tax other-than-temporary impairments of investments of \$2.6 million, all of which related to fixed maturities. Credit impairments recorded in earnings during the year ended December 31, 2014 (Predecessor Company), were \$7.3 million. During the year ended December 31, 2014 (Predecessor Company), \$4.7 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses. There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the year ended December 31, 2014 (Predecessor Company).

During the year ended December 31, 2013 (Predecessor Company), the Company recorded pre-tax other-than-temporary impairments of investments of \$10.9 million, of which \$7.6 million were related to fixed maturities and \$3.3 million were related to equity securities. Credit impairments recorded in earnings during the year ended December 31, 2013 (Predecessor Company) were \$22.4 million. Non-credit impairment losses of \$11.5 million that were previously recorded in other comprehensive income (loss) were recorded in earnings as credit losses. There were no impairments related to equity securities. For the year ended December 31, 2013 (Predecessor Company), there were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell.

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

|   | Successor Company      |   | Predecessor Company<br>For The Year Ended December 31, |            |
|---|------------------------|---|--|------------|
|   | February 1, 2015<br>to | January 1, 2015<br>to<br>January 31, 2015 | 2014   | 2013       |
|   | (Dollars In Thousands) |   | (Dollars In Thousands)                                 |            |
| Beginning balance   | \$                     | \$ 15,478                                 | \$ 41,692  | \$ 122,121 |
| Additions for newly impaired securities                                   | 22,761                 |   |  | 3,516      |
| Additions for previously impaired securities                              |                        | 221                                       | 2,263  | 12,066     |
| Reductions for previously impaired securities due to a change in expected |                        |   | (28,477)   | (88,523)   |

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cash flows

|  |  |  |  |  |  |  |  |         |
|--|--|--|--|--|--|--|--|---------|
| Reductions for previously impaired securities that were sold in the current period |  |  |  |  |  |  |  | (7,488) |
|--|--|--|--|--|--|--|--|---------|

Other

|                |    |        |    |        |    |        |    |        |
|----------------|----|--------|----|--------|----|--------|----|--------|
| Ending balance | \$ | 22,761 | \$ | 15,699 | \$ | 15,478 | \$ | 41,692 |
|----------------|----|--------|----|--------|----|--------|----|--------|



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

|  | Less Than 12 Months           |                | 12 Months or More |            | Fair Value    | Total Unrealized Loss |
|--|-------------------------------|----------------|-------------------|------------|---------------|-----------------------|
|  | Fair                          | Unrealized     | Fair              | Unrealized |               |                       |
|  | Value                         | Loss           | Value             | Loss       |               |                       |
|  |                               |                |                   |            |               |                       |
|  | <b>(Dollars In Thousands)</b> |                |                   |            |               |                       |
| Residential mortgage-backed securities             | \$ 977,433                    | \$ (17,112)    | \$                | \$         | \$ 977,433    | \$ (17,112)           |
| Commercial mortgage-backed securities              | 1,233,518                     | (41,858)       |                   |            | 1,233,518     | (41,858)              |
| Other asset-backed securities                      | 633,274                       | (18,763)       |                   |            | 633,274       | (18,763)              |
| U.S. government-related securities                 | 1,291,476                     | (34,532)       |                   |            | 1,291,476     | (34,532)              |
| Other government-related securities                | 17,740                        | (743)          |                   |            | 17,740        | (743)                 |
| States, municipalities, and political subdivisions | 1,566,752                     | (126,814)      |                   |            | 1,566,752     | (126,814)             |
| Corporate securities                               | 24,283,448                    | (2,682,274)    |                   |            | 24,283,448    | (2,682,274)           |
| Preferred stock                                    | 34,685                        | (1,867)        |                   |            | 34,685        | (1,867)               |
| Equities   | 248,493                       | (6,477)        |                   |            | 248,493       | (6,477)               |
|  | \$ 30,286,819                 | \$ (2,930,440) | \$                | \$         | \$ 30,286,819 | \$ (2,930,440)        |

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).

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

As of December 31, 2015 (Successor Company), the Company had a total of 2,548 positions that were in an unrealized loss position, but the Company does not consider these unrealized loss positions to be other-than-temporary. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and the Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

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

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

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

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

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

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

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

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

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

As of December 31, 2015 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade with a fair value of \$1.5 billion and had an amortized cost of \$1.7 billion. In addition, included in the Company's trading portfolio, the Company held \$288.2 million of securities which were rated below investment grade. Approximately \$929.6 million of the below investment grade securities held by the Company were not publicly traded.

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

|                   | <b>Successor Company</b>   |   | <b>Predecessor Company</b>                   |                |
|-------------------|--|---|--|----------------|
|                   | <b>February 1, 2015</b><br>to<br><b>December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>January 1, 2015</b><br>to<br><b>January 31, 2015</b> | <b>For The Year Ended December 31,</b>       |                |
|                   |  |   | <b>2014</b><br><b>(Dollars In Thousands)</b> | <b>2013</b>    |
| Fixed maturities  | \$ (1,874,469)   | \$ 670,229  | \$ 1,224,672                                 | \$ (1,269,449) |
| Equity securities | 4,406  | 10,226  | 35,242                                       | (20,892)       |

The Company held \$27.1 million of non-income producing securities for the period of February 1, 2015 to December 31, 2015 (Successor Company).

Included in the Company's invested assets are \$1.7 billion of policy loans as of December 31, 2015 (Successor Company). The interest rates on standard policy loans range from 3.0% to 8.0%. The collateral loans on life insurance policies have an interest rate of 13.64%.

### Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the FASB ASC (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity ( VIE ). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under

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the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC ( Red Mountain ), that was determined to be a VIE as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company). The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company ( Golden Gate V ) and the Company in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued the note to Golden Gate V. Credit enhancement on the Red Mountain Note is provided by an unrelated third party. For details of this transaction, see Note 12, *Debt and Other Obligations*. The Company has the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but does not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company's risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the holding company ( PLC ) has guaranteed the VIE's credit enhancement fee obligation to the unrelated third party provider. As of December 31, 2015 (Successor Company), no payments have been made or required related to this guarantee.

## 7. MORTGAGE LOANS

### 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 that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

As of February 1, 2015, all mortgage loans were measured at fair value. Each mortgage loan was individually analyzed to determine the fair value. Each loan was either analyzed and assigned a discount rate or given an impairment, based on whether facts and circumstances which, as of the acquisition date, indicated less than full projected collections of contractual principal and interest payments. Various market factors were considered in determining the net present value of the expected cash flow stream or underlying real estate collateral, including the characteristics of the borrower, the underlying collateral, underlying credit worthiness of the tenants, and tenant payment history. Known events and risks, such

as refinancing risks, were also considered in the fair value determination. In certain cases, fair value was based on the NPV of the expected cash flow stream or the underlying value of the real estate collateral.

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The following table includes a breakdown of the Company's commercial mortgage loan portfolio by property type as of December 31, 2015 (Successor Company):

| <b>Type</b>      | <b>Percentage of<br/>Mortgage Loans<br/>on Real Estate</b> |
|------------------|--|
| Retail           | 60.9%  |
| Office Buildings | 13.0   |
| Apartments       | 7.4  |
| Warehouses       | 8.6  |
| Senior housing   | 6.4  |
| Other            | 3.7  |
|                  | 100.0%   |

The Company specializes in originating mortgage loans on either credit-oriented or credit-anchored commercial properties. No single tenant's exposure represents more than 2.0% of mortgage loans. Approximately 62.8% of the mortgage loans are on properties located in the following states:

| <b>State</b>   | <b>Percentage of<br/>Mortgage Loans<br/>on Real Estate</b> |
|----------------|--|
| Alabama        | 10.6%  |
| Texas          | 9.3  |
| Georgia        | 7.4  |
| Florida        | 6.5  |
| Tennessee      | 6.4  |
| Utah           | 5.3  |
| North Carolina | 4.7  |
| South Carolina | 4.5  |
| Ohio           | 4.2  |
| California     | 3.9  |
|                | 62.8%  |

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 Company funded approximately \$1.4 billion and \$97.4 million of new loans, with an average loan size of \$6.0 million and \$7.5 million, respectively. The average size mortgage loan in the portfolio as of December 31, 2015 (Successor Company), was \$3.0 million, and the weighted-average interest rate was 5.30%. The largest single mortgage loan at December 31, 2015 (Successor Company) was \$48.3 million.

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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. Assuming the loans are called at their next call dates, approximately \$143.5 million would become due in 2016, \$854.5 million in 2017 through 2021, \$242.5 million in 2022 through 2026, and \$11.3 million thereafter.

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

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). The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the period of February 1, 2015 to December 31, 2015 (Successor



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Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company entered into certain mortgage loan transactions that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in the Company's investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to 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), the Company 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), the Company 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 the Company's investment in mortgage loans net of existing discounts for mortgage loan losses for the period of February 1, 2015 to December 31, 2015 (Successor Company).

As of December 31, 2014 (Predecessor Company), approximately \$24.5 million, or 0.05%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2014 (Predecessor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the year ended December 31, 2014 (Predecessor Company) included either the acceptance of assets in satisfaction of principal at a future date or the recognition of permanent impairments to principal, and were the result of agreements between the creditor and the debtor. During the year ended December 31, 2014 (Predecessor Company), the Company accepted or agreed to accept assets of \$33.0 million in satisfaction of \$41.7 million of principal. The Company also identified one loan whose principal of \$12.6 million was permanently impaired to a value of \$7.3 million. These transactions resulted in realized losses of \$10.3 million and a decrease in the Company's investment in mortgage loans net of existing allowances for mortgage loan losses.

As of December 31, 2013 (Predecessor Company), approximately \$15.9 million, or 0.03%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2013 (Predecessor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the year either involved the modification of payment terms pursuant to bankruptcy proceedings or included acceptance of assets in satisfaction of principal or foreclosure on collateral property, and were the result of agreements between the creditor and the debtor. With respect to the modified loans we expect to collect all amounts due related to these loans as well as expenses incurred as a result of the restructurings. Additionally, there were no material changes to the principal balance of these loans, as a result of restructuring or modifications, which was \$3.2 million as of December 31, 2013 (Predecessor Company). During the year a mortgage loan was paid off at a discount, the impact of this transaction resulted in a reduction of \$0.5 million in the Company's investment in mortgage loans, net of existing allowances for mortgage loan losses as of December 31, 2013 (Predecessor Company).

The Company's mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of 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). The Company foreclosed on \$3.7 million nonperforming loans during the period of February 1, 2015 to December 31, 2015 (Successor Company). The Company 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).

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As of December 31, 2015 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. The Company 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).

As of December 31, 2015 (Successor Company), there was no allowance for mortgage loan credit losses and as of December 31, 2014 (Predecessor Company), the Company had an allowance for mortgage loan credit losses of \$5.7 million. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific

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identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

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

|                   | Successor Company<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |         | Predecessor Company<br>January 1, 2015<br>to<br>January 31, 2015<br>(Dollars In Thousands) |         | As of<br>December 31, 2014 |
|-------------------|--|---------|--|---------|----------------------------|
| Beginning balance | \$   |         | \$   | 5,720   | \$ 3,130                   |
| Charge offs       |  | (2,561) |  | (861)   | (675)                      |
| Recoveries        |  | (638)   |  | (2,359) | (2,600)                    |
| Provision         |  | 3,199   |  |         | 5,865                      |
| Ending balance    | \$   |         | \$   | 2,500   | \$ 5,720                   |

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

|  | 30 - 59 Days<br>Delinquent |       | 60 - 89 Days<br>Delinquent |       | Greater than 90<br>Days<br>Delinquent |    | Total<br>Delinquent |  |
|--|----------------------------|-------|----------------------------|-------|---------------------------------------|----|---------------------|--|
|  | (Dollars In Thousands)     |       |                            |       |                                       |    |                     |  |
| <b>Successor Company</b>                       |                            |       |                            |       |                                       |    |                     |  |
| <b>As of December 31, 2015</b>                 |                            |       |                            |       |                                       |    |                     |  |
| Commercial mortgage loans                      | \$                         | 6,002 | \$                         | 1,033 | \$                                    | \$ | 7,035               |  |
| Number of delinquent commercial mortgage loans |                            | 6     |                            | 1     |                                       |    | 7                   |  |

|                            | 30 - 59 Days<br>Delinquent |  | 60 - 89 Days<br>Delinquent |  | Greater than 90<br>Days<br>Delinquent |  | Total<br>Delinquent |  |
|----------------------------|----------------------------|--|----------------------------|--|---------------------------------------|--|---------------------|--|
|                            | (Dollars In Thousands)     |  |                            |  |                                       |  |                     |  |
| <b>Predecessor Company</b> |                            |  |                            |  |                                       |  |                     |  |

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**As of December 31, 2014**

|  |    |       |    |       |    |        |
|--|----|-------|----|-------|----|--------|
| Commercial mortgage loans                      | \$ | 8,972 | \$ | 1,484 | \$ | 10,456 |
| Number of delinquent commercial mortgage loans |    | 4     |    | 1     |    | 5      |

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

|  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance<br>(Dollars In Thousands) | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income |
|--|------------------------|--------------------------------|--|-----------------------------------|----------------------------------|----------------------------------|
|--|------------------------|--------------------------------|--|-----------------------------------|----------------------------------|----------------------------------|

**Successor Company****As of December 31, 2015**

Commercial mortgage loans:

|                                    |          |          |    |        |        |        |
|------------------------------------|----------|----------|----|--------|--------|--------|
| With no related allowance recorded | \$ 1,694 | \$ 1,728 | \$ | \$ 847 | \$ 104 | \$ 117 |
| With an allowance recorded         |          |          |    |        |        |        |

|  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance<br>(Dollars In Thousands) | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash Basis<br>Interest<br>Income |
|--|------------------------|--------------------------------|--|-----------------------------------|----------------------------------|----------------------------------|
|--|------------------------|--------------------------------|--|-----------------------------------|----------------------------------|----------------------------------|

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

Commercial mortgage loans:

|                                    |        |        |       |       |       |       |
|------------------------------------|--------|--------|-------|-------|-------|-------|
| With no related allowance recorded | \$     | \$     | \$    | \$    | \$    | \$    |
| With an allowance recorded         | 19,632 | 20,603 | 5,720 | 3,272 | 1,224 | 1,280 |

As of December 31, 2015 (Successor Company), the Company did not carry any mortgage loans that have been modified in a troubled debt restructuring. Mortgage loans that were modified in a troubled debt restructuring as of December 31, 2014 (Predecessor Company) were as follows:

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

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The balances and changes in DAC are as follows:

|  | Successor Company   |          | Predecessor Company   |                            |    |           |
|--|---|----------|---|----------------------------|----|-----------|
|  | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |          | January 1, 2015<br>to<br>January 31, 2015<br>(Dollars In Thousands) |                            |    |           |
|  |   |          |   | As of<br>December 31, 2014 |    |           |
| Balance, beginning of period                             | \$  |          | \$  | 2,647,980                  | \$ | 2,721,687 |
| Capitalization of commissions, sales, and issue expenses |   | 302,839  |   | 22,513                     |    | 288,592   |
| Amortization   |   | (24,187) |   | 1,117                      |    | (195,605) |
| Change in unrealized investment gains and losses         |   | 9,959    |   | (96,830)                   |    | (166,694) |
| Balance, end of period                                   | \$  | 288,611  | \$  | 2,574,780                  | \$ | 2,647,980 |

**Value of Business Acquired**

The balances and changes in VOBA are as follows:

|                                       | Successor Company   |           | Predecessor Company   |                            |    |           |
|---------------------------------------|---|-----------|---|----------------------------|----|-----------|
|                                       | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) |           | January 1, 2015<br>to<br>January 31, 2015<br>(Dollars In Thousands) |                            |    |           |
|                                       |   |           |   | As of<br>December 31, 2014 |    |           |
| Balance, beginning of period          | \$  | 1,276,886 | \$  | 646,590                    | \$ | 848,528   |
| Amortization                          |   | (69,869)  |   | (5,189)                    |    | (61,704)  |
| Change in unrealized gains and losses |   | 69,226    |   | (79,418)                   |    | (140,234) |
| Other                                 |   | (6,046)   |   |                            |    |           |
| Balance, end of period                | \$  | 1,270,197 | \$  | 561,983                    | \$ | 646,590   |

As of February 1, 2015, the existing DAC and VOBA balance was written off in conjunction with the Merger previously disclosed in Note 4, *Dai-ichi Merger* and in accordance with ASC Topic 805 Business Combinations.

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

Based on the balance recorded as of December 31, 2015 (Successor Company), the expected amortization of VOBA for the next five years is as follows:

| <b>Years</b> | <b>Expected<br/>Amortization<br/>(Dollars In Thousands)</b> |
|--------------|---|
| 2016         | \$ 131,599  |
| 2017         | 122,011   |
| 2018         | 112,230   |
| 2019         | 96,878  |
| 2020         | 80,542  |

Table of Contents**9. GOODWILL**

The changes in the carrying amount of goodwill by segment are as follows:

| Predecessor Company                | Life<br>Marketing      | Acquisitions | Asset<br>Protection | Corporate<br>and Other | Total<br>Consolidated |
|------------------------------------|------------------------|--------------|---------------------|------------------------|-----------------------|
|                                    | (Dollars In Thousands) |              |                     |                        |                       |
| Balance as of December 31, 2013    | \$ 10,192              | \$ 32,517    | \$ 62,671           | \$ 83                  | \$ 105,463            |
| Tax benefit of excess tax goodwill |                        | (3,098)      |                     |                        | (3,098)               |
| Balance as of December 31, 2014    | \$ 10,192              | \$ 29,419    | \$ 62,671           | \$ 83                  | \$ 102,365            |

During the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company decreased its goodwill balance by approximately \$0.3 million. The decrease for the period of the Predecessor Company was due to an adjustment in the Acquisitions segment related to tax benefits realized during the period on the portion of tax goodwill in excess of GAAP basis goodwill. The goodwill balances associated with the Predecessor Company were replaced with newly established goodwill balances in conjunction with the Dai-ichi Merger, in accordance with ASC Topic 805, as described below.

As permitted by ASC Topic 805, *Business Combinations*, the Company measured its assets and liabilities at fair value on the date of the Merger, February 1, 2015. The purchase price in excess of the fair value of assets and liabilities of the Company resulted in the establishment of goodwill as of the date of the Merger. As of February 1, 2015 (Successor Company), the Company established an aggregate goodwill balance of \$735.7 million. During the measurement period subsequent to February 1, 2015, the Company has 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. This reduction in Goodwill was applied to the Life Marketing segment's goodwill. The balance of goodwill associated with the Merger as of December 31, 2015 (Successor Company) is \$732.4 million.

Refer to Note 4, *Dai-ichi Merger*, for more information related to the Successor Company goodwill.

**10. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS**

The Company issues variable universal life and VA products through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder. The Company also offers, for our VA products, certain GMDB. The most significant of these guarantees involve 1) return of the highest anniversary date account value, or 2) return of the greater of the highest anniversary date account value or the last anniversary date account value compounded at 5% interest or 3) return of premium. The GMWB rider provides the contract holder with protection against certain adverse market impacts on the amount they can withdraw and is classified as an embedded derivative and is carried at fair value on the Company's balance sheet. The VA separate account balances subject to GMWB were \$9.3 billion as of December 31, 2015 (Successor Company). For more information regarding the valuation of and income impact of GMWB, please refer to Note 2, *Summary of Significant Accounting Policies*, Note 23, *Fair Value of Financial Instruments*, and Note 24, *Derivative Financial Instruments*.



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The GMDB reserve is calculated by applying a benefit ratio, equal to the present value of total expected GMDB claims divided by the present value of total expected contract assessments, to cumulative contract assessments. This amount is then adjusted by the amount of cumulative GMDB claims paid and accrued interest. Assumptions used in the calculation of the GMDB reserve were as follows: mean investment performance of 5.87%, age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience, lapse rates ranging from 2.2% - 33% (depending on product type and duration), and an average discount rate of 6.0%. Changes in the GMDB reserve are included in benefits and settlement expenses in the accompanying consolidated statements of income.

The VA separate account balances subject to GMDB were \$12.2 billion as of December 31, 2015 (Successor Company). The total GMDB amount payable based on VA account balances as of December 31, 2015 (Successor Company), was \$283.5 million (including \$266.9 million in the Annuities segment and \$16.6 million in the Acquisitions segment) with a GMDB reserve of \$33.1 million and \$0.3 million in the Annuities and Acquisitions segment, respectively. The average attained age of contract holders as of December 31, 2015 (Successor Company) for the Company was 69.

These amounts exclude certain VA business which has been 100% reinsured to Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ( CALIC ), under a Modco agreement. The guaranteed amount payable associated with the annuities reinsured to CALIC was \$12.8 million and is included in the Acquisitions segment. The average attained age of contract holders as of December 31, 2015, was 66 years.

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Activity relating to GMDB reserves (excluding those 100% reinsured under the Modco agreement) is 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)          |           |
| Beginning balance             | \$ 29,010              | \$ 26,251        | \$ 16,284                       | \$ 19,606 |
| Incurred guarantee benefits   | 10,175                 | 3,073            | 12,091                          | (260)     |
| Less: Paid guarantee benefits | 2,758                  | 449              | 2,124                           | 3,062     |
| Ending balance                | \$ 36,427              | \$ 28,875        | \$ 26,251                       | \$ 16,284 |

Account balances of variable annuities with guarantees invested in VA separate accounts are as follows:

|                           | Successor Company      | Predecessor Company |
|---------------------------|------------------------|---------------------|
|                           | As of                  | As of               |
|                           | December 31, 2015      | December 31, 2014   |
|                           | (Dollars In Thousands) |                     |
| Equity mutual funds       | \$ 5,476,366           | \$ 7,834,480        |
| Fixed income mutual funds | 7,184,528              | 5,137,312           |
| Total                     | \$ 12,660,894          | \$ 12,971,792       |

Certain of the Company's fixed annuities and universal life products have a sales inducement in the form of a retroactive interest credit ( "RIC" ). In addition, certain annuity contracts provide a sales inducement in the form of a bonus interest credit. The Company maintains a reserve for all interest credits earned to date. The Company defers the expense associated with the RIC and bonus interest credits each period and amortizes these costs in a manner similar to that used for DAC.

Activity in the Company's deferred sales inducement asset was 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)          |            |
| Deferred asset, beginning of period | \$ 11,756              | \$ 154,093       | \$ 155,150                      | \$ 143,949 |
| Amounts deferred                    | 14,557                 | 82               | 18,302                          | 15,274     |
| Amortization                        | (2,801)                | (1,139)          | (9,803)                         | (12,572)   |
| Deferred asset, end of period       | \$ 13,512              | \$ 153,036       | \$ 163,649                      | \$ 146,651 |

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**11. REINSURANCE**

The Company reinsures certain of its risks with (cedes), and assumes risks from, other insurers under yearly renewable term, coinsurance, and modified coinsurance agreements. Under yearly renewable term agreements, the Company reinsures only the mortality risk, while under coinsurance the Company reinsures a proportionate share of all risks arising under the reinsured policy. Under coinsurance, the reinsurer receives a proportionate share of the premiums less commissions and is liable for a corresponding share of all benefit payments. Modified coinsurance is accounted for in a manner similar to coinsurance except that the liability for future policy benefits is held by the ceding company, and settlements are made on a net basis between the companies.

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to us under the terms of the reinsurance agreements. The Company monitors the concentration of credit risk the Company has with any reinsurer, as well as the financial condition of its reinsurers. As of December 31, 2015 (Successor Company), the Company had reinsured approximately 48% of the face value of its life insurance in-force. The Company has reinsured approximately 20% of the face value of its life insurance in-force with the following three reinsurers:

- Security Life of Denver Insurance Co. (currently administered by Hanover Re)
- Swiss Re Life & Health America Inc.
- The Lincoln National Life Insurance Co. (currently administered by Swiss Re Life & Health America Inc.)

The Company has not experienced any credit losses for the years ended December 31, 2015 (Successor Company), December 31, 2014 (Predecessor Company), or December 31, 2013 (Predecessor Company) related to these reinsurers. The Company has set limits on the amount of insurance retained on the life of any one person. In 2005, the Company increased its retention for certain newly issued traditional life products from \$500,000 to \$1,000,000 on any one life. During 2008, the Company increased its retention limit to \$2,000,000 on certain of its traditional and universal life products.

Reinsurance premiums, commissions, expense reimbursements, benefits, and reserves related to reinsured long-duration contracts are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. The cost of reinsurance related to short-duration contracts is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers, for both short-and long-duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with reinsured policies.

The following table presents the net life insurance in-force:

| Successor Company<br>As of December 31,<br>2015 | Predecessor Company<br>As of December 31,<br>2014 | 2013 |
|---|---|------|
|---|---|------|

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|                                      | (Dollars In Millions) |           | (Dollars In Millions) |           |
|--------------------------------------|-----------------------|-----------|-----------------------|-----------|
| Direct life insurance in-force       | \$                    | 727,705   | \$                    | 721,036   |
| Amounts assumed from other companies |                       | 39,547    |                       | 43,237    |
| Amounts ceded to other companies     |                       | (368,142) |                       | (388,890) |
| Net life insurance in-force          | \$                    | 399,110   | \$                    | 375,383   |
| Percentage of amount assumed to net  |                       | 10%       |                       | 12%       |

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The following table reflects the effect of reinsurance on life, accident/health, and property and liability insurance premiums written and earned:

|  | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies<br>(Dollars In Thousands) | Net<br>Amount | Percentage of<br>Amount<br>Assumed to<br>Net |
|--|-----------------|--------------------------------|---|---------------|--|
| <b>Successor Company</b>                     |                 |                                |   |               |  |
| <b>February 1, 2015 to December 31, 2015</b> |                 |                                |   |               |  |
| Premiums and policy fees:                    |                 |                                |   |               |  |
| Life insurance                               | \$ 2,360,643    | \$ (983,143)                   | \$ 308,280  | \$ 1,685,780  | (1) 18.3 %                                   |
| Accident/health insurance                    | 70,243          | (36,871)                       | 18,252  | 51,624        | 35.4   |
| Property and liability insurance             | 243,728         | (134,964)                      | 6,904   | 115,668       | 6.0  |
| Total  | \$ 2,674,614    | \$ (1,154,978)                 | \$ 333,436  | \$ 1,853,072  |  |

|  | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies<br>(Dollars In Thousands) | Net<br>Amount | Percentage of<br>Amount<br>Assumed to<br>Net |
|--|-----------------|--------------------------------|---|---------------|--|
| <b>Predecessor Company</b>                 |                 |                                |   |               |  |
| <b>January 1, 2015 to January 31, 2015</b> |                 |                                |   |               |  |
| Premiums and policy fees:                  |                 |                                |   |               |  |
| Life insurance                             | \$ 204,185      | \$ (74,539)                    | \$ 28,601   | \$ 158,247    | (1) 18.1 %                                   |
| Accident/health insurance                  | 6,846           | (4,621)                        | 1,809   | 4,034         | 44.8   |
| Property and liability insurance           | 19,759          | (10,796)                       | 666   | 9,629         | 6.9  |
| Total                                      | \$ 230,790      | \$ (89,956)                    | \$ 31,076   | \$ 171,910    |  |

**For The Year Ended  
December 31, 2014:**

|                                  |              |                |            |              |            |
|----------------------------------|--------------|----------------|------------|--------------|------------|
| Premiums and policy fees:        |              |                |            |              |            |
| Life insurance                   | \$ 2,603,956 | \$ (1,205,528) | \$ 349,934 | \$ 1,748,362 | (1) 20.0 % |
| Accident/health insurance        | 81,037       | (42,741)       | 20,804     | 59,100       | 35.2       |
| Property and liability insurance | 233,362      | (125,328)      | 8,675      | 116,709      | 7.4        |
| Total                            | \$ 2,918,355 | \$ (1,373,597) | \$ 379,413 | \$ 1,924,171 |            |

**For The Year Ended  
December 31, 2013:**

|                           |              |                |            |              |            |
|---------------------------|--------------|----------------|------------|--------------|------------|
| Premiums and policy fees: |              |                |            |              |            |
| Life insurance            | \$ 2,371,872 | \$ (1,247,657) | \$ 306,920 | \$ 1,431,135 | (1) 21.5 % |

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|                                  |              |                |            |              |      |
|----------------------------------|--------------|----------------|------------|--------------|------|
| Accident/health insurance        | 45,263       | (20,011)       | 24,291     | 49,543       | 49.0 |
| Property and liability insurance | 225,327      | (109,527)      | 7,978      | 123,778      | 6.5  |
| Total                            | \$ 2,642,462 | \$ (1,377,195) | \$ 339,189 | \$ 1,604,456 |      |

(1) Includes annuity policy fees of \$152.8 million, \$13.9 million, \$167.1 million, and \$140.7 million 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 (Predecessor Company), and December 31, 2013 (Predecessor Company), respectively.

As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), policy and claim reserves relating to insurance ceded of \$5.5 billion and \$6.1 billion, respectively, are included in reinsurance receivables. Should any of the reinsurers be unable to meet its obligation at the time of the claim, the Company would be obligated to pay such claims. As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company

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had paid \$77.9 million and \$120.5 million, respectively, of ceded benefits which are recoverable from reinsurers. In addition, as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had receivables of \$64.9 million and \$65.8 million, respectively, related to insurance assumed.

The Company's third party reinsurance receivables amounted to \$5.5 billion and \$6.1 billion as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively. These amounts include ceded reserve balances and ceded benefit payments. The ceded benefit payments are recoverable from reinsurers. The following table sets forth the receivables attributable to our more significant reinsurance partners:

|   | Successor Company     |           | Predecessor Company   |           |
|---|-----------------------|-----------|-----------------------|-----------|
|   | As of                 |           | As of                 |           |
|   | December 31, 2015     |           | December 31, 2014     |           |
|   | Reinsurance           | A.M. Best | Reinsurance           | A.M. Best |
|   | Receivable            | Rating    | Receivable            | Rating    |
|   | (Dollars In Millions) |           | (Dollars In Millions) |           |
| Security Life of Denver Insurance Company | \$ 800.6              | A         | \$ 842.1              | A         |
| Swiss Re Life & Health America, Inc.      | 719.2                 | A+        | 820.9                 | A+        |
| Lincoln National Life Insurance Co.       | 546.0                 | A+        | 556.3                 | A+        |
| Transamerica Life Insurance Co.           | 396.6                 | A+        | 497.7                 | A+        |
| RGA Reinsurance Company                   | 303.5                 | A+        | 412.4                 | A+        |
| SCOR Global Life USA Reinsurance Company  | 320.4                 | A         | 411.8                 | A         |
| American United Life Insurance Company    | 314.2                 | A+        | 336.1                 | A+        |
| Scottish Re (U.S.) Inc.                   | 268.6                 | NR        | 298.0                 | NR        |
| Centre Reinsurance (Bermuda) Ltd          | 247.6                 | NR        | 260.9                 | NR        |
| Employers Reassurance Corporation         | 224.4                 | A-        | 254.3                 | A         |

The Company's reinsurance contracts typically do not have a fixed term. In general, the reinsurers' ability to terminate coverage for existing cessions is limited to such circumstances as material breach of contract or non-payment of premiums by the ceding company. The reinsurance contracts generally contain provisions intended to provide the ceding company with the ability to cede future business on a basis consistent with historical terms. However, either party may terminate any of the contracts with respect to future business upon appropriate notice to the other party.

Generally, the reinsurance contracts do not limit the overall amount of the loss that can be incurred by the reinsurer. The amount of liabilities ceded under contracts that provide for the payment of experience refunds is immaterial.

**12. DEBT AND OTHER OBLIGATIONS****Debt and Subordinated Debt Securities**

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In conjunction with the Merger and in accordance with ASC Topic 805, the Company adjusted the carrying value of debt to fair value as of the date of the Merger, February 1, 2015. This resulted in the Company establishing premiums and discounts on its outstanding debt, subordinated debentures and non-recourse funding obligations. The carrying value of the Company's revolving line of credit approximates fair value due to the nature of the borrowings and the fact the Company pays a variable rate of interest that reflects current market conditions. The fair value of the Company's senior notes, subordinated debt, non-recourse funding obligations associated with Golden Gate II Captive Insurance Company and MONY Life Insurance Company, were determined using market prices as of February 1, 2015. The fair value of the Golden Gate V non-recourse funding obligation was determined using a discounted cash flow model with inputs derived from comparable financial instruments. The premiums and discounts established as of February 1, 2015 are amortized over the expected life of the instruments using the effective interest method. The amortization of premiums and discounts are recorded as a component of interest expense and are recorded in Other operating expenses on the Company's Consolidated Statements of Income.



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Debt and subordinated debt securities are summarized as follows:

|  | <b>Successor Company<br/>As of<br/>December 31, 2015<br/>(Dollars In Thousands)</b> | <b>Predecessor Company<br/>As of<br/>December 31, 2014<br/>(Dollars In Thousands)</b> |
|--|---|---|
| <b>Debt (year of issue):</b>                                   |   |   |
| Revolving Line Of Credit                                       | \$ 485,000  | \$ 450,000  |
| 6.40% Senior Notes (2007), due 2018                            | 162,671   | 150,000   |
| 7.375% Senior Notes (2009), due 2019                           | 473,127   | 400,000   |
| 8.45% Senior Notes (2009), due 2039                            | 468,008   | 300,000   |
|  | \$ 1,588,806  | \$ 1,300,000  |
| <b>Subordinated debt securities (year of issue):</b>           |   |   |
| 6.125% Subordinated Debentures (2004), due 2034, callable 2009 | \$  | \$ 103,093  |
| 6.25% Subordinated Debentures (2012) due 2042, callable 2017   | 295,833   | 287,500   |
| 6.00% Subordinated Debentures (2012) due 2042, callable 2017   | 152,930   | 150,000   |
|  | \$ 448,763  | \$ 540,593  |

The Company's future maturities of debt, excluding notes payable to banks and subordinated debt securities, are \$162.7 million in 2018, \$473.1 million in 2019, and \$468.0 million thereafter.

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

During 2014 (Predecessor Company), the Company announced that it had issued notice to redeem the entire \$100.0 million outstanding principal amount of the Company's 8.00% Senior Notes issued on October 9, 2009. The payment in respect of the redemption of the Senior Notes was made on October 15, 2014. In conjunction with this redemption, the Company wrote off \$2.4 million of deferred issue costs.

During 2014 (Predecessor Company), \$150.0 million of the Company's Senior Notes matured and were paid in full, along with applicable accrued interest.

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

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(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, the Company amended and restated the Credit Facility (the 2015 Credit Facility ). Under the 2015 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. The Company has the right in certain circumstances to request that the commitment under the 2015 Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the 2015 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The 2015 Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated

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on the aggregate amount of commitments under the 2015 Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon our subsequent ratings upgrade on February 2, 2015. The 2015 Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the 2015 Credit Facility. The maturity date of the 2015 Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of February 2, 2015 or the 2015 Credit Facility as of 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), the \$55.0 million Letter of Credit executed by PLICO was no longer issued and outstanding.

The following is a summary of the Company's estimated debt covenant calculations as of December 31, 2015 (Successor Company):

|   | <b>Requirement</b>         | <b>Actual Results</b>      |
|---|----------------------------|----------------------------|
| Consolidated net worth margin   | greater than or equal to 0 | greater than \$1 billion   |
| Debt to total capital ratio*  | less than 40%              | less than 21%              |
| Total adjusted capital margin   | greater than or equal to 0 | greater than \$2.5 billion |
| Interest cash inflow available compared to adjusted consolidated interest expense | greater than 2.0 to 1      | greater than 22.5 to 1     |

\* Excludes \$700 million of outstanding senior notes issued in 2009

In December 2007, the Company issued a new series of debt securities of \$150.0 million of 6.40% Senior Notes due 2018 (the Senior Notes), from which net proceeds of approximately \$148.7 million were received. Under the terms of the Senior Notes, interest on the Senior Notes is payable semi-annually in arrears on January 15 and July 15. The maturity date is January 15, 2018.

On October 9, 2009, the Company closed on offerings of \$400 million of its 7.375% Senior Notes due in 2019, \$100 million of its 8.00% Senior Notes due in 2024, and \$300 million of its 8.45% Senior Notes due in 2039, for an aggregate principal amount of \$800 million, of which \$700 million were outstanding as of December 31, 2015 (Successor Company). These senior notes were offered and sold pursuant to the Company's shelf registration statement on Form S-3.

During 2012, the Company issued \$287.5 million of its 6.25% Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company's shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call \$103.1 million of Subordinated Debentures due 2031, \$118.6 million of Subordinated Debentures due in 2032 and \$75.0 million of Capital Securities due in 2066 at par value.

During 2012, the Company issued \$150.0 million of its Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company's shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call \$125.0 million of Capital Securities due in 2066 at par value and the remaining for general working capital purposes.

### **Non-Recourse Funding Obligations**

*Golden Gate Captive Insurance Company*

Golden Gate Captive Insurance Company ( Golden Gate ), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, had three series of non-recourse funding obligation with a total outstanding balance of \$800 million as of December 31, 2015 (Successor Company). As of December 31, 2015 the Company held the entire outstanding balance of non-recourse funding obligations and were eliminated in consolidation. As of December 31, 2015, the Series A1 non-recourse funding obligations had a balance of \$400 million and accrued interest at 7.375%, the Series A2 non-recourse funding obligations had a balance of \$100 million and accrued interest at 8%, and the Series A3 non-recourse funding obligations had a balance of \$300 million and accrued interest at 8.45%. In connection with the reinsurance transaction pursuant to which PLICO reinsures the GLAIC Block, 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 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

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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. 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.

*Golden Gate II Captive Insurance Company*

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

*Golden Gate V Vermont Captive Insurance Company*

On October 10, 2012, Golden Gate V, a Vermont special purpose financial insurance company, and Red Mountain, both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to \$945 million of AXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company ( WCL ). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America ( Hannover Re ), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is non-recourse to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of December 31, 2015 (Successor Company), the principal balance of the Red Mountain note was \$500 million. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$134.2 million and will be paid in annual installments through 2031. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

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In connection with the transaction outlined above, Golden Gate V had a \$500 million outstanding non-recourse funding obligation as of December 31, 2015 (Successor Company). This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

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

| <u>Issuer</u>                                      | <u>Carrying Value(1)</u><br>(Dollars In Thousands) | <u>Maturity Year</u> | <u>Year-to-Date</u><br><u>Weighted-Avg</u><br><u>Interest Rate</u> |
|--|--|----------------------|--|
| Golden Gate II Captive Insurance Company           | \$ 118,481   | 2052                 | 1.32%  |
| Golden Gate V Vermont Captive Insurance Company(2) | 564,679  | 2037                 | 5.12%  |
| MONY Life Insurance Company(2)                     | 2,524  | 2024                 | 6.19%  |
| Total  | \$ 685,684   |                      |  |

- (1) Carrying values include premiums and discounts and do not represent unpaid principal balances.
- (2) Fixed rate obligations

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 Company did not repurchase any of its outstanding non-recourse funding obligations. For the year ended December 31, 2014 (Predecessor Company), the Company and its affiliates repurchased \$50.0 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$10.5 million pre-tax gain for the Company. For the year ended December 31, 2013 (Predecessor Company), the Company and its affiliates repurchased \$91.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$20.0 million pre-tax gain for the Company.

### **Letters of Credit**

#### *Golden Gate III Vermont Captive Insurance Company*

Golden Gate III Vermont Captive Insurance Company ( Golden Gate III ), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the Reimbursement Agreement ) with UBS AG, Stamford Branch ( UBS ), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the LOC ) in the initial amount of \$505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the First Amended and Restated Reimbursement Agreement ), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to April 1, 2022. On August 7, 2013, Golden Gate III entered into a Second Amended and Restated Reimbursement Agreement with UBS (the Second Amended and Restated Reimbursement Agreement ), which amended and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of \$710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from \$610 million to \$720 million in 2015 if certain conditions had been met. On June 25, 2014, Golden Gate III entered into a Third Amended and Restated Reimbursement Agreement with UBS (the Third Amended and Restated Reimbursement Agreement ), which amended and restated the Second Amended and Restated Reimbursement Agreement. Under the Third Amended and Restated Reimbursement Agreement, a new LOC in an initial amount of \$915 million was issued by UBS in replacement of the existing LOC

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issued under the Second Amended and Restated Reimbursement Agreement. The term of the LOC was extended from October 1, 2023 to April 1, 2025, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from \$720 million to \$935 million in 2015 if certain conditions are met. The LOC is held in trust for the benefit of WCL, and supports certain obligations of Golden Gate III to WCL under an indemnity reinsurance agreement originally effective April 1, 2010, as amended and restated on November 21, 2011, and as further amended and restated on August 7, 2013 and on June 25, 2014 to include additional blocks of policies, and pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. The LOC balance was \$935 million as of December 31, 2015 (Successor Company). The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately \$122.5 million and will be paid in three installments with the last payment occurring in 2021, and these contributions may be subject to potential offset against dividend payments as permitted under the terms of the Third Amended and Restated Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the



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terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Third Amended and Restated Reimbursement Agreement. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

*Golden Gate IV Vermont Captive Insurance Company*

Golden Gate IV Vermont Captive Insurance Company ( Golden Gate IV ), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. The LOC balance has increased, in accordance with the terms of the Reimbursement Agreement, during 2015 and was \$780 million as of December 31, 2015 (Successor Company). Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$790 million in 2016. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

**Repurchase Program Borrowings**

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of 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 the Company's 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). As of December 31, 2014 (Predecessor Company), the Company had a \$50.0 million outstanding balance related to such borrowings. During 2014, the maximum balance outstanding at any one point in time related to these programs was \$633.7 million. The average daily balance was \$470.4 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2014 (Predecessor Company).



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

**Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings**

|  | Remaining Contractual Maturity of the Agreements<br>As of December 31, 2015 (Successor Company)<br>(Dollars In Thousands) |               |              |           | Total             |
|--|---|---------------|--------------|-----------|-------------------|
|  | Overnight and   |               | Greater Than |           |                   |
|  | Continuous  | Up to 30 days | 30 - 90 days | 90 days   |                   |
| <b>Repurchase agreements and repurchase-to-maturity transactions</b> |   |               |              |           |                   |
| U.S. Treasury and agency securities                                  | \$ 108,875  | \$            | \$           | \$        | \$ 108,875        |
| State and municipal securities                                       |   |               |              |           |                   |
| Other asset-backed securities  |   |               |              |           |                   |
| Corporate securities   |   |               |              |           |                   |
| Equity securities  |   |               |              |           |                   |
| Non-U.S. sovereign debt  |   |               |              |           |                   |
| Mortgage loans   | 371,002   |               |              |           | 371,002           |
| <b>Total borrowings</b>  | <b>\$ 479,877</b>   | <b>\$</b>     | <b>\$</b>    | <b>\$</b> | <b>\$ 479,877</b> |

**Interest Expense**

Interest expense on long-term debt and subordinated debt securities totaled \$58.6 million, \$8.9 million, \$118.4 million, and \$123.8 million for the periods 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 (Predecessor Company) and December 31, 2013 (Predecessor Company), respectively. The interest expense on non-recourse funding obligations and other obligations was \$54.1 million, \$4.9 million, \$54.2 million, and \$47.5 million in 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 (Predecessor Company) and December 31, 2013 (Predecessor Company), respectively.

Table of Contents**13. COMMITMENTS AND CONTINGENCIES**

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

The Company leases administrative and marketing office space in approximately 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 Company had rental expense of \$6.3 million, \$0.6 million, \$6.5 million, and \$7.0 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. The aggregate annualized rent was approximately \$6.3 million for the period of February 1, 2015 to December 31, 2015 (Successor Company). The following is a schedule by year of future minimum rental payments required under these leases:

| <u>Year</u> | <u>Amount</u><br>(Dollars In Thousands) |
|-------------|---|
| 2016        | \$ 4,406                                |
| 2017        | 4,042                                   |
| 2018        | 3,829                                   |
| 2019        | 3,644                                   |
| 2020        | 3,600                                   |
| Thereafter  | 13,145                                  |

Additionally, the Company leases a building contiguous to its home office. The lease was renewed in December 2013 and was extended to December 2018. At the end of the lease term the Company may purchase the building for approximately \$75 million. Monthly rental payments are based on the current LIBOR rate plus a spread. The following is a schedule by year of future minimum rental payments required under this lease:

| <u>Year</u> | <u>Amount</u><br>(Dollars In Thousands) |
|-------------|---|
| 2016        | \$ 1,385                                |
| 2017        | 1,381                                   |
| 2018        | 76,356                                  |

As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company had outstanding mortgage loan commitments of \$601.9 million at an average rate of 4.43% and \$537.7 million at an average rate of 4.61%, respectively.

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

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

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subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

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

In 2012, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable income. The Company protested certain unfavorable adjustments and sought resolution at the IRS Appeals Division. In October 2015, the Appeals accepted the Company's earlier proposed settlement offer. In September of 2015, the IRS proposed favorable and unfavorable adjustments to the Company's 2008 through 2011 reported taxable income. The Company agreed to these adjustments. As a result, pending a routine review by Congress Joint Committee on Taxation, the Company expected to receive an approximate \$6.2 million net refund in a future period. This refund will not materially affect the Company's effective tax rate.

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

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

Certain of the Company's subsidiaries are under a targeted multi-state examination with respect to their claims paying practices and their use of the U.S. Social Security Administration's Death Master File or similar databases (a Death Database) to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed, and substantial legal authority exists to support the position that the prevailing industry practice was lawful. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest as well as penalties to the state if the

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beneficiary could not be found. It has been publicly reported that the life insurers have paid administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes it is reasonably possible that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company estimates the range of such fees to be from \$0 to \$4.5 million.

Table of Contents**14. SHAREOWNER S EQUITY**

Activity in the Company s issued and outstanding common stock is summarized as follows:

| <b>Predecessor Company</b>                 | <b>Issued<br/>Shares</b> | <b>Treasury<br/>Shares</b> | <b>Outstanding<br/>Shares</b> |
|--|--------------------------|----------------------------|-------------------------------|
| Balance, December 31, 2012                 | 88,776,960               | 10,639,467                 | 78,137,493                    |
| (Reissuance of)/deposits to treasury stock |                          | (439,953)                  | 439,953                       |
| Balance, December 31, 2013                 | 88,776,960               | 10,199,514                 | 78,577,446                    |
| (Reissuance of)/deposits to treasury stock |                          | (764,259)                  | 764,259                       |
| Balance, December 31, 2014                 | 88,776,960               | 9,435,255                  | 79,341,705                    |

On February 1, 2015, Dai-ichi Life acquired 100% of the Company s outstanding shares of common stock through the merger of DL Investment (Delaware), Inc., a wholly owned subsidiary of Dai-ichi Life, with and into the Company, with the Company continuing as the surviving entity.

**15. STOCK-BASED COMPENSATION**

As a result of the Merger, the Company adopted a new long-term incentive program in 2015. The program was modified to reflect the fact that we no longer have a publicly traded class of stock to use in our compensation programs. Prior to that time, since 1973, the Company had stock-based incentive plans designed and established to motivate management to focus on its long-range performance through the awarding of stock-based compensation. Due to change in control provision, the awards outstanding immediately prior to the Merger were cancelled and converted into the right to receive an amount in cash. For more information refer to Note 4, *Dai-ichi Merger*.

**Performance Shares (Predecessor)**

The criteria for payment of the 2014 performance awards was based on the Company s average operating return on average equity ( ROE ) over a three-year period. If the Company s ROE was below 10.5%, no award was earned. If the Company s ROE was at or above 12.0%, the award maximum was earned.

The criteria for payment of the 2013 performance awards was based on the Company s average operating ROE over a three-year period. If the Company s ROE was below 10.0%, no award was earned. If the Company s ROE was at or above 11.5%, the award maximum was earned.

Performance shares were equivalent in value to one share of our common stock times the award earned percentage payout. Performance share awards of 203,295 performance share awards were issued during the year ended December 31, 2014 (Predecessor Company).



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Performance share awards and the estimated fair value of the awards at grant date are as follows:

| <u>Year Awarded</u> | <b>Performance<br/>Shares</b> | <b>Estimated<br/>Fair Value<br/>(Dollars In<br/>Thousands)</b> |
|---------------------|-------------------------------|--|
| 2014                | 203,295                       | \$ 10,484  |
| 2013                | 298,500                       | 9,328  |
| 2012                | 306,100                       | 8,608  |

Table of Contents**Stock Appreciation Rights (Predecessor)**

Stock Appreciation Rights ( SARs ) were granted to certain officers of the Company to provide long-term incentive compensation based solely on the performance of the Company's common stock. The SARs were exercisable either 5 years after the date of grant or in three or four equal annual installments beginning one year after the date of grant (earlier upon the death, disability, or retirement of the officer, or in certain circumstances, of a change in control of the Company) and expire after ten years or upon termination of employment. The SARs activity as well as weighted-average base price was as follows:

|                              |    | <b>Weighted-Average<br/>Base Price per share</b> | <b>No. of SARs</b> |
|------------------------------|----|--|--------------------|
| Balance at December 31, 2012 | \$ | 22.15  | 1,641,167          |
| SARs exercised / forfeited   |    | 18.54  | (336,066)          |
| Balance at December 31, 2013 | \$ | 23.08  | 1,305,101          |
| SARs exercised / forfeited   |    | 22.07  | (1,147,473)        |
| Balance at December 31, 2014 | \$ | 30.41  | 157,628            |

The outstanding SARs as of December 31, 2014 (Predecessor Company), were at the following base prices:

| <b>Base Price</b> | <b>SARs<br/>Outstanding</b> | <b>Remaining Life<br/>in Years</b> | <b>Currently<br/>Exercisable</b> |
|-------------------|-----------------------------|------------------------------------|----------------------------------|
| \$41.05           | 10,000                      | 1                                  | 10,000                           |
| \$43.46           | 22,300                      | 3                                  | 22,300                           |
| \$38.59           | 52,000                      | 4                                  | 52,000                           |
| \$3.50            | 46,110                      | 5                                  | 46,110                           |
| \$18.36           | 27,218                      | 6                                  | 27,218                           |

There were no SARs issued for the years ended December 31, 2014 (Predecessor Company) and December 31, 2013 (Predecessor Company). These fair values were estimated using a Black-Scholes option pricing model. The assumptions used in this pricing model varied depending on the vesting period of awards. Assumptions used in the model for the 2010 SARs granted (the simplified method under the ASC Compensation-Stock Compensation Topic was used for the 2010 awards) were as follows: an expected volatility of 69.4%, a risk-free interest rate of 2.6%, a dividend rate of 2.4%, a zero percent forfeiture rate, and expected exercise date of 2016. Due to the change in control provision, all SARs outstanding immediately prior to the Merger were cancelled and converted into the right to receive an amount in cash.

**Restricted Stock Units (Predecessor)**

Restricted stock units were awarded to participants and include certain restrictions relating to vesting periods. The Company issued 98,700 restricted stock units for the year ended December 31, 2014 (Predecessor Company) and 166,850 restricted stock units for the year ended December 31, 2013 (Predecessor Company). These awards had a total fair value at grant date of \$5.1 million and \$5.5 million, respectively. Approximately half of these restricted stock units were to vest after three years from grant date and the remainder vest after four years.

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The Company recognizes all stock-based compensation expense over the related service period of the award, or earlier for retirement eligible employees. The expense recorded by the Company for its stock-based compensation plans was \$25.9 million and \$15.7 million in 2014 and 2013, respectively. The Company's obligations of its stock-based compensation plans that are expected to be settled in shares of the Company's common stock are reported as a component of shareholder's equity, net of deferred taxes. As of December 31, 2014 (Predecessor Company), the total compensation cost related to non-vested stock-based compensation not yet recognized was \$27.0 million. Due to the Merger, the unrecognized stock compensation expense was accelerated as of the date of the merger due to a change in control provision.

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The following table provides information as of December 31, 2014 (Predecessor Company), regarding equity compensation plans under which the Company's common stock was authorized for issuance:

**Securities Authorized for Issuance under Equity Compensation Plans**

| <b>Plan category</b>                                  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights as of December 31, 2014 (a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights as of December 31, 2014 (b)</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) as of December 31, 2014 (c)</b> |
|---|--|--|--|
| Equity compensation plans approved by shareowners     | 1,960,959  | (1) \$ 22.07   | (3) 4,092,546  |
| Equity compensation plans not approved by shareowners | 193,720  | (2) Not applicable   | (5) Not applicable   |
| <b>Total</b>  | <b>2,154,679</b>   | <b>\$ 22.07</b>  | <b>4,092,546</b>   |

(1) Includes the following number of shares: (a) 102,458 shares issuable with respect to outstanding SARs (assuming for this purpose that one share of common stock will be payable with respect to each outstanding SAR); (b) 907,487 shares issuable with respect to outstanding performance share awards (assuming for this purpose that the awards are payable based on estimated performance under the awards as of September 30, 2014); (c) 313,199 shares issuable with respect to outstanding restricted stock units (assuming for this purpose that shares will be payable with respect to all outstanding restricted stock units); (d) 475,386 shares issuable with respect to stock equivalents representing previously earned awards under the LTIP that the recipient deferred under the Company's Deferred Compensation Plan for Officers; and (e) 162,429 shares issuable with respect to stock equivalents representing previous awards under the Company's Stock Plan for Non-Employee Directors that the recipient deferred under our Deferred Compensation Plan for Directors Who Are Not Employees of the Company.

(2) Includes the following number of shares of common stock: (a) 152,709 shares issuable with respect to stock equivalents representing (i) stock awards to the Company's Directors before June 1, 2004 that the recipient deferred pursuant to the Company's Deferred Compensation Plan for Directors Who Are Not Employees of the Company and (ii) cash retainers and fees that the Company's Directors deferred under the Company's Deferred Compensation Plan for Directors Who Are Not Employees of the Company, and (b) 41,011 shares issuable with respect to stock equivalents pursuant to the Company's Deferred Compensation Plan for Officers.

(3) Based on exercise prices of outstanding SARs.

(4) Represents shares of common stock available for future issuance under the LTIP and the Company's Stock Plan for Non-Employee Directors.

(5) The plans listed in Note (2) do not currently have limits on the number of shares of common stock issuable under such plans. The total number of shares of common stock that may be issuable under such plans will depend upon, among other factors, the deferral elections made by the plans' participants.

## 16. EMPLOYEE BENEFIT PLANS

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

Beginning with the December 31, 2015 measurement, the Company changed its method used to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefits by applying a spot rate approach. Historically, the Company utilized a single weighted average discount rate derived from a selected yield curve used to measure the benefit obligation as of the measurement date. Under the new spot rate approach, the actual calculation of service and interest cost will reflect an array of spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot rates from the selected yield curve. This new approach does not affect the measurement of the total benefit obligation.

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**Defined Benefit Pension Plan and Unfunded Excess Benefit Plan**

The Company sponsors a defined benefit pension plan covering substantially all of its employees. Benefits are based on years of service and the employee's compensation.

Effective January 1, 2008, the Company made the following changes to its defined benefit pension plan. These changes have been reflected in the computations within this note.

- Employees hired after December 31, 2007, will receive benefits under a cash balance plan.
- Employees active on December 31, 2007, with age plus vesting service less than 55 years will receive a final pay-based pension benefit for service through December 31, 2007, plus a cash balance benefit for service after December 31, 2007.
- Employees active on December 31, 2007, with age plus vesting service equaling or exceeding 55 years, will receive a final pay-based pension benefit for service both before and after December 31, 2007, with a modest reduction in the formula for benefits earned after December 31, 2007.
- All participants terminating employment on or after December of 2007 may elect to receive a lump sum benefit.

The Company's 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 the Company 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.

Under the Pension Protection Act of 2006 ( PPA ), a plan could be subject to certain benefit restrictions if the plan's adjusted funding target attainment percentage ( AFTAP ) drops below 80%. Therefore, the Company may make additional contributions in future periods to maintain an AFTAP of at least 80%. In general, the AFTAP is a measure of how well the plan is funded and is obtained by dividing the plan's assets by the plan's funding liabilities. AFTAP is based on participant data, plan provisions, plan methods and assumptions, funding credit balances, and plan assets as of the plan valuation date. Some of the assumptions and methods used to determine the plan's AFTAP may be different from the assumptions and methods used to measure the plan's funded status on a GAAP basis.

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In July of 2012, the Moving Ahead for Progress in the 21st Century Act ( MAP-21 ), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the segment rates used to determine funding requirements from the effects of interest rate volatility. In August of 2014, the Highway and Transportation Funding Act of 2014 ( HATFA ) was signed into law. HATFA extends the funding relief provided by MAP-21 by delaying the interest rate corridor expansion. The funding stabilization provisions of MAP-21 and HATFA reduced the Company's minimum required defined benefit plan contributions for the 2013 and 2014 plan years. Since the funding stabilization provisions of MAP-21 and HATFA do not apply for Pension Benefit Guaranty Corporation ( PBGC ) reporting purposes, the Company may also make additional contributions in future periods to avoid certain PBGC reporting triggers.

During January of 2015 (Predecessor Company), the Company made a \$2.2 million contribution to the defined benefit pension plan for the 2014 plan year. During the period of February 1, 2015 to December 31, 2015 (Successor Company), the Company contributed \$1.4 million to its defined benefit pension plan for the 2014 plan year. The Company has not yet determined what amount it will fund for 2016, but estimates that the amount will be between \$1 million and \$10 million.

The Company also sponsors an unfunded excess benefit plan, which is a nonqualified plan that provides defined pension benefits in excess of limits imposed on qualified plans by federal tax law.

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

|  | Successor Company<br>December 31, 2015 |                                       | Predecessor Company                                       |                                       |  |                                       |
|--|--|---------------------------------------|---|---------------------------------------|--|---------------------------------------|
|  | Defined<br>Benefit<br>Pension<br>Plan  | Unfunded<br>Excess<br>Benefit<br>Plan | January 31, 2015<br>Defined<br>Benefit<br>Pension<br>Plan | Unfunded<br>Excess<br>Benefit<br>Plan | December 31, 2014<br>Defined<br>Benefit<br>Pension<br>Plan | Unfunded<br>Excess<br>Benefit<br>Plan |
|  | (Dollars In Thousands)                 |                                       | (Dollars In Thousands)                                    |                                       |  |                                       |
| <b>Accumulated benefit obligation, end of year</b>                   | \$ 250,133                             | \$ 54,196                             | \$ 262,290  | \$ 49,251                             | \$ 249,453   | \$ 47,368                             |
| <b>Change in projected benefit obligation:</b>                       |  |                                       |   |                                       |  |                                       |
| Projected benefit obligation at beginning of year                    | \$ 281,099                             | \$ 51,243                             | \$ 267,331  | \$ 49,575                             | \$ 219,152   | \$ 39,679                             |
| Service cost   | 11,220                                 | 1,229                                 | 974   | 95                                    | 9,411  | 954                                   |
| Interest cost  | 9,072                                  | 1,499                                 | 1,002   | 140                                   | 10,493   | 1,696                                 |
| Amendments   |  |                                       |   |                                       |  |                                       |
| Actuarial loss/(gain)  | (19,235)                               | 4,484                                 | 12,384  | 1,555                                 | 38,110   | 9,153                                 |
| Benefits paid  | (13,935)                               | (1,470)                               | (592)   | (122)                                 | (9,835)  | (1,907)                               |
| Projected benefit obligation at end of year                          | 268,221                                | 56,985                                | 281,099   | 51,243                                | 267,331  | 49,575                                |
| <b>Change in plan assets:</b>  |  |                                       |   |                                       |  |                                       |
| Fair value of plan assets at beginning of year                       | 201,820                                |                                       | 203,772   |                                       | 180,173  |                                       |
| Actual return on plan assets   | 6,751                                  |                                       | (3,525)   |                                       | 17,921   |                                       |
| Employer contributions(1)  | 1,406                                  | 1,470                                 | 2,165   | 122                                   | 15,513   | 1,907                                 |
| Benefits paid  | (13,935)                               | (1,470)                               | (592)   | (122)                                 | (9,835)  | (1,907)                               |
| Fair value of plan assets at end of year                             | 196,042                                |                                       | 201,820   |                                       | 203,772  |                                       |
| <b>After reflecting FASB guidance:</b>                               |  |                                       |   |                                       |  |                                       |
| Funded status  | (72,179)                               | (56,985)                              | (79,279)  | (51,243)                              | (63,559)   | (49,575)                              |
| <b>Amounts recognized in the balance sheet:</b>                      |  |                                       |   |                                       |  |                                       |
| Other liabilities  | (72,179)                               | (56,985)                              | (79,279)  | (51,243)                              | (63,559)   | (49,575)                              |
| <b>Amounts recognized in accumulated other comprehensive income:</b> |  |                                       |   |                                       |  |                                       |
| Net actuarial loss/(gain)  | (12,772)                               | 4,484                                 | 96,965  | 22,401                                | 80,430   | 20,983                                |
| Prior service cost/(credit)  |  |                                       | (1,001)   | 23                                    | (1,033)  | 24                                    |
| Total amounts recognized in AOCI                                     | \$ (12,772)                            | \$ 4,484                              | \$ 95,964   | \$ 22,424                             | \$ 79,397  | \$ 21,007                             |

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

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



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comprehensive income in the chart above were set to zero on the Merger date.

Weighted-average assumptions used to determine benefit obligations as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company) are as follows:

|                               | <b>Successor Company<br/>As of December 31, 2015</b>    |  | <b>Predecessor Company<br/>As of December 31, 2014</b>  |   |
|-------------------------------|---|--|---|---|
|                               | <b>Defined Benefit<br/>Pension Plan</b>                 | <b>Unfunded Excess<br/>Benefit Plan</b>                | <b>Defined Benefit<br/>Pension Plan</b>                 | <b>Unfunded Excess<br/>Benefit Plan</b>                 |
| Discount rate                 | 4.29%   | 3.63%  | 3.95%   | 3.65%   |
| Rate of compensation increase | 4.75% prior to age<br>40/ 3.75% for age<br>40 and above | 4.75% prior to age<br>40/ 3.75 for age 40<br>and above | 4.75% prior to age<br>40/ 3.75% for age<br>40 and above | 4.75% prior to age<br>40/ 3.75% for age<br>40 and above |

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The benefit obligations as of January 31 were determined based on the assumptions used in the 2014 year end disclosures with the following exception:

|               | Predecessor Company          |                              |
|---------------|------------------------------|------------------------------|
|               | Defined Benefit Pension Plan | Unfunded Excess Benefit Plan |
| Discount rate | 3.55 %                       | 3.26 %                       |

Weighted-average assumptions used to determine the net periodic benefit cost 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) are as follows:

|  | Successor Company<br>For The Year Ended December 31, |   | Predecessor Company<br>For The Year Ended December 31, |                              |                              |                              |
|--|--|---|--|------------------------------|------------------------------|------------------------------|
|  | 2015   | 2015  | 2014   | 2013                         | 2014                         | 2013                         |
|  | Defined Benefit Pension Plan                         | Unfunded Excess Benefit Plan                      | Defined Benefit Pension Plan                           | Unfunded Excess Benefit Plan | Unfunded Excess Benefit Plan | Unfunded Excess Benefit Plan |
| Discount rate                            | 3.95%  | 3.65%   | 4.86%  | 4.07%                        | 4.30%                        | 3.37%                        |
| Rate of compensation increase            | 4.75% prior to age 40/ 3.75% for age 40 and above    | 4.75% prior to age 40/ 3.75% for age 40 and above | 3.0  | 3.0                          | 4.0                          | 4.0                          |
| Expected long-term return on plan assets | 7.5  | N/A   | 7.5  | 7.5                          | N/A                          | N/A                          |

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.

To determine an appropriate long-term rate of return assumption, the Company obtained 25 year annualized returns for each of the represented asset classes. In addition, the Company 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.

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Components of the net periodic benefit cost for the period of February 1, 2015 to December 31, 2015 (Successor Company), for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), and for the years ended December 31, 2014 and 2013 (Predecessor Company) are as follows:

|  | Successor Company                           |                                       |   |                                       | Predecessor Company                     |           |                                 |          |
|--|---|---------------------------------------|---|---------------------------------------|---|-----------|---------------------------------|----------|
|  | February 1, 2015<br>to<br>December 31, 2015 |                                       | January 1, 2015<br>to<br>January 31, 2015 |                                       | For The Year Ended December 31,<br>2014 |           | 2013                            |          |
|  | Defined<br>Benefit<br>Pension<br>Plan       | Unfunded<br>Excess<br>Benefit<br>Plan | Defined<br>Benefit<br>Pension<br>Plan     | Unfunded<br>Excess<br>Benefit<br>Plan | Defined Benefit<br>Pension Plan         |           | Unfunded Excess<br>Benefit Plan |          |
|  | (Dollars In Thousands)                      |                                       |   |                                       | (Dollars In Thousands)                  |           |                                 |          |
| Service cost benefits earned during the period | \$ 11,220                                   | \$ 1,229                              | \$ 974                                    | \$ 95                                 | \$ 9,411                                | \$ 9,345  | \$ 954                          | \$ 1,037 |
| Interest cost on projected benefit obligation  | 9,072                                       | 1,499                                 | 1,002                                     | 140                                   | 10,493                                  | 8,985     | 1,696                           | 1,387    |
| Expected return on plan assets                 | (13,214)                                    |                                       | (1,293)                                   |                                       | (12,166)                                | (11,013)  |                                 |          |
| Amortization of prior service cost/(credit)    |   |                                       | (33)                                      | 1                                     | (392)                                   | (392)     | 12                              | 12       |
| Amortization of actuarial loss/(gain)(1)       |   |                                       | 668                                       | 138                                   | 6,821                                   | 9,631     | 1,516                           | 1,792    |
| Preliminary net periodic benefit cost          | 7,078                                       | 2,728                                 | 1,318                                     | 374                                   | 14,167                                  | 16,556    | 4,178                           | 4,228    |
| Settlement/curtailment expense(2)              |   |                                       |   |                                       |   |           |                                 | 928      |
| Total net periodic benefit cost                | \$ 7,078                                    | \$ 2,728                              | \$ 1,318                                  | \$ 374                                | \$ 14,167                               | \$ 16,556 | \$ 4,178                        | \$ 5,156 |

(1) 2015 average remaining service period used is 9.38 years and 7.96 years for the defined benefit pension plan and unfunded excess benefit plan, respectively.

(2) The unfunded excess benefit plan triggered settlement accounting for the year ended December 31, 2013 since the total lump sum payments exceeded the settlement threshold of service cost plus interest cost.

The Company will not amortize any net actuarial loss/(gain) from other comprehensive income into net periodic benefit cost during 2016 since the net actuarial loss (gain) is less than 10% of the greater of the smooth value of assets or the projected benefit obligation.

Allocation of plan assets of the defined benefit pension plan by category as of December 31 are as follows:

| Asset Category            | Successor Company          |      | Predecessor Company |
|---------------------------|----------------------------|------|---------------------|
|                           | Target Allocation for 2016 | 2015 | 2014                |
| Cash and cash equivalents | 2%                         | 2%   | 4%                  |
| Equity securities         | 60                         | 61   | 62                  |
| Fixed income              | 38                         | 37   | 34                  |
| Total                     | 100%                       | 100% | 100%                |

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The Company's target asset allocation is designed to provide an acceptable level of risk and balance between equity assets and fixed income assets. The weighting towards equity securities is designed to help provide for an increased level of asset growth potential and liquidity.

Prior to July 1999, upon an employee's retirement, a distribution from pension plan assets was used to purchase a single premium annuity from PLICO in the retiree's name. Therefore, amounts shown above as plan assets exclude assets relating to such retirees. Since July 1999, retiree obligations have been fulfilled from pension plan assets. The defined benefit pension plan has a target asset allocation of 60% domestic equities, 38% fixed income, and 2% cash. When calculating asset allocation, the Company includes reserves for pre-July 1999 retirees.

The Company's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters,

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achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The plan's equity assets are in a Russell 3000 index fund that invests in a domestic equity index collective trust managed by Northern Trust Corporation and in a Spartan 500 index fund managed by Fidelity. The plan's cash is invested in a collective trust managed by Northern Trust Corporation. The plan's fixed income assets are invested in a group deposit administration annuity contract with PLICO.

Plan assets of the defined benefit pension plan by category as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), are as follows:

| <u>Asset Category</u>                     | <b>Successor Company</b><br><b>As of December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>Predecessor Company</b><br><b>As of December 31, 2014</b><br><b>(Dollars In Thousands)</b> |
|---|---|---|
| Cash and cash equivalents                 | \$ 3,121  | \$ 7,968  |
| Equity securities:                        |   |   |
| Collective Russell 3000 equity index fund | 72,663  | 79,660  |
| Fidelity Spartan 500 index fund           | 52,551  | 51,848  |
| Fixed income                              | 67,707  | 64,296  |
| Total investments                         | 196,042   | 203,772   |
| Employer contribution receivable          |   | 2,165   |
| Total                                     | \$ 196,042  | \$ 205,937  |

The valuation methodologies used to determine the fair values reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. The Plan's group deposit administration annuity contract with PLICO is recorded at contract value, which, by utilizing a long-term view, the Company believes approximates fair value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities. Units in collective short-term and collective investment funds are valued at the unit value, which approximates fair value, as reported by the trustee of the collective short-term and collective investment funds on each valuation date. These methods of valuation may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 (Successor Company):

| Level 1                | Level 2 | Level 3 | Total |
|------------------------|---------|---------|-------|
| (Dollars In Thousands) |         |         |       |

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|   |    |        |    |        |        |         |
|---|----|--------|----|--------|--------|---------|
| Collective short-term investment fund         | \$ | 3,121  | \$ | \$     | \$     | 3,121   |
| Collective investment funds:                  |    |        |    |        |        |         |
| Equity index funds                            |    | 52,551 |    | 72,663 |        | 125,214 |
| Group deposit administration annuity contract |    |        |    |        | 67,707 | 67,707  |
| Total investments                             | \$ | 55,672 | \$ | 72,663 | \$     | 67,707  |
|   |    |        |    |        | \$     | 196,042 |

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The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2014 (Predecessor Company):

|   | Level 1                | Level 2   | Level 3   | Total      |
|---|------------------------|-----------|-----------|------------|
|   | (Dollars In Thousands) |           |           |            |
| Collective short-term investment fund         | \$ 7,968               | \$        | \$        | \$ 7,968   |
| Collective investment funds:                  |                        |           |           |            |
| Equity index funds                            | 51,848                 | 79,660    |           | 131,508    |
| Group deposit administration annuity contract |                        |           | 64,296    | 64,296     |
| Total investments                             | \$ 59,816              | \$ 79,660 | \$ 64,296 | \$ 203,772 |

For the period of February 1, 2015 to December 31, 2015 (Successor Company), there were no transfers between Level 2 and Level 3. For the year ended December 31, 2014 (Predecessor Company), \$4.5 million was transferred into Level 3 from Level 2. This transfer was made to maintain an acceptable asset allocation as set by the Company's investment policy.

For the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the year ended December 31, 2014 (Predecessor Company), there were no transfers between Level 1 and Level 2.

The following table summarizes the Plan investments measured at fair value based on NAV per share as of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), respectively:

| <u>Name</u>                           | Fair Value<br>(Dollars In Thousands) | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|---------------------------------------|--------------------------------------|-------------------------|-------------------------|-----------------------------|
| <b>Successor Company</b>              |                                      |                         |                         |                             |
| <b>As of December 31, 2015:</b>       |                                      |                         |                         |                             |
| Collective short-term investment fund | \$ 3,121                             | Not Applicable          | Daily                   | 1 day                       |
| Collective Russell 3000 index fund(1) | 72,663                               | Not Applicable          | Daily                   | 1 day                       |
| Fidelity Spartan 500 index fund       | 52,551                               | Not Applicable          | Daily                   | 1 day                       |
| <b>Predecessor Company</b>            |                                      |                         |                         |                             |
| <b>As of December 31, 2014:</b>       |                                      |                         |                         |                             |
| Collective short-term investment fund | \$ 7,968                             | Not Applicable          | Daily                   | 1 day                       |
| Collective Russell 3000 index fund(1) | 79,660                               | Not Applicable          | Daily                   | 1 day                       |
| Fidelity Spartan 500 index fund       | 51,848                               | Not Applicable          | Daily                   | 1 day                       |

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(1) Non-lending collective trust that does not publish a daily NAV but tracks the Russell 3000 index and provides a daily NAV to the Plan.

The following table presents a reconciliation of the beginning and ending balances for the fair value measurements for the period of February 1, 2105 to December 31, 2015, for the period of January 1, 2015 to January 31, 2015, and for the year ended December 31, 2014, for which the Company has used significant unobservable inputs (Level 3):

|   | Successor Company      |                  | Predecessor Company    |  |
|---|------------------------|------------------|------------------------|--|
|   | December 31, 2015      | January 31, 2015 | December 31, 2014      |  |
|   | (Dollars In Thousands) |                  | (Dollars In Thousands) |  |
| Balance, beginning of year                            | \$ 64,581              | \$ 64,296        | \$ 56,736              |  |
| Interest income                                       | 3,126                  | 285              | 3,060                  |  |
| Transfers from collective short-term investments fund |                        |                  | 4,500                  |  |
| Transfers to collective short-term investments fund   |                        |                  |                        |  |
| Balance, end of year                                  | \$ 67,707              | \$ 64,581        | \$ 64,296              |  |



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The following table represents the Plan's Level 3 financial instrument, the valuation technique used, and the significant unobservable input and the ranges of values for that input as of December 31, 2015 (Successor Company):

| <u>Instrument</u>                             | <u>Fair Value</u><br>(Dollars In Thousands) | <u>Principal</u><br><u>Valuation</u><br><u>Technique</u> | <u>Significant</u><br><u>Unobservable</u><br><u>Inputs</u> | <u>Range of</u><br><u>Significant</u><br><u>Input</u><br><u>Values</u> |
|---|---|--|--|--|
| Group deposit administration annuity contract | \$ 67,707                                   | Contract Value   | Contract Rate  | 5.22% - 5.41%  |

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported.

Estimated future benefit payments under the defined benefit pension plan and unfunded excess benefit plan are as follows:

| <u>Years</u> | <u>Defined Benefit</u><br><u>Pension Plan</u> | <u>Unfunded Excess</u><br><u>Benefit Plan</u> |
|--------------|---|---|
|              | (Dollars In Thousands)                        |   |
| 2016         | \$ 16,947                                     | \$ 5,470                                      |
| 2017         | 18,019  | 7,682   |
| 2018         | 17,723  | 5,070   |
| 2019         | 18,517  | 9,097   |
| 2020         | 19,532  | 4,962   |
| 2021 - 2025  | 102,176                                       | 18,888  |

### **Other Postretirement Benefits**

In addition to pension benefits, the Company provides limited healthcare benefits to eligible retired employees until age 65. This postretirement benefit is provided by an unfunded plan. As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the accumulated postretirement benefit obligation associated with these benefits was \$0.1 million and \$0.2 million, respectively.

The change in the benefit obligation for the retiree medical plan is as follows:

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|                                       | <b>Successor Company</b>       |       | <b>Predecessor Company</b>     |       |
|---------------------------------------|--------------------------------|-------|--------------------------------|-------|
|                                       | <b>As of December 31, 2015</b> |       | <b>As of December 31, 2014</b> |       |
|                                       | <b>(Dollars In Thousands)</b>  |       | <b>(Dollars In Thousands)</b>  |       |
| <b>Change in Benefit Obligation</b>   |                                |       |                                |       |
| Benefit obligation, beginning of year | \$                             | 247   | \$                             | 447   |
| Service cost                          |                                | 1     |                                | 2     |
| Interest cost                         |                                | 2     |                                | 4     |
| Actuarial (gain)/loss                 |                                | (113) |                                | 30    |
| Plan participant contributions        |                                | 141   |                                | 254   |
| Benefits paid                         |                                | (141) |                                | (490) |
| Benefit obligation, end of year       | \$                             | 137   | \$                             | 247   |

For the retiree medical plan, the Company's discount rate assumption used to determine benefit obligation and the net periodic benefit cost as of December 31, 2015 (Successor Company), is 1.54% and 1.27%, respectively.

For a closed group of retirees over age 65, the Company provides a prescription drug benefit. As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company's liability related to this benefit was less than \$0.1 million. The Company's obligation is not materially affected by a 1% change in the healthcare cost trend assumptions used in the calculation of the obligation.

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The Company also offers life insurance benefits for retirees from \$10,000 up to a maximum of \$75,000 which are provided through the payment of premiums under a group life insurance policy. This plan is partially funded at a maximum of \$50,000 face amount of insurance. The accumulated postretirement benefit obligation associated with these benefits is as follows:

|                                       | Successor Company       |                        | Predecessor Company    |                         |
|---------------------------------------|-------------------------|------------------------|------------------------|-------------------------|
|                                       | As of December 31, 2015 | As of January 31, 2015 | As of January 31, 2015 | As of December 31, 2014 |
|                                       | (Dollars In Thousands)  |                        | (Dollars In Thousands) |                         |
| <b>Change in Benefit Obligation</b>   |                         |                        |                        |                         |
| Benefit obligation, beginning of year | \$ 9,781                | \$ 9,288               | \$ 8,653               |                         |
| Service cost                          | 138                     | 12                     | 97                     |                         |
| Interest cost                         | 336                     | 39                     | 416                    |                         |
| Actuarial (gain)/loss                 | (894)                   | 511                    | 694                    |                         |
| Benefits paid                         | (298)                   | (69)                   | (572)                  |                         |
| Benefit obligation, end of year       | \$ 9,063                | \$ 9,781               | \$ 9,288               |                         |

For the postretirement life insurance plan, the Company's discount rate assumption used to determine benefit obligation and the net periodic benefit cost as of December 31, 2015 (Successor Company), is 4.6% and 4.21%, respectively. The Company's discount rate assumption used to determine benefit obligation as of January 1, 2015 (Predecessor Company) is 3.79%.

The Company's expected long-term rate of return assumption used to determine benefit obligation and the net periodic benefit cost as of December 31, 2015 (Successor Company), is 2.75% and 3.14%, respectively. To determine an appropriate long-term rate of return assumption, the Company utilized 25 year average and annualized return results on the Barclay's short treasury index.

Investments of the Company's group life insurance plan are held by Wells Fargo Bank, N.A. Plan assets held by the Custodian are invested in a money market fund.

The fair value of each major category of plan assets for the Company's postretirement life insurance plan is as follows:

| Category of Investment | Successor Company      |                   | Predecessor Company    |                   |
|------------------------|------------------------|-------------------|------------------------|-------------------|
|                        | As of                  | As of             | As of                  | As of             |
|                        | December 31, 2015      | December 31, 2015 | December 31, 2014      | December 31, 2014 |
|                        | (Dollars In Thousands) |                   | (Dollars In Thousands) |                   |
| Money market fund      | \$ 5,653               | \$ 5,653          | \$ 5,925               | \$ 5,925          |

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Investments are stated at fair value and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The money market funds are valued based on historical cost, which represents fair value, at year end. This method of valuation may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2015 (Successor Company):

|                   | Level 1                | Level 2 | Level 3 | Total    |
|-------------------|------------------------|---------|---------|----------|
|                   | (Dollars In Thousands) |         |         |          |
| Money market fund | \$ 5,653               | \$      | \$      | \$ 5,653 |

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The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2014 (Predecessor Company):

|                   | Level 1                | Level 2 | Level 3 | Total    |
|-------------------|------------------------|---------|---------|----------|
|                   | (Dollars In Thousands) |         |         |          |
| Money market fund | \$ 5,925               | \$      | \$      | \$ 5,925 |

For the year ended December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), there were no transfers between levels.

Investments are exposed to various risks, such as interest rate and credit risks. Due to the level of risk associated with investments and the level of uncertainty related to credit risks, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported.

### **401(k) Plan**

The Company sponsors a 401(k) Plan which covers substantially all employees. Employee contributions are made on a before-tax basis as provided by Section 401(k) of the Internal Revenue Code or as after-tax Roth contributions. Employees may contribute up to 25% of their eligible annual compensation to the 401(k) Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service (\$18,000 for 2015). The Plan also provides a catch-up contribution provision which permits eligible participants (age 50 or over at the end of the calendar year), to make additional contributions that exceed the regular annual contribution limits up to a limit periodically set by the Internal Revenue Service (\$6,000 for 2015). The Company matches the sum of all employee contributions dollar for dollar up to a maximum of 4% of an employee's pay per year per person. All matching contributions vest immediately.

Prior to 2009, employee contributions to the Company's 401(k) Plan were matched through use of an ESOP established by the Company. Beginning in 2009, the Company adopted a cash match for employee contributions to the 401(k) plan. For the period of February 1, 2015 to December 31, 2015 (Successor Company) and for the year ended December 31, 2014 (Predecessor Company), the Company recorded an expense of \$6.3 million and \$6.3 million, respectively.

Effective as of January 1, 2005, the Company adopted a supplemental matching contribution program, which is a nonqualified plan that provides supplemental matching contributions in excess of the limits imposed on qualified defined contribution plans by federal tax law. The first allocations under this program were made in early 2006, with respect to the 2005 plan year. The expense recorded by the Company for this employee benefit was \$0.5 million, \$0.4 million, and \$0.5 million, respectively, in 2015, 2014, and 2013.

Prior to the Merger date of February 1, 2015, the Company's outstanding and publicly traded common stock was a component of the investment options allowed to participants in the 401(k) Plan.

### **Deferred Compensation Plan**

Prior to the Merger, the Company had established deferred compensation plans for directors, officers, and others. Compensation deferred was credited to the participants in cash, mutual funds, common stock equivalents, or a combination thereof. The Company, from time to time, reissued treasury shares or buy in the open market shares of common stock to fulfill its obligation under the plans. As of December 31, 2014 (Predecessor Company), the plans had 1,109,595 common stock equivalents credited to participants. The Company's obligations related to its deferred compensation plans are reported in other liabilities, unless they are to be settled in shares of its common stock, in which case they are reported as a component of shareowner's equity. On February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life and the Company stock ceased to be publicly traded. Thus, any common stock equivalents within the plans converted into rights to receive the merger consideration of \$70.00 per common stock equivalent.

As of February 1, 2015, the Company has continued the deferred compensation plans for officers and others. Compensation deferred was credited to the participants in cash, mutual funds, or a combination thereof. As of December 31, 2015 (Successor Company), the Company's obligations related to its deferred compensation plans are reported in other liabilities.

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

For periods prior to February 1, 2015, basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period, including shares issuable under various deferred compensation plans. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares outstanding during the period, assuming the shares were not anti-dilutive, including shares issuable under various stock-based compensation plans and stock purchase contracts.

A reconciliation of the numerators and denominators of the basic and diluted earnings per share is presented below for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) and for the years ended December 31, 2014 and 2013 (Predecessor Company):

|   | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company             |            |
|---|---|---------------------------------|------------|
|   |   | For The Year Ended December 31, |            |
|   |   | 2014                            | 2013       |
| (Dollars In Thousands, Except Per Share Amounts)            |   |                                 |            |
| <b>Calculation of basic earnings per share:</b>             |   |                                 |            |
| Net income  | \$ 1,509                                  | \$ 384,875                      | \$ 393,464 |
| Average shares issued and outstanding                       | 79,343,253                                | 78,970,229                      | 78,439,987 |
| Issuable under various deferred compensation plans          | 1,109,595                                 | 1,094,988                       | 955,635    |
| Weighted shares outstanding - basic                         | 80,452,848                                | 80,065,217                      | 79,395,622 |
| Per share:  |   |                                 |            |
| Net income - basic  | \$ 0.02                                   | \$ 4.81                         | \$ 4.96    |
| <b>Calculation of diluted earnings per share:</b>           |   |                                 |            |
| Net income  | \$ 1,509                                  | \$ 384,875                      | \$ 393,464 |
| Weighted shares outstanding - basic                         | 80,452,848                                | 80,065,217                      | 79,395,622 |
| Stock appreciation rights ( SARs )(1)                       | 64,570                                    | 272,196                         | 432,413    |
| Issuable under various other stock-based compensation plans | 935,382                                   | 768,656                         | 745,607    |
| Restricted stock units                                      | 306,487                                   | 269,427                         | 352,071    |
| Weighted shares outstanding - diluted                       | 81,759,287                                | 81,375,496                      | 80,925,713 |
| Per share:  |   |                                 |            |
| Net income - diluted  | \$ 0.02                                   | \$ 4.73                         | \$ 4.86    |

(1) Excludes 178,325 SARs as of December 31, 2013, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company's earnings per share and will be included in the Company's calculation of the diluted average shares outstanding, for applicable periods.



Table of Contents**18. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following tables summarize the changes in the accumulated balances for each component of AOCI as of December 31, 2015 (Successor Company), January 31, 2015 (Predecessor Company), December 31, 2014 (Predecessor Company), and December 31, 2013 (Predecessor Company).

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

|   | Unrealized<br>Gains and Losses<br>on Investments(2) | Accumulated<br>Gain and Loss<br>Derivatives<br>(Dollars In Thousands, Net of Tax) | Minimum<br>Pension<br>Benefits<br>Liability<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|---|---|---|
| <b>Beginning Balance, February 1, 2015</b>  | \$  | \$  | \$  | \$  |
| Other comprehensive income (loss) before reclassifications  | (1,264,034)   | (86)  | 5,931   | (1,258,189)   |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | (393)   |   |   | (393)   |
| Amounts reclassified from accumulated other comprehensive income (loss)(1)  | 17,362  | 86  |   | 17,448  |
| <b>Net current-period other comprehensive income (loss)</b>   | (1,247,065)   |   | 5,931   | (1,241,134)   |
| <b>Ending Balance, December 31, 2015</b>  | \$ (1,247,065)                                      | \$  | \$ 5,931  | \$ (1,241,134)  |

(1) See Reclassification table below for details.

(2) As of December 31, 2015 (Successor Company), net unrealized losses reported in AOCI were offset by \$623.0 million due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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Changes in Accumulated Other Comprehensive Income (Loss) by Component

| Predecessor Company   | Unrealized<br>Gains and Losses on<br>Investments(2) | Accumulated Gain<br>and Loss<br>Derivatives | Minimum<br>Pension Liability<br>Adjustment | Total Accumulated<br>Other Comprehensive<br>Income (Loss) |
|---|---|---|--|---|
| (Dollars In Thousands, Net of Tax)  |   |   |  |   |
| <b>Beginning Balance, December 31, 2014</b>   | \$ 1,484,169  | \$ (82)                                     | \$ (66,011)                                | \$ 1,418,076  |
| Other comprehensive income (loss) before reclassifications  | 482,370   | 9   | (12,527)                                   | 469,852   |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | (243)   |   |  | (243)   |
| Amounts reclassified from accumulated other comprehensive income (loss)(1)  | (4,166)   | 23  | 502  | (3,641)   |
| <b>Net current-period other comprehensive income (loss)</b>   | <b>477,961</b>                                      | <b>32</b>                                   | <b>(12,025)</b>                            | <b>465,968</b>  |
| <b>Ending Balance January 31, 2015</b>  | <b>\$ 1,962,130</b>                                 | <b>\$ (50)</b>                              | <b>\$ (78,036)</b>                         | <b>\$ 1,884,044</b>                                       |

(1) See Reclassification table below for details.

(2) As of January 31, 2015 and December 31, 2014, net unrealized losses reported in AOCI were offset by \$(492.6) million and \$(504.4) million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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

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

(1) See Reclassification table below for details.

(2) As of December 31, 2013 and 2014, net unrealized losses reported in AOCI were offset by \$(189.8) million and \$(504.4) million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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

|  | Unrealized        | Accumulated   | Minimum        | Total         |
|--|-------------------|---------------|----------------|---------------|
|  | Gains and Losses  | Gain and Loss | Postretirement | Accumulated   |
|  | on Investments(2) | Derivatives   | Benefits       | Other         |
|  |                   |               | Liability      | Comprehensive |
|  |                   |               | Adjustment     | Income (Loss) |

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(Dollars In Thousands, Net of Tax)

|   |                    |              |               |                    |
|---|--------------------|--------------|---------------|--------------------|
| <b>Beginning Balance, December 31, 2012</b>   | \$ 1,813,516       | \$ (3,496)   | \$ (73,298)   | \$ 1,736,722       |
| Other comprehensive income (loss) before reclassifications  | (1,250,498)        | 734          | 29,596        | (1,220,168)        |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | 4,591              |              |               | 4,591              |
| Amounts reclassified from accumulated other comprehensive income (loss)(1)  | (28,606)           | 1,527        |               | (27,079)           |
| <b>Net current-period other comprehensive income (loss)</b>   | <b>(1,274,513)</b> | <b>2,261</b> | <b>29,596</b> | <b>(1,242,656)</b> |
| <b>Ending Balance, December 31, 2013</b>  | \$ 539,003         | \$ (1,235)   | \$ (43,702)   | \$ 494,066         |

(1) See Reclassification table below for details.

(2) As of December 31, 2012 and December 31, 2013, net unrealized losses reported in AOCI were offset by \$(204.8) million and \$(189.8) million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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The following tables summarize the reclassifications amounts out of AOCI 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 year ended December 31, 2014 (Predecessor Company).

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

|   | <b>Amount</b>                 |  |
|---|-------------------------------|--|
|   | <b>Reclassified</b>           |  |
|   | <b>from Accumulated</b>       |  |
|   | <b>Other Comprehensive</b>    | <b>Affected Line Item in the Consolidated</b>              |
|   | <b>Income (Loss)</b>          | <b>Statements of Income</b>                                |
|   | <b>(Dollars In Thousands)</b> |  |
| <b>Successor Company</b>  |                               |  |
| <b>February 1, 2015 to December 31, 2015</b>                        |                               |  |
| <b>Gains and losses on derivative instruments</b>                   |                               |  |
| Net settlement (expense)/benefit(1)                                 | \$ (131)                      | Benefits and settlement expenses, net of reinsurance ceded |
|   | (131)                         | Total before tax   |
|   | 45                            | Tax (expense) or benefit                                   |
|   | \$ (86)                       | Net of tax   |
| <b>Unrealized gains and losses on available-for-sale securities</b> |                               |  |
| Net investment gains/losses   | \$ 281                        | Realized investment gains (losses): All other investments  |
| Impairments recognized in earnings                                  | (26,992)                      | Net impairment losses recognized in earnings               |
|   | (26,711)                      | Total before tax   |
|   | 9,349                         | Tax (expense) or benefit                                   |
|   | \$ (17,362)                   | Net of tax   |
| <b>Pension benefits liability adjustment</b>                        |                               |  |
| Amortization of net actuarial gain/(loss)                           | \$                            | Other operating expenses                                   |
| Amortization of prior service credit/(cost)                         |                               | Other operating expenses                                   |
| Amortization of transition asset/(obligation)                       |                               | Other operating expenses                                   |
|   |                               | Total before tax   |
|   |                               | Tax (expense) or benefit                                   |
|   | \$                            | Net of tax   |

(1) See Note 24, *Derivative Financial Instruments* for additional information.



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

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

(1) See Note 24, *Derivative Financial Instruments* for additional information.

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

|   | <b>Amount</b>                 |  |
|---|-------------------------------|--|
|   | <b>Reclassified</b>           |  |
|   | <b>from Accumulated</b>       |  |
|   | <b>Other Comprehensive</b>    | <b>Affected Line Item in the Consolidated</b>              |
|   | <b>Income (Loss)</b>          | <b>Statements of Income</b>                                |
|   | <b>(Dollars In Thousands)</b> |  |
| <b>Predecessor Company</b>  |                               |  |
| <b>For The Year Ended December 31, 2014</b>                         |                               |  |
| <b>Gains and losses on derivative instruments</b>                   |                               |  |
| Net settlement (expense)/benefit(1)                                 | \$ (1,777)                    | Benefits and settlement expenses, net of reinsurance ceded |
|   | (1,777)                       | Total before tax   |
|   | 622                           | Tax (expense) or benefit                                   |
|   | \$ (1,155)                    | Net of tax   |
| <b>Unrealized gains and losses on available-for-sale securities</b> |                               |  |
| Net investment gains/losses   | \$ 76,952                     | Realized investment gains (losses): All other investments  |
| Impairments recognized in earnings                                  | (7,275)                       | Net impairment losses recognized in earnings               |
|   | 69,677                        | Total before tax   |
|   | (24,387)                      | Tax (expense) or benefit                                   |
|   | \$ 45,290                     | Net of tax   |
| <b>Pension benefits liability adjustment</b>                        |                               |  |
| Amortization of net actuarial gain/(loss)                           | \$ (8,264)                    | Other operating expenses                                   |
| Amortization of prior service credit/(cost)                         | 386                           | Other operating expenses                                   |
| Amortization of transition asset/(obligation)                       | 53                            | Other operating expenses                                   |
|   | (7,825)                       | Total before tax   |
|   | 2,739                         | Tax (expense) or benefit                                   |
|   | \$ (5,086)                    | Net of tax   |

(1) See Note 24, *Derivative Financial Instruments* for additional information.



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

|   | <b>Amount<br/>Reclassified<br/>from Accumulated<br/>Other Comprehensive<br/>Income (Loss)<br/>(Dollars In Thousands)</b> | <b>Affected Line Item in the Consolidated<br/>Statements of Income</b> |
|---|--|--|
| <b>Predecessor Company</b>  |  |  |
| <b>For The Year Ended December 31, 2013</b>                         |  |  |
| <b>Gains and losses on derivative instruments</b>                   |  |  |
| Net settlement (expense)/benefit(1)                                 | \$ (2,349)   | Benefits and settlement expenses, net of reinsurance ceded             |
|   |  | (2,349) Total before tax   |
|   |  | 822 Tax (expense) or benefit   |
|   | \$ (1,527)   | Net of tax   |
| <b>Unrealized gains and losses on available-for-sale securities</b> |  |  |
| Net investment gains/losses   | \$ 66,456  | Realized investment gains (losses): All other investments              |
| Impairments recognized in earnings                                  | (22,447)   | Net impairment losses recognized in earnings                           |
|   |  | 44,009 Total before tax  |
|   |  | (15,403) Tax (expense) or benefit                                      |
|   | \$ 28,606  | Net of tax   |

(1) See Note 24, *Derivative Financial Instruments* for additional information.

**19. INCOME TAXES**

The Company's effective income tax rate related to continuing operations varied from the maximum federal income tax rate as follows:

|   | <b>Successor Company<br/>February 1, 2015<br/>to<br/>December 31, 2015</b> | <b>January 1, 2015<br/>to<br/>January 31, 2015</b> | <b>Predecessor Company<br/>For The Year Ended December 31,</b> |             |
|---|--|--|--|-------------|
|   |  |  | <b>2014</b>  | <b>2013</b> |
| Statutory federal income tax rate applied to pre-tax income | 35.0%  | 35.0%  | 35.0%  | 35.0%       |
| State income taxes  | 2.0  | 0.8  | 0.8  | 0.6         |
| Investment income not subject to tax                        | (4.3)  | (3.2)  | (3.4)  | (3.1)       |
| Uncertain tax positions                                     | 0.2  | (0.1)  | 1.3  | 0.4         |
| Other   |  | (0.1)  | 0.3  | 0.5         |
|   | 32.9%  | 32.4%  | 34.0%  | 33.4%       |

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The annual provision for federal income tax in these financial statements differs from the annual amounts of income tax expense reported in the Company's income tax returns. Certain significant revenues and expenses are appropriately reported in different years with respect to the financial statements and the tax returns.

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

|                                     | Successor Company<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In<br>Thousands) |         | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |         |
|-------------------------------------|---|---------|---|--|---------|
| <b>Current income tax expense:</b>  |   |         |   |  |         |
| Federal                             | \$  | 5,715   | \$ (32,803)                               | \$   | 189,105 |
| State                               |   | (4,244) | 1,685                                     | \$   | 8,838   |
| Total current                       | \$  | 1,471   | \$ (31,118)                               | \$   | 197,943 |
| <b>Deferred income tax expense:</b> |   |         |   |  |         |
| Federal                             | \$  | 118,338 | \$ 30,858                                 | \$   | 1,474   |
| State                               |   | 11,734  | (67)                                      | \$   | (1,003) |
| Total deferred                      | \$  | 130,072 | \$ 30,791                                 | \$   | 471     |

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

|  | Successor Company<br>As of December 31, 2015<br>(Dollars In Thousands) | Predecessor Company<br>As of December 31, 2014<br>(Dollars In Thousands) |
|--|--|--|
| <b>Deferred income tax assets:</b>                     |  |  |
| Premium receivables and policy liabilities             | \$   | \$ 95,298  |
| Loss and credit carryforwards                          |  | 34,340   |
| Deferred compensation                                  |  | 241,156  |
| Invested assets (other than unrealized gains)          |  | 194,223  |
| Deferred policy acquisition costs                      |  | 63,901   |
| Premium on corporate debt                              |  | 274,366  |
| Net unrealized loss on investments                     |  | 125,296  |
| Other  |  | 671,540  |
| Valuation allowance                                    |  | 81,032   |
|  |  | (4,804)  |
|  |  | 1,422,926  |
|  |  | 351,732  |
| <b>Deferred income tax liabilities:</b>                |  |  |
| Premium receivables and policy liabilities             |  | 276,919  |
| VOBA and other intangibles                             |  | 631,935  |
| DAC and VOBA   |  | 1,078,533  |
| Invested assets (other than unrealized gains (losses)) |  | 1,511,353  |
| Net unrealized gains (losses) on investments           |  | 799,123  |
| Other  |  | 19,554   |
|  |  | 2,420,207  |
| Net deferred income tax liability                      | \$   | (997,281) \$   |
|  |  | (1,545,478)  |

The deferred tax assets reported above include certain deferred tax assets related to nonqualified deferred compensation and other employee benefit liabilities. These liabilities were assumed by AXA and they were not acquired by the Company in connection with the acquisition of MONY. The future tax deductions stemming from these liabilities will be claimed by the Company on MONY's tax returns in its post-acquisition periods. These deferred tax assets have been estimated as of the MONY Acquisition date (and through the December 31, 2015 reporting date) based on all available information. However, it is possible that these estimates may be adjusted in future reporting periods based on actuarial

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changes to the projected future payments associated with these liabilities. Any such adjustments will be recognized by the Company as an adjustment to income tax expense during the period in which they are realized.

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In management's judgment, the gross deferred income tax asset as of December 31, 2015 (Successor Company) will more likely than not be fully realized. 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. This resulting unfavorable change of \$4.0 million, before federal income taxes, increased state income tax expense in 2015 by the same amount.

At December 31, 2015 (Successor Company), the Company has a non-life net operating loss carryforward for federal income tax purposes of \$65.6 million, which is available to offset future non-life federal taxable income (and life group taxable income with limitations) through 2035. In addition, included in the deferred income tax assets above is approximately \$11.0 million in state net operating loss carryforwards attributable to certain jurisdictions, which are available to offset future taxable income in the respective state jurisdictions, expiring between 2015 and 2035.

As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), some of the Company's fixed maturities were reported at an unrealized loss. If the Company were to realize a tax-basis net capital loss for a year, then such loss could not be deducted against that year's other taxable income. However, such a loss could be carried back and forward against any prior year or future year tax-basis net capital gains. Therefore, the Company has relied upon a prudent and feasible tax-planning strategy regarding its fixed maturities that were reported at an unrealized loss. The Company has the ability and the intent to either hold such fixed maturities to maturity, thereby avoiding a realized loss, or to generate an offsetting realized gain from unrealized gain fixed maturities if such unrealized loss fixed maturities are sold at a loss prior to maturity.

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

|   | Successor Company   |   | Predecessor Company<br>As of December 31, |            |
|---|---|---|---|------------|
|   | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | 2014<br>(Dollars In Thousands)            | 2013       |
| Balance, beginning of period                    | \$ 137,593  | \$ 193,244                                | \$ 105,881                                | \$ 75,292  |
| Additions for tax positions of the current year | 2,213   | (5,010)                                   | 57,463                                    | 7,465      |
| Additions for tax positions of prior years      | 1,811   | 7,724                                     | 39,433                                    | 26,386     |
| Reductions of tax positions of prior years:     |   |   |   |            |
| Changes in judgment                             | (16,416)  | (58,365)                                  | (9,533)                                   | (2,740)    |
| Settlements during the period                   | (112,063)   |   |   |            |
| Lapses of applicable statute of limitations     |   |   |   | (522)      |
| Balance, end of period                          | \$ 13,138   | \$ 137,593                                | \$ 193,244                                | \$ 105,881 |

Included in the end of period balance above, 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 as of December 31, 2014 and 2013 (Predecessor Company), are approximately \$5.6 million, \$126.0 million, \$181.9 million, and \$98.0 million of unrecognized tax benefits, respectively, for which the ultimate deductibility is certain but for which there is uncertainty about the timing of such deductions. Other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective income tax rate but would accelerate to an earlier period the payment of cash to the taxing authority. The total amount of unrecognized tax benefits, if recognized, that would affect the effective income tax rate is approximately \$7.5 million, \$11.5 million, \$11.3 million, and \$7.9 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 as of December 31, 2014 and 2013 (Predecessor Company),

respectively.

Any accrued interest related to the unrecognized tax benefits and other accrued income taxes have been included in income tax expense. These amounts were a \$1.6 million detriment, a \$0.9 million benefit, a \$3.9 million detriment, and a \$2.3 million detriment 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. The Company has approximately \$15.4 million, \$12.7 million, \$14.3 million, and \$7.8 million of accrued interest associated with unrecognized tax benefits as of December 31, 2015 (Successor Company), as of January 31, 2015 (Predecessor Company), and as of December 31, 2014 and 2013 (Predecessor Company), respectively (before taking into consideration the related income tax benefit that is associated with such an expense).

The Company believes that in the next 12 months none of these unrecognized tax benefits will be significantly increased or reduced.

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In June 2012, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and sought resolution at the IRS Appeals Division. In October 2015, Appeals accepted the Company's earlier proposed settlement offer. In September 2015, the IRS proposed favorable and unfavorable adjustments to the Company's 2008 through 2011 reported taxable income. The Company agreed to these adjustments. The resulting net adjustment to the Company's current income taxes for the years 2003 through 2011 will not materially affect the Company or its effective tax rate.

The Company is currently under audit by the IRS for the years 2012 and 2013. As of December 31, 2015, no materially adverse adjustments to reported taxable income have been proposed.

In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2012. Nevertheless, certain of these pre-2012 years have pending U.S. tax refunds. Due to their size, these refunds are being reviewed by Congress Joint Committee on Taxation. Furthermore, due to the afore-mentioned IRS adjustments to the Company's pre-2012 taxable income, the Company is amending certain of its 2003 through 2011 state income tax returns. Such amendments will cause such years to remain open, pending the states' acceptances of the returns. At this time, the Company believes that the Joint Committee's review of its U.S. tax refunds and the states' acceptance of its amending returns will be completed this year. The underlying statutes of limitations are expected to close in due course on or before June 30, 2017.

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

The following table sets forth supplemental cash flow information:

|  | Successor Company   |   | Predecessor Company             |            |
|--|---|---|---------------------------------|------------|
|  | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended December 31, |            |
|  |   |   | 2014                            | 2013       |
|  |   |   | (Dollars In Thousands)          |            |
| <b>Cash paid / (received) during the year:</b>     |   |   |                                 |            |
| Interest on debt                                   | \$ 124,829  | \$ 22,802                                 | \$ 174,644                      | \$ 171,360 |
| Income taxes                                       | (53,486)  | (1)                                       | 159,447                         | (27,211)   |
| <b>Noncash investing and financing activities:</b> |   |   |                                 |            |
| Stock-based compensation                           |   | 1,550                                     | 13,902                          | 10,739     |

Total cash interest paid on debt for the period of February 1, 2015 to December 31, 2015 (Successor Company), was \$124.8 million. Of this amount, \$51.1 million related to interest on long-term debt, \$25.0 million related to interest on subordinated debt, and \$48.7 million related to non-recourse funding obligations and other obligations.

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Total cash interest paid on debt for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), was \$22.8 million. Of this amount, \$4.8 million related to interest on long-term debt and \$18.0 million related to non-recourse funding obligations and other obligations.

### 21. RELATED PARTY TRANSACTIONS

Certain corporations with which the Company's directors were affiliated paid us premiums and policy fees or other amounts for various types of insurance and investment products, interest on bonds we own and commissions on securities underwritings in which our affiliates participated. Such amounts totaled \$45.3 million, \$2.6 million, \$33.4 million, and \$40 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. The Company paid commissions, interest on debt and investment products, and fees to these same corporations totaling \$10.0 million, \$0.8 million, \$16.5 million, and \$16.4 million for the period of February 1, 2015 to December 31, 2015 (Successor Company), for 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.

Prior to the Merger, the Company had no related party transactions with Dai-ichi Life.

The Company has guaranteed PLICO's obligations for borrowings or letters of credit under the revolving line of credit arrangement to which the Company is also a party. The Company has also issued guarantees, entered into support agreements and/or assumed a duty to indemnify its indirect wholly owned captive insurance companies in certain respects. In addition, as of December 31, 2015 (Successor Company), the Company was the sole holder of the \$800 million balance of outstanding surplus notes issued by one such wholly owned captive insurance company, Golden Gate.



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The Company guarantees the obligations of PLICO under a synthetic lease entered into by PLICO, as lessee, with a non-affiliated third party, as lessor. Under the terms of the synthetic lease, financing of \$75 million was available to PLICO for construction of an office building and parking deck which was completed on February 1, 2000. The synthetic lease was amended and restated as of December 19, 2013, wherein as of December 31, 2015, the Company continues to guarantee the obligations of PLICO thereunder.

The Company has agreements with certain of its subsidiaries under which it supplies investment, legal and data processing services on a fee basis and provides other managerial and administrative services on a shared cost basis. Such other managerial and administrative services include but are not limited to accounting, financial reporting, compliance services, reinsurance administration, tax reporting, reserve computation, and projections.

The Company has an intercompany capital support agreement with Shades Creek Captive Insurance Company ( Shades Creek ), a direct wholly owned subsidiary. The agreement provides through a guarantee that the Company 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 during 2014 (Predecessor Company). As of December 31, 2015 (Successor Company), the \$55 million Letter of Credit executed by PLICO was no longer issued and outstanding. Also in accordance with this 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.

## **22. STATUTORY REPORTING PRACTICES AND OTHER REGULATORY MATTERS**

The Company 's insurance subsidiaries prepare statutory financial statements for regulatory purposes in accordance with accounting practices prescribed by the NAIC and the applicable state insurance department laws and regulations. These financial statements vary materially from GAAP. Statutory accounting practices include publications of the NAIC, state laws, regulations, general administrative rules as well as certain permitted accounting practices granted by the respective state insurance department. Generally, the most significant differences are that statutory financial statements do not reflect 1) deferred acquisition costs and VOBA, 2) benefit liabilities that are calculated using Company estimates of expected mortality, interest, and withdrawals, 3) deferred income taxes that are not subject to statutory limits, 4) recognition of realized gains and losses on the sale of securities in the period they are sold, and 5) fixed maturities recorded at fair values, but instead at amortized cost.

Statutory net income for PLICO was \$440.0 million, \$554.2 million, and \$165.5 million for the year ended December 31, 2015, 2014 and 2013, respectively. Statutory capital and surplus for PLICO was \$3.8 billion and \$3.5 billion as of December 31, 2015 and 2014, respectively.

The Company 's insurance subsidiaries are subject to various state statutory and regulatory restrictions on the insurance subsidiaries ' ability to pay dividends to Protective Life Corporation. 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 ordinary dividends to the Company from our insurance subsidiaries, and which would consequently be free from restriction and available for the payment of dividends to the Company 's shareowners in 2016 is approximately to be \$541.3 million. This results in approximately \$4.0 billion of the Company 's net assets being restricted from transfer to PLC without prior approval from the respective state insurance department.

State insurance regulators and the National Association of Insurance Commissioners ( 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 the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company s total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2015, the Company s 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%.

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Additionally, the Company has certain assets that are on deposit with state regulatory authorities and restricted from use. As of December 31, 2015, the Company's insurance subsidiaries had on deposit with regulatory authorities, fixed maturity and short-term investments with a fair value of approximately \$43.8 million.

The states of domicile of the Company's insurance subsidiaries have adopted prescribed accounting practices that differ from the required accounting outlined in NAIC Statutory Accounting Principles (SAP). The insurance subsidiaries also have certain accounting practices permitted by the states of domicile that differ from those found in NAIC SAP.

Certain prescribed and permitted practices impact the statutory surplus of PLICO, the Company's primary operating subsidiary. These practices include the non-admission of goodwill as an asset for statutory reporting and the reporting of Bank Owned Life Insurance (BOLI) separate account amounts at book value rather than at fair value.

The favorable (unfavorable) effects of PLICO's statutory surplus, compared to NAIC statutory surplus, from the use of these prescribed and permitted practices were as follows:

|                           | As of December 31,    |                 |
|---------------------------|-----------------------|-----------------|
|                           | 2015                  | 2014            |
|                           | (Dollars In Millions) |                 |
| Non-admission of goodwill | \$ (295)              | \$ (310)        |
| <b>Total (net)</b>        | <b>\$ (295)</b>       | <b>\$ (310)</b> |

The Company also has certain prescribed and permitted practices which are applied at the subsidiary level and do not have a direct impact on the statutory surplus of PLICO. These practices include permission to follow the actuarial guidelines of the domiciliary state of the ceding insurer for certain captive reinsurers, accounting for the face amount of all issued, and outstanding letters of credit and a note issued by an affiliate as assets in the statutory financial statements of certain wholly owned subsidiaries that are considered Special Purpose Financial Captives, and a reserve difference related to a captive insurance company.

The favorable (unfavorable) effects on the statutory surplus of the Company's insurance subsidiaries, compared to NAIC statutory surplus, from the use of these prescribed and permitted practices were as follows:

|   | As of December 31,    |          |
|---|-----------------------|----------|
|   | 2015                  | 2014     |
|   | (Dollars In Millions) |          |
| Accounting for Letters of Credit as admitted assets         | \$ 1,715              | \$ 1,735 |
| Accounting for Red Mountain Note as admitted asset          | \$ 500                | \$ 435   |
| Reserving based on state specific actuarial practices       | \$ 117                | \$ 112   |
| Reserving difference related to a captive insurance company | \$ (118)              | \$ (87)  |



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**23. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market.
  
- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:
  - a) Quoted prices for similar assets or liabilities in active markets
  
  - b) Quoted prices for identical or similar assets or liabilities in non-active markets
  
  - c) Inputs other than quoted market prices that are observable
  
  - d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

- **Level 3:** Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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

|   | Level 1                | Level 2       | Level 3      | Total         |
|---|------------------------|---------------|--------------|---------------|
|   | (Dollars In Thousands) |               |              |               |
| <b>Assets:</b>  |                        |               |              |               |
| Fixed maturity securities - available-for-sale                |                        |               |              |               |
| Residential mortgage-backed securities                        | \$                     | \$ 1,765,270  | \$ 3         | \$ 1,765,273  |
| Commercial mortgage-backed securities                         |                        | 1,286,887     |              | 1,286,887     |
| Other asset-backed securities                                 |                        | 210,020       | 587,031      | 797,051       |
| U.S. government-related securities                            | 1,054,353              | 477,824       |              | 1,532,177     |
| State, municipalities, and political subdivisions             |                        | 1,603,600     |              | 1,603,600     |
| Other government-related securities                           |                        | 17,740        |              | 17,740        |
| Corporate securities  | 83                     | 24,941,584    | 902,119      | 25,843,786    |
| Preferred stock   | 43,073                 | 19,614        |              | 62,687        |
| Total fixed maturity securities - available-for-sale          | 1,097,509              | 30,322,539    | 1,489,153    | 32,909,201    |
| Fixed maturity securities - trading                           |                        |               |              |               |
| Residential mortgage-backed securities                        |                        | 286,658       |              | 286,658       |
| Commercial mortgage-backed securities                         |                        | 146,743       |              | 146,743       |
| Other asset-backed securities                                 |                        | 122,511       | 152,912      | 275,423       |
| U.S. government-related securities                            | 233,592                | 4,755         |              | 238,347       |
| State, municipalities, and political subdivisions             |                        | 313,354       |              | 313,354       |
| Other government-related securities                           |                        | 58,827        |              | 58,827        |
| Corporate securities  |                        | 1,322,276     | 18,225       | 1,340,501     |
| Preferred stock   | 2,794                  | 1,402         |              | 4,196         |
| Total fixed maturity securities - trading                     | 236,386                | 2,256,526     | 171,137      | 2,664,049     |
| Total fixed maturity securities                               | 1,333,895              | 32,579,065    | 1,660,290    | 35,573,250    |
| Equity securities   | 656,437                | 13,063        | 69,763       | 739,263       |
| Other long-term investments(1)                                | 113,699                | 141,487       | 96,830       | 352,016       |
| Short-term investments  | 261,947                | 6,771         |              | 268,718       |
| Total investments   | 2,365,978              | 32,740,386    | 1,826,883    | 36,933,247    |
| Cash  | 396,072                |               |              | 396,072       |
| Other assets  | 19,099                 |               |              | 19,099        |
| Assets related to separate accounts                           |                        |               |              |               |
| Variable annuity  | 12,829,188             |               |              | 12,829,188    |
| Variable universal life                                       | 827,610                |               |              | 827,610       |
| Total assets measured at fair value on a recurring basis      | \$ 16,437,947          | \$ 32,740,386 | \$ 1,826,883 | \$ 51,005,216 |
| <b>Liabilities:</b>   |                        |               |              |               |
| Annuity account balances(2)                                   | \$                     | \$            | \$ 92,512    | \$ 92,512     |
| Other liabilities(1)  | 40,067                 | 3,932         | 585,556      | 629,555       |
| Total liabilities measured at fair value on a recurring basis | \$ 40,067              | \$ 3,932      | \$ 678,068   | \$ 722,067    |

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.





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

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

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

### **Determination of Fair Values**

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

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appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

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

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

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

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

*Asset-Backed Securities*

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This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of December 31, 2015 (Successor Company), the Company held \$3.8 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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As of December 31, 2015 (Successor Company), the Company held \$739.9 million of Level 3 ABS, which included \$587.0 million of other asset-backed securities classified as available-for-sale and \$152.9 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate.

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

As of December 31, 2015 (Successor Company), the Company classified approximately \$28.8 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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

As of December 31, 2015 (Successor Company), the Company classified approximately \$920.3 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

***Equities***

As of December 31, 2015 (Successor Company), the Company held approximately \$82.8 million of equity securities classified as Level 2 and Level 3. Of this total, \$65.7 million represents FHLB stock. The Company believes that the cost of the FHLB stock approximates fair value.

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

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 24, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of December 31, 2015 (Successor Company), 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

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

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

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instruments may not be classified within the same fair value hierarchy level as the associated assets and liabilities.

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Therefore, the changes in fair value on derivatives reported in Level 3 may not reflect the offsetting impact of the changes in fair value of the associated assets and liabilities.

The embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company's consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments. Refer to Note 24, *Derivative Financial Instruments* for more information related to each embedded derivatives gains and losses.

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

The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 49% - 80%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ( IUL ) embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 38% - 153%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities; therefore changes in their fair value are also reported in earnings. As of December 31, 2015 (Successor Company), the fair value of the embedded

derivative is based upon the relationship between the statutory policy liabilities (net of policy loans) of \$2.5 billion and the statutory unrealized gain (loss) of the securities of \$184.1 million. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

*Annuity Account Balances*

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



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unlocking process. If an event were to occur within a quarter that would make the assumptions unreasonable, the assumptions would be reviewed within the quarter.

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for December 31, 2015 (Successor Company), ranged from a one month rate of 0.61%, a 5 year rate of 2.43%, and a 30 year rate of 3.66%. A credit spread component is also included in the calculation to accommodate non-performance risk.

*Separate Accounts*

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

*Valuation of Level 3 Financial Instruments*

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

|                               | Successor Company<br>Fair Value<br>As of<br>December 31, 2015<br>(Dollars In Thousands) | Valuation<br>Technique    | Unobservable<br>Input | Range<br>(Weighted Average)  |
|-------------------------------|---|---------------------------|-----------------------|--|
| <b>Assets:</b>                |   |                           |                       |  |
| Other asset-backed securities | \$ 587,031  | Discounted cash flow      | Liquidity premium     | 0.27% - 1.49% (0.42%)  |
|                               |   |                           | Paydown rate          | 10.20% - 14.72% (13.11%)   |
| Corporate securities          | 875,810   | Discounted cash flow      | Spread over treasury  | 0.10% - 19.00% (2.61%)   |
| <b>Liabilities:</b>           |   |                           |                       |  |
| Embedded derivatives GMWB(1)  | \$ 181,612  | Actuarial cash flow model | Mortality             | 1994 MGDB table with company experience                              |
|                               |   |                           | Lapse                 | 0.3% - 15%, depending on product/duration/funded status of guarantee |
|                               |   |                           | Utilization           | 99%. 10% of policies have a one-time over-utilization of 400%        |
|                               |   |                           | Nonperformance risk   | 0.18% - 1.04%  |
| Annuity account balances(2)   | 92,512  | Actuarial cash flow model | Asset earned rate     | 4.53% - 5.67%  |
|                               |   |                           | Expenses              | \$81 per policy  |
|                               |   |                           | Withdrawal rate       | 2.20%  |
|                               |   |                           | Mortality             | 1994 MGDB table with company experience                              |
|                               |   |                           | Lapse                 | 2.2% - 33.0%, depending on duration/surrender charge period          |

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|                         |         |                           |                     |  |
|-------------------------|---------|---------------------------|---------------------|--|
|                         |         |                           | Return on assets    | 1.50% - 1.85% depending on surrender charge period                         |
|                         |         |                           | Nonperformance risk | 0.18% - 1.04%  |
| Embedded derivative FIA | 100,329 | Actuarial cash flow model | Expenses            | \$81.50 per policy   |
|                         |         |                           | Withdrawal rate     | 1.1% - 4.5% depending on duration and tax qualification                    |
|                         |         |                           | Mortality           | 1994 MGDB table with company experience                                    |
|                         |         |                           | Lapse               | 2.5% - 40.0%, depending on duration/surrender charge period                |
|                         |         |                           | Nonperformance risk | 0.18% - 1.04%  |
| Embedded derivative IUL | 29,629  | Actuarial cash flow model | Mortality           | 38% - 153% of 2015 VBT Primary Tables                                      |
|                         |         |                           | Lapse               | 0.5% - 10.0%, depending on duration/distribution channel and smoking class |
|                         |         |                           | Nonperformance risk | 0.18% - 1.04%  |

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

(2) Represents liabilities related to fixed indexed annuities.

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

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The Company has considered all reasonably available quantitative inputs as of December 31, 2015 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$200.5 million of financial instruments being classified as Level 3 as of December 31, 2015 (Successor Company). Of the \$200.5 million, \$152.9 million are other asset-backed securities, \$44.5 million are corporate securities, and \$3.1 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2015 (Successor Company), the Company held \$66.7 million of financial instruments where book value approximates fair value which was predominantly FHLB stock.

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

|                               | Predecessor<br>Company<br>Fair Value | As of<br>December 31, 2014<br>(Dollars In Thousands) | Valuation<br>Technique    | Unobservable<br>Input | Range<br>(Weighted Average)   |
|-------------------------------|--------------------------------------|--|---------------------------|-----------------------|---|
| <b>Assets:</b>                |                                      |  |                           |                       |   |
| Other asset-backed securities | \$                                   | 563,752  | Discounted cash flow      | Liquidity premium     | 0.39% - 1.49% (0.69%)   |
|                               |                                      |  |                           | Paydown rate          | 9.70% - 15.80% (12.08%)   |
| Corporate securities          |                                      | 1,282,864  | Discounted cash flow      | Spread over treasury  | 0.33% - 7.50% (2.19%)   |
| <b>Liabilities:</b>           |                                      |  |                           |                       |   |
| Embedded derivatives GMWB(1)  | \$                                   | 245,090  | Actuarial cash flow model | Mortality             | 44.5% to 100% of 1994 MGDB table                                      |
|                               |                                      |  |                           | Lapse                 | 0.25% - 17%, depending on product/duration/funded status of guarantee |
|                               |                                      |  |                           | Utilization           | 97% - 101%  |
|                               |                                      |  |                           | Nonperformance risk   | 0.12% - 0.96%   |
| Annuity account balances(2)   |                                      | 97,825   | Actuarial cash flow model | Asset earned rate     | 3.86% - 5.92%   |
|                               |                                      |  |                           | Expenses              | \$88 - \$102 per policy   |
|                               |                                      |  |                           | Withdrawal rate       | 2.20%   |
|                               |                                      |  |                           | Mortality             | 49% to 80% of 1994 MGDB table   |
|                               |                                      |  |                           | Lapse                 | 2.2% - 33.0%, depending on duration/surrender charge period           |
|                               |                                      |  |                           | Return on assets      | 1.50% - 1.85% depending on surrender charge period                    |
|                               |                                      |  |                           | Nonperformance risk   | 0.12% - 0.96%   |
| Embedded derivative FIA       |                                      | 124,465  | Actuarial cash flow model | Expenses              | \$83 - \$97 per policy  |
|                               |                                      |  |                           | Withdrawal rate       | 1.1% - 4.5% depending on duration and tax qualification               |
|                               |                                      |  |                           | Mortality             | 49% to 80% of 1994 MGDB table   |
|                               |                                      |  |                           | Lapse                 | 2.2% - 40.0%, depending on duration/surrender charge period           |
|                               |                                      |  |                           | Nonperformance risk   | 0.12% - 0.96%   |
| Embedded derivative - IUL     |                                      | 6,691  | Actuarial cash flow model | Mortality             |   |

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|                     |  |
|---------------------|--|
|                     | 37% - 74% of 2008 VBT<br>Primary Tables  |
| Lapse               | 0.5% - 10%, depending on<br>duration/distribution channel<br>and smoking class |
| Nonperformance risk | 0.12% - 0.96%  |

- (1) The fair value for the GMWB embedded derivative is presented as a net liability. Excludes modified coinsurance arrangements.
- (2) Represents liabilities related to fixed indexed annuities.

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

The Company has considered all reasonably available quantitative inputs as of December 31, 2014 (Predecessor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$240.3 million of financial instruments being classified as Level 3 as of December 31, 2014

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(Predecessor Company). Of the \$240.3 million, \$169.7 million are other asset-backed securities, \$67.6 million are corporate securities, and \$3.0 million are equity securities.

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

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

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

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

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

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

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

risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

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

|  | Beginning Balance | Total Realized and Unrealized Gains Included in Comprehensive Earnings | Total Realized and Unrealized Losses Included in Comprehensive Earnings | Purchases              | Sales    | Issuances | Settlements | Transfers in/out of Level 3 | Other   | Ending Balance | Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date |
|--|-------------------|--|---|------------------------|----------|-----------|-------------|-----------------------------|---------|----------------|---|
|  |                   | Included in Comprehensive Earnings                                     | Included in Comprehensive Earnings                                      | (Dollars In Thousands) |          |           |             |                             |         |                |   |
| <b>Assets:</b>                                     |                   |  |   |                        |          |           |             |                             |         |                |   |
| Fixed maturity securities available-for-sale       |                   |  |   |                        |          |           |             |                             |         |                |   |
| Residential mortgage-backed securities             | \$ 3              | \$   | \$  | \$                     | \$       | \$        | \$          | \$                          | \$      | \$ 3           | \$  |
| Commercial mortgage-backed securities              |                   |  |   |                        |          |           |             |                             |         |                |   |
| Other asset-backed securities                      | 603,646           | 11,040   | (92)  | (17,076)               | (9,677)  |           |             |                             | (810)   | 587,031        |   |
| U.S. government-related securities                 |                   |  |   |                        |          |           |             |                             |         |                |   |
| States, municipals, and political subdivisions     | 3,675             |  |   |                        | (3,675)  |           |             |                             |         |                |   |
| Other government-related securities                |                   |  |   |                        |          |           |             |                             |         |                |   |
| Corporate securities                               | 1,307,259         | 4,367  | 24,490  | (963)                  | (52,898) | 199,924   | (407,052)   | (164,588)                   | (8,420) | 902,119        |   |
| Total fixed maturity securities available-for-sale | 1,914,583         | 4,367  | 35,530  | (1,055)                | (69,974) | 199,924   | (420,404)   | (164,588)                   | (9,230) | 1,489,153      |   |
| Fixed maturity securities trading                  |                   |  |   |                        |          |           |             |                             |         |                |   |
| Residential mortgage-backed securities             |                   |  |   |                        |          |           |             |                             |         |                |   |
| Commercial mortgage-backed securities              |                   |  |   |                        |          |           |             |                             |         |                |   |
| Other asset-backed securities                      | 169,473           | 6,260  | (7,967)   |                        | 2,000    | (15,154)  |             | (1,982)                     | 282     | 152,912        | (5,804)   |
| U.S. government-related securities                 |                   |  |   |                        |          |           |             |                             |         |                |   |
| States, municipals and political subdivisions      |                   |  |   |                        |          |           |             |                             |         |                |   |

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|   |              |            |           |              |             |            |              |        |              |             |              |            |
|---|--------------|------------|-----------|--------------|-------------|------------|--------------|--------|--------------|-------------|--------------|------------|
| Other government-related securities                           |              |            |           |              |             |            |              |        |              |             |              |            |
| Corporate securities  | 25,130       | 501        |           | (1,407)      |             |            | (5,805)      |        | (194)        | 18,225      | (1,430)      |            |
| Total fixed maturity securities trading                       | 194,603      | 6,761      |           | (9,374)      |             | 2,000      | (20,959)     |        | (1,982)      | 88          | 171,137      | (7,234)    |
| Total fixed maturity securities                               | 2,109,186    | 11,128     | 35,530    | (10,429)     | (69,974)    | 201,924    | (441,363)    |        | (166,570)    | (9,142)     | 1,660,290    | (7,234)    |
| Equity securities   | 73,044       |            | 44        |              |             |            | (231)        |        |              | (3,094)     | 69,763       |            |
| Other long-term investments(1)                                | 93,274       | 78,095     |           | (74,539)     |             |            |              |        |              |             | 96,830       | 3,556      |
| Short-term investments  |              |            |           |              |             |            |              |        |              |             |              |            |
| Total investments   | 2,275,504    | 89,223     | 35,574    | (84,968)     | (69,974)    | 201,924    | (441,594)    |        | (166,570)    | (12,236)    | 1,826,883    | (3,678)    |
| Total assets measured at fair value on a recurring basis      | \$ 2,275,504 | \$ 89,223  | \$ 35,574 | \$ (84,968)  | \$ (69,974) | \$ 201,924 | \$ (441,594) | \$     | \$ (166,570) | \$ (12,236) | \$ 1,826,883 | \$ (3,678) |
| <b>Liabilities:</b>   |              |            |           |              |             |            |              |        |              |             |              |            |
| Annuity account balances(2)                                   | \$ 98,279    | \$         | \$        | \$ (6,156)   | \$          | \$         | \$           | \$ 368 | \$ 12,291    | \$          | \$ 92,512    | \$         |
| Other liabilities(1)  | 742,130      | 450,253    |           | (293,679)    |             |            |              |        |              |             | 585,556      | 156,574    |
| Total liabilities measured at fair value on a recurring basis | \$ 840,409   | \$ 450,253 | \$        | \$ (299,835) | \$          | \$         | \$           | \$ 368 | \$ 12,291    | \$          | \$ 678,068   | \$ 156,574 |

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

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

For the period of February 1, 2015 to December 31, 2015 (Successor Company), \$166.6 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of December 31, 2015 (Successor Company).

For the period of February 1, 2015 to December 31, 2015 (Successor Company), there were \$90.4 million transfers from Level 2 to Level 1.

For the period of February 1, 2015 to December 31, 2015 (Successor Company), there were \$21.0 million transfers from Level 1 to Level 2.



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

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

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

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

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

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

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

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

|   | Beginning Balance      | Total Realized and Unrealized Gains Included in Other Comprehensive Earnings | Total Realized and Unrealized Losses Included in Other Comprehensive Earnings | Purchases      | Sales           | Issuances       | Settlements      | Transfers in/out of Level 3 | Other           | Ending Balance   | Total Gains (losses) included in Earnings related to Instruments still held at the Reporting |
|---|------------------------|--|---|----------------|-----------------|-----------------|------------------|-----------------------------|-----------------|------------------|--|
|   |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
|   | (Dollars In Thousands) |  |   |                |                 |                 |                  |                             |                 |                  |  |
| <b>Assets:</b>  |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Fixed maturity securities available-for-sale              |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Residential mortgage-backed securities                    | \$ 28                  | \$   | \$  | \$ (1)         | \$              | \$ (24)         | \$               | \$                          | \$              | \$               | \$ 3   |
| Commercial mortgage-backed securities                     |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Other asset-backed securities                             | 545,808                | 36,395   | (248)   | (8,033)        |                 | (10,064)        |                  |                             | 103             | 563,961          |  |
| U.S. government-related securities                        |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| States, municipals, and political subdivisions            | 3,675                  |  |   |                |                 |                 |                  |                             |                 | 3,675            |  |
| Other government-related securities                       |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Corporate securities                                      | 1,549,940              | 1,183  | 67,955  | (2)            | (33,553)        | 139,029         | (226,073)        | (162,236)                   | (10,560)        | 1,325,683        |  |
| <b>Total fixed maturity securities available-for-sale</b> | <b>2,099,451</b>       | <b>1,183</b>   | <b>104,350</b>  | <b>(250)</b>   | <b>(41,587)</b> | <b>139,029</b>  | <b>(236,161)</b> | <b>(162,236)</b>            | <b>(10,457)</b> | <b>1,893,322</b> |  |
| Fixed maturity securities trading                         |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Residential mortgage-backed securities                    |                        | 11   |   |                |                 | 842             |                  | (853)                       |                 |                  |  |
| Commercial mortgage-backed securities                     |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Other asset-backed securities                             | 194,977                | 9,507  | (5,508)   |                |                 | (30,462)        |                  |                             | 947             | 169,461          | 1,083  |
| U.S. government-related securities                        |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| States, municipals and political subdivisions             |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Other government-related securities                       |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |
| Corporate securities                                      | 29,199                 | 1,294  | (1,098)   |                | 5,839           | (10,770)        |                  | 4                           | 276             | 24,744           | (121)  |
| <b>Total fixed maturity securities trading</b>            | <b>224,176</b>         | <b>10,812</b>  | <b>(6,606)</b>  |                | <b>6,681</b>    | <b>(41,232)</b> |                  | <b>(849)</b>                | <b>1,223</b>    | <b>194,205</b>   | <b>962</b>   |
| <b>Total fixed maturity securities</b>                    | <b>2,323,627</b>       | <b>11,995</b>  | <b>104,350</b>  | <b>(6,856)</b> | <b>(41,587)</b> | <b>145,710</b>  | <b>(277,393)</b> | <b>(163,085)</b>            | <b>(9,234)</b>  | <b>2,087,527</b> | <b>962</b>   |
| Equity securities   | 71,881                 | 1,298  | 3,653   |                | (261)           | 9,551           | (2,416)          | (10,651)                    | (1)             | 73,054           |  |
| Other long-term investments(1)                            | 196,133                | 478  |   | (128,717)      |                 |                 |                  |                             |                 | 67,894           | (128,239)  |
| Short-term investments                                    |                        |  |   |                |                 |                 |                  |                             |                 |                  |  |

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|   |              |           |            |              |             |            |              |        |              |            |              |              |
|---|--------------|-----------|------------|--------------|-------------|------------|--------------|--------|--------------|------------|--------------|--------------|
| Total investments   | 2,591,641    | 13,771    | 108,003    | (135,573)    | (41,848)    | 155,261    | (279,809)    |        | (173,736)    | (9,235)    | 2,228,475    | (127,277)    |
| Total assets measured at fair value on a recurring basis      | \$ 2,591,641 | \$ 13,771 | \$ 108,003 | \$ (135,573) | \$ (41,848) | \$ 155,261 | \$ (279,809) | \$     | \$ (173,736) | \$ (9,235) | \$ 2,228,475 | \$ (127,277) |
| <b>Liabilities:</b>   |              |           |            |              |             |            |              |        |              |            |              |              |
| Annuity account balances(2)                                   | \$ 107,000   | \$        | \$         | \$ (4,307)   | \$          | \$         | \$           | \$ 685 | \$ 14,167    | \$         | \$           | \$ 97,825    |
| Other liabilities(1)  | 270,630      | 22,547    |            | (506,769)    |             |            |              |        |              |            | 754,852      | (484,222)    |
| Total liabilities measured at fair value on a recurring basis | \$ 377,630   | \$ 22,547 | \$         | \$ (511,076) | \$          | \$         | \$           | \$ 685 | \$ 14,167    | \$         | \$           | \$ 852,677   |

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the year ended December 31, 2014 (Predecessor Company), \$31.0 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of December 31, 2014 (Predecessor Company).

For the year ended December 31, 2014 (Predecessor Company), \$204.7 million of securities were transferred out of Level 3. This amount was transferred to Level 2. These transfers resulted from securities that were previously valued using an internal model that utilized significant unobservable inputs but were valued internally or by independent pricing services or brokers, utilizing no significant unobservable inputs. All transfers are recognized as of the end of the reporting period.

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

For the year ended December 31, 2014 (Predecessor Company), there were no transfers from Level 1.

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

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

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

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

### *Estimated Fair Value of Financial Instruments*

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

|                                       | Fair Value Level | Successor Company<br>As of<br>December 31, 2015 |                                       | Predecessor Company<br>As of<br>December 31, 2014 |                                       |
|---------------------------------------|------------------|---|---------------------------------------|---|---------------------------------------|
|                                       |                  | Carrying Amounts<br>(Dollars In Thousands)      | Fair Values<br>(Dollars In Thousands) | Carrying Amounts<br>(Dollars In Thousands)        | Fair Values<br>(Dollars In Thousands) |
| <b>Assets:</b>                        |                  |   |                                       |   |                                       |
| Mortgage loans on real estate         | 3                | \$ 5,662,812                                    | \$ 5,529,803                          | \$ 5,133,780                                      | \$ 5,524,059                          |
| Policy loans                          | 3                | 1,699,508                                       | 1,699,508                             | 1,758,237   | 1,758,237                             |
| Fixed maturities, held-to-maturity(1) | 3                | 593,314   | 515,000                               | 435,000   | 485,422                               |
| <b>Liabilities:</b>                   |                  |   |                                       |   |                                       |
| Stable value product account balances | 3                | \$ 2,131,822                                    | \$ 2,124,712                          | \$ 1,959,488                                      | \$ 1,973,624                          |
| Annuity account balances              | 3                | 10,719,862                                      | 10,274,571                            | 10,950,729  | 10,491,775                            |
| <b>Debt:</b>                          |                  |   |                                       |   |                                       |
| Bank borrowings                       | 3                | \$ 485,000                                      | \$ 485,000                            | \$ 450,000  | \$ 450,000                            |
| Senior Notes                          | 2                | 1,103,806                                       | 1,020,025                             | 850,000   | 1,100,380                             |
| Subordinated debt securities          | 2                | 448,763   | 457,275                               | 540,593   | 552,098                               |
| Non-recourse funding obligations(2)   | 3                | 685,684   | 614,380                               | 582,404   | 578,212                               |

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

- (1) Security purchased from unconsolidated subsidiary, Red Mountain LLC.
- (2) Of this carrying amount \$500.0 million, fair value of \$495.5 million, as of December 31, 2015 (Successor Company), and \$435.0 million, fair value of \$461.4 million, as of December 31, 2014 (Predecessor Company), relates to non-recourse funding obligations issued by Golden Gate V.

**Fair Value Measurements**

*Mortgage loans on real estate*

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

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***Policy loans***

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

***Fixed maturities, held-to-maturity***

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

***Stable value product and Annuity account balances***

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

***Debt***

***Bank borrowings***

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

***Non-recourse funding obligations***

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

**24. DERIVATIVE FINANCIAL INSTRUMENTS**

**Types of Derivative Instruments and Derivative Strategies**

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

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit risk by entering into transactions with highly rated counterparties. The Company manages the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. The Company monitors its use of derivatives in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

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

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



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*Derivatives Related to Risk Mitigation of Certain Annuity Contracts*

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

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

**Accounting for Derivative Instruments**

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

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

quarterly basis.

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

#### **Derivative Instruments Designated and Qualifying as Hedging Instruments**

##### **Cash-Flow Hedges**

- In connection with the issuance of inflation-adjusted funding agreements, the Company has entered into swaps to essentially convert the floating CPI-linked interest rate on these agreements to a fixed rate. The Company pays a fixed rate on the swap and receives a floating rate primarily determined by the period's change in the CPI. The amounts that are received on the swaps are almost equal to the amounts that are paid on the agreements. None of these positions were held as of December 31, 2015 (Successor Company), as these funding agreements and correlating swaps matured in June 2015.

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

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

#### **Derivatives Related to Variable Annuity Contracts**

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility.
- The Company uses equity options, variance swaps, and volatility options to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity markets and overall volatility.
- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products.



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

**Derivatives Related to Fixed Annuity Contracts**

- The Company uses equity, futures, and options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity and overall volatility.
- The Company uses equity options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity markets.
- The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

**Derivatives Related to Indexed Universal Life Contracts**

- The Company uses equity, futures, and options to mitigate the risk within its indexed universal life products. In general, the cost of such benefits varies with the level of equity markets.
- The Company markets certain IUL products. The IUL component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

**Other Derivatives**

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. None of these positions were held as of December 31, 2015 (Successor Company).
- The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

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

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

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

|  | Successor Company<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |
|--|--|---|--|
| Derivatives related to variable annuity 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  |

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

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

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|                            | Successor Company      |                  | Predecessor Company             |                                 |
|----------------------------|------------------------|------------------|---------------------------------|---------------------------------|
|                            | February 1, 2015       | January 1, 2015  | For The Year Ended December 31, | 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) |                  | (Dollars In Thousands)          |                                 |
| Modco trading portfolio(1) | \$ (167,359)           | \$ 73,062        | \$ 142,016                      | \$ (178,134)                    |

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

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The following tables present the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship:

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

|  | Amount of Gains (Losses) | Deferred in<br>Accumulated Other<br>Comprehensive Income<br>(Loss) on Derivatives<br>(Effective Portion) | Amount and Location of<br>Gains (Losses)<br>Reclassified from<br>Accumulated Other<br>Comprehensive Income<br>(Loss) into<br>Income (Loss)<br>(Effective Portion)<br>Benefits and settlement<br>expenses<br>(Dollars In Thousands) | Amount and Location of<br>(Losses) Recognized in<br>Income (Loss) on<br>Derivatives<br>(Ineffective Portion)<br>Realized investment<br>gains (losses) |
|--|--------------------------|--|--|---|
| <b>Successor Company</b>                     |                          |  |  |   |
| <b>February 1, 2015 to December 31, 2015</b> |                          |  |  |   |
| Inflation                                    | \$ (131)                 |  | \$ (131)   | \$ 73   |
| Total  | \$ (131)                 |  | \$ (131)   | \$ 73   |
| <b>Predecessor Company</b>                   |                          |  |  |   |
| <b>January 1, 2015 to January 31, 2015</b>   |                          |  |  |   |
| Inflation                                    | \$ 13                    |  | \$ (36)  | \$ (7)  |
| Total  | \$ 13                    |  | \$ (36)  | \$ (7)  |
| <b>Predecessor Company</b>                   |                          |  |  |   |
| <b>For The Year Ended December 31, 2014</b>  |                          |  |  |   |
| Inflation                                    | \$ (4)                   |  | \$ (1,777)   | \$ (223)  |
| Total  | \$ (4)                   |  | \$ (1,777)   | \$ (223)  |
| <b>Predecessor Company</b>                   |                          |  |  |   |
| <b>For The Year Ended December 31, 2013</b>  |                          |  |  |   |
| Inflation                                    | \$ 1,130                 |  | \$ (2,349)   | \$ (190)  |
| Total  | \$ 1,130                 |  | \$ (2,349)   | \$ (190)  |





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

|  | Successor Company<br>As of December 31, 2015 |               | Predecessor Company<br>As of December 31, 2014 |               |
|--|--|---------------|--|---------------|
|  | Notional<br>Amount                           | Fair<br>Value | Notional<br>Amount                             | Fair<br>Value |
|  | (Dollars In Thousands)                       |               | (Dollars In Thousands)                         |               |
| <b>Other long-term investments</b>                 |  |               |  |               |
| Derivatives not designated as hedging instruments: |  |               |  |               |
| Interest rate swaps                                | \$ 1,435,000                                 | \$ 66,408     | \$ 1,550,000                                   | \$ 50,743     |
| Embedded derivative - Modco reinsurance treaties   | 64,593                                       | 1,215         | 25,760   | 1,051         |
| Embedded derivative - GMWB                         | 3,769,601                                    | 95,614        | 2,804,629                                      | 66,843        |
| Interest rate futures                              | 282,373                                      | 1,537         | 27,977   | 938           |
| Equity futures                                     | 262,485                                      | 1,275         | 26,483   | 427           |
| Currency futures                                   | 226,936                                      | 2,499         | 197,648  | 2,384         |
| Equity options                                     | 2,198,340                                    | 179,458       | 1,921,167                                      | 163,212       |
| Interest rate swaptions                            | 225,000                                      | 3,663         | 625,000  | 8,012         |
| Other  | 242  | 347           | 242  | 360           |
|  | \$ 8,464,570                                 | \$ 352,016    | \$ 7,178,906                                   | \$ 293,970    |
| <b>Other liabilities</b>                           |  |               |  |               |
| Cash flow hedges:                                  |  |               |  |               |
| Inflation  | \$   | \$            | \$ 40,469                                      | \$ 142        |
| Derivatives not designated as hedging instruments: |  |               |  |               |
| Interest rate swaps                                | 475,000                                      | 16,579        | 275,000  | 3,599         |
| Variance swaps                                     |  |               |  |               |
| Embedded derivative - Modco reinsurance treaties   | 2,473,427                                    | 178,362       | 2,562,848                                      | 311,727       |
| Embedded derivative - GMWB                         | 6,539,658                                    | 277,236       | 7,038,228                                      | 311,969       |
| Embedded derivative - FIA                          | 1,110,790                                    | 100,329       | 749,933  | 124,465       |
| Embedded derivative - IUL                          | 57,760                                       | 29,629        | 12,019   | 6,691         |
| Interest rate futures                              | 793,763                                      | 1,539         |  |               |
| Equity futures                                     | 233,412                                      | 2,599         | 385,256  | 15,069        |
| Currency futures                                   | 46,692                                       | 1,115         |  |               |
| Equity options                                     | 1,205,204                                    | 22,167        | 699,295  | 47,077        |
|  | \$ 12,935,706                                | \$ 629,555    | \$ 11,763,048                                  | \$ 820,739    |

The Company reclassified the remaining balance of its cash flow hedge derivative financial instruments out of accumulated other comprehensive income (loss) into earnings during the period of February 1, 2015 to December 31, 2015 (Successor Company) as these derivative financial instruments matured in June of 2015.

**25. OFFSETTING OF ASSETS AND LIABILITIES**

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events.

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Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 12, *Debt and Other Obligations* for details of the Company's repurchase agreement programs.

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

|   | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Assets Presented in the Statement of Financial Position | Gross Amounts Not Offset in the Statement of Financial Position | Cash Collateral Received | Net Amount        |
|---|------------------------------------|---|--|---|--------------------------|-------------------|
|   | (Dollars In Thousands)             |   |  |   |                          |                   |
| <b>Offsetting of Derivative Assets</b>  |                                    |   |  |   |                          |                   |
| Derivatives:  |                                    |   |  |   |                          |                   |
| Free-Standing derivatives   | \$ 254,840                         | \$  | \$ 254,840   | \$ 42,382   | \$ 105,842               | \$ 106,616        |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 254,840                            |   | 254,840  | 42,382  | 105,842                  | 106,616           |
| Derivatives not subject to a master netting arrangement or similar arrangement        |                                    |   |  |   |                          |                   |
| Embedded derivative - Modco reinsurance treaties                                      | 1,215                              |   | 1,215  |   |                          | 1,215             |
| Embedded derivative - GMWB  | 95,614                             |   | 95,614   |   |                          | 95,614            |
| Other   | 347                                |   | 347  |   |                          | 347               |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 97,176                             |   | 97,176   |   |                          | 97,176            |
| Total derivatives   | 352,016                            |   | 352,016  | 42,382  | 105,842                  | 203,792           |
| <b>Total Assets</b>   | <b>\$ 352,016</b>                  | <b>\$</b>   | <b>\$ 352,016</b>  | <b>\$ 42,382</b>  | <b>\$ 105,842</b>        | <b>\$ 203,792</b> |

|   | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Position | Net Amounts of Liabilities Presented in the Statement of Financial Position | Gross Amounts Not Offset in the Statement of Financial Position | Cash Collateral Paid | Net Amount |
|---|---|---|---|---|----------------------|------------|
|   | (Dollars In Thousands)                  |   |   |   |                      |            |
| <b>Offsetting of Derivative Liabilities</b>   |   |   |   |   |                      |            |
| Derivatives:  |   |   |   |   |                      |            |
| Free-Standing derivatives   | \$ 43,999                               | \$  | \$ 43,999   | \$ 42,382   | \$ 1,617             | \$         |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 43,999                                  |   | 43,999  | 42,382  | 1,617                |            |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |   |   |   |                      |            |
| Embedded derivative - Modco reinsurance treaties                                      | 178,362                                 |   | 178,362   |   |                      | 178,362    |
| Embedded derivative - GMWB  | 277,236                                 |   | 277,236   |   |                      | 277,236    |
| Embedded derivative - FIA   | 100,329                                 |   | 100,329   |   |                      | 100,329    |
| Embedded derivative - IUL   | 29,629                                  |   | 29,629  |   |                      | 29,629     |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 585,556                                 |   | 585,556   |   |                      | 585,556    |

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|                          |              |    |              |           |          |              |
|--------------------------|--------------|----|--------------|-----------|----------|--------------|
| Total derivatives        | 629,555      |    | 629,555      | 42,382    | 1,617    | 585,556      |
| Repurchase agreements(1) | 438,185      |    | 438,185      |           |          | 438,185      |
| <b>Total Liabilities</b> | \$ 1,067,740 | \$ | \$ 1,067,740 | \$ 42,382 | \$ 1,617 | \$ 1,023,741 |

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

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

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

|   | Gross<br>Amounts<br>of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Statement of<br>Financial<br>Position | Net<br>Amounts<br>of Liabilities<br>Presented in<br>the<br>Statement of<br>Financial<br>Position<br>(Dollars In Thousands) | Gross Amounts<br>Not Offset<br>in the Statement of<br>Financial Position<br><br>Financial<br>Instruments | Cash<br>Collateral<br>Paid | Net Amount |
|---|---|--|--|--|----------------------------|------------|
| <b>Offsetting of Derivative Liabilities</b>   |   |  |  |  |                            |            |
| Derivatives:  |   |  |  |  |                            |            |
| Free-Standing derivatives   | \$ 65,887   | \$   | \$ 65,887  | \$ 53,612  | \$ 12,258                  | \$ 17      |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 65,887  |  | 65,887   | 53,612   | 12,258                     | 17         |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |  |  |  |                            |            |
| Embedded derivative - Modco reinsurance treaties                                      | 311,727   |  | 311,727  |  |                            | 311,727    |
| Embedded derivative - GMWB  | 311,969   |  | 311,969  |  |                            | 311,969    |
| Embedded derivative - FIA   | 124,465   |  | 124,465  |  |                            | 124,465    |
| Embedded derivative - IUL   | 6,691   |  | 6,691  |  |                            | 6,691      |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 754,852   |  | 754,852  |  |                            | 754,852    |

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|                          |                   |                   |                  |                  |                   |
|--------------------------|-------------------|-------------------|------------------|------------------|-------------------|
| Total derivatives        | 820,739           | 820,739           | 53,612           | 12,258           | 754,869           |
| Repurchase agreements(1) | 50,000            | 50,000            |                  |                  | 50,000            |
| <b>Total Liabilities</b> | <b>\$ 870,739</b> | <b>\$ 870,739</b> | <b>\$ 53,612</b> | <b>\$ 12,258</b> | <b>\$ 804,869</b> |

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

### 26. OPERATING SEGMENTS

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

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- The Life Marketing segment markets fixed UL, IUL, VUL, BOLI, and level premium term insurance ( traditional ) products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.
- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment s primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.
- The Annuities segment markets fixed and variable annuity products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the FHLB, and markets GICs to 401(k) and other qualified retirement savings plans. The Company recently terminated its funding agreement-backed notes program registered with the SEC and, on October 2, 2015, established an unregistered funding agreement-backed notes program.
- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, recreational vehicles, 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 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 Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives net of the amortization related to DAC, VOBA, and benefits and settlement expenses. Operating earnings exclude changes in the GMWB embedded derivatives (excluding the portion attributed to economic cost), actual GMWB incurred claims and the related



amortization of DAC/VOBA attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of the Company's business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable. The goodwill as of December 31, 2015 (Successor Company), was the result of the Dai-ichi Merger. The purchase price was allocated to the segments in proportion to the segment's respective fair value. The allocated purchase price in excess of the fair value of assets and liabilities of each segment resulted in the establishment of that segment's goodwill as of the date of the Merger.

There were no significant intersegment transactions during the period of February 1, 2015 to 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).

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

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|   | Successor Company<br>February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | Predecessor Company<br>For The Year Ended December 31,<br>2014<br>(Dollars In Thousands) | 2013         |
|---|--|---|--|--------------|
| <b>Revenues</b>   |  |   |  |              |
| Life Marketing  | \$ 1,426,090   | \$ 145,595                                | \$ 1,549,351   | \$ 1,444,806 |
| Acquisitions  | 1,333,430  | 139,761                                   | 1,720,179  | 1,186,579    |
| Annuities   | 443,419  | 7,884                                     | 533,404  | 714,552      |
| Stable Value Products   | 79,670   | 8,181                                     | 127,653  | 122,790      |
| Asset Protection  | 261,693  | 21,953                                    | 276,011  | 278,317      |
| Corporate and Other   | 166,367  | 17,535                                    | 196,974  | 211,955      |
| Total revenues  | \$ 3,710,669   | \$ 340,909                                | \$ 4,403,572   | \$ 3,958,999 |
| <b>Segment Operating Income (Loss)</b>                                      |  |   |  |              |
| 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)(3)                        | (185,153)  | 89,815                                    | 207,307  | (172,720)    |
| Realized investment gains (losses) derivatives(2)                           | 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   |
| (1) Investment (losses) gains   | \$ (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) |
| (2) Derivatives gains (losses)  | \$ 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   |
| <b>Net investment income</b>  |  |   |  |              |
| Life Marketing  | \$ 446,439   | \$ 47,460                                 | \$ 554,004   | \$ 521,665   |
| Acquisitions  | 639,422  | 71,088                                    | 874,653  | 617,298      |
| Annuities   | 297,114  | 37,189                                    | 465,845  | 468,322      |
| Stable Value Products   | 78,459   | 6,888                                     | 107,170  | 123,798      |
| Asset Protection  | 17,459   | 1,878                                     | 22,703   | 23,179       |
| Corporate and Other   | 154,055  | 10,677                                    | 173,349  | 163,819      |
| Total net investment income   | \$ 1,632,948   | \$ 175,180                                | \$ 2,197,724   | \$ 1,918,081 |
| <b>Amortization of DAC and VOBA</b>   |  |   |  |              |
| Life Marketing  | \$ 107,811   | \$ 4,813                                  | \$ 175,807   | \$ 25,774    |
| Acquisitions  | 2,035  | 5,033                                     | 60,031   | 72,762       |
| Annuities   | (41,071)   | (7,706)                                   | (4,651)  | 62,834       |
| Stable Value Products   | 43   | 25  | 380  | 398          |
| Asset Protection  | 25,211   | 1,820                                     | 25,257   | 30,505       |

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|                                    |    |        |    |       |    |         |    |         |
|------------------------------------|----|--------|----|-------|----|---------|----|---------|
| Corporate and Other                |    | 27     |    | 87    |    | 485     |    | 625     |
| Total amortization of DAC and VOBA | \$ | 94,056 | \$ | 4,072 | \$ | 257,309 | \$ | 192,898 |

(3) 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.

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

|   | <b>Life<br/>Marketing</b> | <b>Acquisitions</b>  | <b>Annuities</b>     | <b>Stable Value<br/>Products</b> |
|---|---------------------------|----------------------|----------------------|----------------------------------|
| Investments and other assets  | \$ 13,258,639             | \$ 19,879,988        | \$ 19,926,108        | \$ 2,006,263                     |
| Deferred policy acquisition costs<br>and value of business acquired | 1,119,515                 | (178,662)            | 578,742              | 2,357                            |
| Other intangibles   | 319,623                   | 39,658               | 196,780              | 9,389                            |
| Goodwill  | 200,274                   | 14,524               | 336,677              | 113,813                          |
| <b>Total assets</b>   | <b>\$ 14,898,051</b>      | <b>\$ 19,755,508</b> | <b>\$ 21,038,307</b> | <b>\$ 2,131,822</b>              |

  

|   | <b>Asset<br/>Protection</b> | <b>Corporate<br/>and Other</b> | <b>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|---|-----------------------------|--------------------------------|--------------------|-------------------------------|
| Investments and other assets  | \$ 897,326                  | \$ 9,583,991                   | \$                 | \$ 65,552,315                 |
| Deferred policy acquisition costs<br>and value of business acquired | 36,856                      |                                |                    | 1,558,808                     |
| Other intangibles   | 79,681                      |                                |                    | 645,131                       |
| Goodwill  | 67,155                      |                                |                    | 732,443                       |
| <b>Total assets</b>   | <b>\$ 1,081,018</b>         | <b>\$ 9,583,991</b>            | <b>\$</b>          | <b>\$ 68,488,697</b>          |

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

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

  

|   | <b>Asset<br/>Protection</b> | <b>Corporate<br/>and Other</b> | <b>Adjustments</b> | <b>Total<br/>Consolidated</b> |
|---|-----------------------------|--------------------------------|--------------------|-------------------------------|
| Investments and other assets  | \$ 927,202                  | \$ 9,697,154                   | \$                 | \$ 67,083,371                 |
| Deferred policy acquisition costs<br>and value of business acquired | 35,418                      | 319                            |                    | 3,294,570                     |
| Goodwill  | 62,671                      | 83                             |                    | 102,365                       |
| <b>Total assets</b>   | <b>\$ 1,025,291</b>         | <b>\$ 9,697,556</b>            | <b>\$</b>          | <b>\$ 70,480,306</b>          |

**27. CONSOLIDATED QUARTERLY RESULTS UNAUDITED**

The Company's unaudited consolidated quarterly operating data 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 year ended December 31, 2014 (Predecessor Company) is presented below. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair statement of quarterly results have been reflected in the following data. It is also management's opinion, however, that quarterly operating data for insurance enterprises are not necessarily indicative of results that may be expected in succeeding quarters or years. In order to obtain a more accurate indication of performance, there should be a review of operating results, changes in shareowner's equity, and cash flows for a period of several quarters.



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|   | First<br>Quarter(1)    | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|------------------------|-------------------|------------------|-------------------|
|   | (Dollars In Thousands) |                   |                  |                   |
| <b>Successor Company</b>                                      |                        |                   |                  |                   |
| <b>February 1, 2015 to December 31, 2015</b>                  |                        |                   |                  |                   |
| Premiums and policy fees                                      | \$ 509,008             | \$ 832,088        | \$ 797,741       | \$ 869,213        |
| Reinsurance ceded   | (141,401)              | (345,244)         | (306,774)        | (361,559)         |
| Net of reinsurance ceded                                      | 367,607                | 486,844           | 490,967          | 507,654           |
| Net investment income   | 288,872                | 436,291           | 440,620          | 467,165           |
| Realized investment gains (losses)                            | (1,415)                | (13,468)          | (79,306)         | (69,693)          |
| Other income  | 67,263                 | 109,094           | 108,312          | 103,862           |
| Total revenues  | 722,327                | 1,018,761         | 960,593          | 1,008,988         |
| Total benefits and expenses                                   | 629,500                | 921,851           | 873,333          | 886,143           |
| Income before income tax                                      | 92,827                 | 96,910            | 87,260           | 122,845           |
| Income tax expense  | 29,966                 | 33,070            | 26,853           | 41,654            |
| Net income  | \$ 62,861              | \$ 63,840         | \$ 60,407        | \$ 81,191         |
| (1) First quarter includes February 1, 2015 to March 31, 2015 |                        |                   |                  |                   |

|   | First<br>Quarter                                 | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|---|--|-------------------|------------------|-------------------|
|   | (Dollars In Thousands, Except Per Share Amounts) |                   |                  |                   |
| <b>Predecessor Company</b>                  |  |                   |                  |                   |
| <b>For The Year Ended December 31, 2014</b> |  |                   |                  |                   |
| Premiums and policy fees                    | \$ 815,896                                       | \$ 851,802        | \$ 759,038       | \$ 871,032        |
| Reinsurance ceded                           | (327,713)  | (342,968)         | (277,136)        | (425,780)         |
| Net of reinsurance ceded                    | 488,183  | 508,834           | 481,902          | 445,252           |
| Net investment income                       | 538,163  | 550,816           | 558,174          | 550,571           |
| Realized investment gains (losses)          | (34,827)   | (11,238)          | 2,621            | (105,307)         |
| Other income                                | 99,039   | 106,931           | 105,389          | 119,069           |
| Total revenues                              | 1,090,558  | 1,155,343         | 1,148,086        | 1,009,585         |
| Total benefits and expenses                 | 965,353  | 993,133           | 963,203          | 898,594           |
| Income before income tax                    | 125,205  | 162,210           | 184,883          | 110,991           |
| Income tax expense                          | 41,566   | 54,233            | 65,974           | 36,641            |
| Net income                                  | \$ 83,639  | \$ 107,977        | \$ 118,909       | \$ 74,350         |
| Net income basic                            | \$ 1.05  | \$ 1.35           | \$ 1.48          | \$ 0.92           |
| Average shares outstanding basic            | 79,608,461                                       | 79,979,153        | 80,231,591       | 80,430,799        |
| Net income diluted                          | \$ 1.03  | \$ 1.33           | \$ 1.46          | \$ 0.91           |

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|                                    |            |            |            |            |
|------------------------------------|------------|------------|------------|------------|
| Average shares outstanding diluted | 80,872,152 | 81,446,277 | 81,458,870 | 81,714,510 |
|------------------------------------|------------|------------|------------|------------|

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**January 1, 2015  
to  
January 31, 2015  
(Dollars In Thousands,**

| <b>Predecessor Company</b>           | <b>Except Per Share Amounts)</b> |
|--------------------------------------|----------------------------------|
| Premiums and policy fees             | \$ 261,866                       |
| Reinsurance ceded                    | (89,956)                         |
| Net of reinsurance ceded             | 171,910                          |
| Net investment income                | 175,180                          |
| Realized investment gains (losses)   | (42,602)                         |
| Other income                         | 36,421                           |
| <b>Total revenues</b>                | <b>340,909</b>                   |
| Total benefits and expenses          | 339,727                          |
| Income before income tax             | 1,182                            |
| Income tax benefit                   | (327)                            |
| <b>Net income</b>                    | <b>\$ 1,509</b>                  |
| <br>                                 |                                  |
| Net income - basic                   | \$ 0.02                          |
| Average shares outstanding - basic   | 80,452,848                       |
| Net income - diluted                 | \$ 0.02                          |
| Average shares outstanding - diluted | 81,759,287                       |

### **28. SUBSEQUENT EVENTS**

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement with GLAIC. 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 Financial Regulation.



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

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareowner of  
  
Protective Life Corporation

In our opinion, the consolidated balance sheet as of December 31, 2015 and the related consolidated statements of income, comprehensive income (loss), shareowner's equity and cash flows for the period February 1, 2015 to December 31, 2015 present fairly, in all material respects, the financial position of Protective Life Corporation and its subsidiaries (the Company or Successor Company) at December 31, 2015, and the results of their operations and their cash flows for the period February 1, 2015 to December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) as of December 31, 2015 and for the period February 1, 2015 to December 31, 2015 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Controls Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company was acquired on February 1, 2015 by The Dai-ichi Life Insurance Company, Limited. The Company elected to apply pushdown accounting as of the acquisition date.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Birmingham, Alabama

February 25, 2016

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareowner of

Protective Life Corporation

In our opinion, the accompanying consolidated balance sheet as of December 31, 2014 and the related consolidated statements of income, comprehensive income (loss), shareowner's equity and cash flows for the period from January 1, 2015 to January 31, 2015 and for each of two years in the period ended December 31, 2014 present fairly, in all material respects, the financial position of Protective Life Corporation and its subsidiaries (the Company or Predecessor Company) at December 31, 2014, and the results of their operations and their cash flows for the period from January 1, 2015 to January 31, 2015 and for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (2) as of December 31, 2014, for the period from January 1, 2015 to January 31, 2015 and for each of the two years in the period ended December 31, 2014, present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 4 to the consolidated financial statements, the Company was acquired on February 1, 2015 by The Dai-ichi Life Insurance Company, Limited. The Company elected to apply the pushdown basis of accounting as of the acquisition date.

Birmingham, Alabama

February 25, 2016

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

None.

**Item 9A. Controls and Procedures**

**(a) Disclosure Controls and Procedures**

In order to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), except as otherwise noted below. Based on their evaluation as of the end of the period covered by this Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

**(b) Management's Report on Internal Controls Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control - Integrated Framework (2013)*.

Based on the Company's assessment of internal control over financial reporting, management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2015, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in Item 8.

February 25, 2016

**(c) Changes in Internal Control Over Financial Reporting**

During the period from February 1, 2015 through December 31, 2015 (Successor Company), the Company updated its internal controls over financial reporting to ensure the accuracy of information disclosed as a result of the Merger, including but not limited to internal controls over reporting of goodwill and intangible assets. Other than the updates mentioned, there have been no changes in the Company's internal control over financial reporting during the period of January 1, 2015 to January 31, 2015 (Predecessor Company) or the period of February 1, 2015 to December 31, 2015 (Successor Company), that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The

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Company's internal controls exist within a dynamic environment and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

**Item 9B. Other Information**

None.



Table of Contents**PART III****Item 10. Directors, Executive Officers and Corporate Governance**

For 2015, the executive officers and directors of the Company are as follows:

| <b>Name</b>            | <b>Age</b> | <b>Title</b>   |
|------------------------|------------|--|
| 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, General Counsel and Secretary                  |
| 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 and Chief Human Resources Officer                  |
| Steven G. Walker       | 56         | Senior Vice President, Controller and Chief Accounting Officer           |
| Shinichi Aizawa        | 55         | Director   |
| Vanessa Leonard        | 55         | Director   |
| John J. McMahon, Jr.   | 73         | Director   |
| Ungyong Shu            | 53         | Director   |
| Jesse J. Spikes        | 65         | Director   |
| William A. Terry       | 58         | Director   |
| Shigeo Tsuyuki         | 61         | Director   |
| W. Michael Warren, Jr. | 68         | Director   |

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.

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

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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.

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

**Qualification of Directors**

In 2014, our Board consisted of 14 directors who were last elected by shareowners on May 12, 2014. On February 1, 2015, the Company consummated an Agreement and Plan of Merger (the Merger Agreement), pursuant to which the Company became a wholly owned subsidiary of The Dai-ichi Life Insurance Company. As of the effective date of the Merger, the Company's Board consists of 10 directors. The following summarizes some of the key experiences, qualifications, education, and other attributes of the current directors:

**Shinichi Aizawa.** Mr. Aizawa joined Dai-ichi Mutual Life Insurance Company in 1983 and has had various roles at Dai-ichi Life, including General Manager of the Investment Affiliated Enterprise Department, Staff General Manager of the Investment Planning Department, General Manager of the Investment Planning Department, Staff General Manager of the International Business Management Department, and Executive Vice President of DIAM Co., Ltd. Mr. Aizawa has been an executive officer of Dai-ichi Life since April 2010. In April 2013, Mr. Aizawa began serving as the General Manager of the International Business Management Department. In May 2013, Mr. Aizawa began serving as the Non-Executive Director of TAL (Australia). Mr. Aizawa also serves as a Commissioner of Panin Dai-ichi Life (Indonesia) and is a member of the Members' Council of Dai-ichi Life Vietnam. Mr. Aizawa received a Bachelor of Laws degree from Waseda University in Tokyo, Japan. Mr. Aizawa became a Director for the Company in 2015. We believe that Mr. Aizawa's background in business, including his experience and service in investment and overseas business areas, and investment planning knowledge, are valuable to us and our Board of Directors.

**Richard J. Bielen.** Mr. Bielen joined the Company in July 1991 as Vice President. In June 1996, Mr. Bielen became Senior Vice President of the Company; in January 2002, he became Chief Investment Officer and Treasurer of the Company; in August 2006, he became Executive Vice President of the Company; in June 2007 he became Vice Chairman and Chief Financial Officer of the Company and in January 2016, he became President and Chief Operating Officer of the Company. Before joining Protective, Mr. Bielen was Senior Vice President of Oppenheimer & Company. Prior to joining Oppenheimer, Mr. Bielen was a Senior Accountant with Arthur Anderson and Company. Mr. Bielen is on the Board of Directors of the United Way of Central Alabama, the Alabama Trust Fund, and Children's of Alabama. Mr. Bielen is a former Director of the McWane Science Center. Mr. Bielen received his undergraduate degree and Masters of Business Administration from New York University. Mr. Bielen became a Director for the Company in 2015. We believe that Mr. Bielen's background in business, his skills and experience as a senior executive of the Company and Oppenheimer and as a leader in other business, civic, educational and charitable organizations, his knowledge and experience as a leader in the life insurance industry, along with his long-standing knowledge of the Company and his seasoned business judgment, are valuable to us and our Board of Directors.

**John D. Johns.** Mr. Johns joined Protective in October 1993 as Executive Vice President and Chief Financial Officer. In August 1996, Mr. Johns became President and Chief Operating Officer; in January 2002, he became President and Chief Executive Officer; in January 2003, he became Chairman, President and Chief Executive Officer; and as of January 2016, he serves the Company as its Chairman and Chief Executive Officer. Before joining Protective,

Mr. Johns was Executive Vice President and General Counsel of Sonat Inc. Prior to joining Sonat, Mr. Johns was an attorney in private practice, focusing on commercial and financing transactions and the financial services industry. Mr. Johns is on the Boards of Directors of Alabama Power Company (a wholly owned subsidiary of The Southern Company, whose stock is traded on the NYSE), Regions Financial Corporation and Genuine Parts Company. He is a Trustee of the Altamont School. He is on the Board of Directors of the American Council of Life Insurers and served as Chairman from 2013-2014. He is on the Board of Directors of the Financial Services Roundtable and the Board of Trustees of the University of Alabama. He is a director of the Business Council of Alabama, the Economic Partnership of Alabama and the Coalition for Regional Transportation. He has previously served in a leadership role for the Birmingham Civil Rights Institute, other financial services industry associations and civic and educational organizations. He was inducted into the Alabama Academy of Honor in 2013. Mr. Johns received an undergraduate degree from the University of Alabama and a Master of Business Administration and a Juris Doctorate from Harvard University. Mr. Johns became a Director for the Company in 1997. We believe that Mr. Johns' background in the practice of law; his skills and experience as a senior executive of the Company and Sonat; his experience as a leader in other business, civic, educational and charitable organizations; his knowledge and experience as a leader in the life insurance industry; and his long-standing knowledge of the Company; and his seasoned business judgment, are valuable to our Board of Directors.

**Vanessa Leonard.** Ms. Leonard is a practicing attorney and is a Principal at Leonard Mitchell Consulting. She provides consulting services for not-for-profit organizations, primarily in the areas of management, legal and organizational behavior. She was previously a senior consultant and manager with KPMG, Higher Education Consulting, Southeast Market in Washington, D.C. and Atlanta, Georgia, and a financial analyst for Emory University in Atlanta, Georgia. In her consulting and analyst roles, Ms. Leonard focused on management accounting matters (primarily governmental compliance and indirect cost accounting) for higher education institutions. Ms. Leonard is a member of the Board of Trustees of the University of Alabama, where she is Chairman of its Academic Affairs, Student Affairs and Planning Committee and serves on its Compensation and Investment Committees. Ms. Leonard is also a member of the Health Care Authority for Baptist Health Board and UAB

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Education Foundation Board. Ms. Leonard served on the Governor's Task Force to Strengthen Alabama's Families and previously served on the Board of the United Way for the Lake Martin area in Alabama. Ms. Leonard received an undergraduate degree in Health Care Management from the University of Alabama, a Master of Business Administration from the University of Mississippi and a Juris Doctorate from the University of Alabama School of Law. Ms. Leonard became a Director for the Company in 2004. We believe that Ms. Leonard's experience as an attorney; her management accounting experience and skills in the field of accounting and compliance with complicated regulations for large, complex organizations; and her leadership roles in civic and not-for-profit organizations, are valuable to our Board of Directors.

**John J. McMahon, Jr.** Mr. McMahon is Chairman of Ligon Industries, LLC. Previously, Mr. McMahon was a lawyer in private practice in Birmingham, Alabama, before spending 25 years with McWane, Inc., a privately held manufacturing company with international operations having over 20 plants and over one billion dollars in sales. During his career at McWane, Inc., Mr. McMahon held numerous management positions, including President and Chairman of the Board, and negotiated over 25 acquisitions ranging from publicly held companies to small privately held companies. Mr. McMahon serves or has served on the Boards of Directors of publicly and privately held companies, including ProAssurance Corporation, National Bank of Commerce, Alabama National Bancorporation, John H. Harland Company and Cooper/T. Smith Company. He was on the Board of Trustees of Birmingham-Southern College. He has also been a Director or Trustee of the Birmingham Airport Authority and the University of Alabama System. Mr. McMahon received his undergraduate degree from Birmingham-Southern College and a Juris Doctorate from the University of Alabama School of Law. Mr. McMahon became a Director for the Company in 1987. We believe that Mr. McMahon's background as a lawyer in private practice; his skills and his long experience as a senior executive of McWane and Ligon Industries; his experience as a leader in other business, civic, educational, and not-for-profit organizations; his long-standing knowledge of the financial services industry; and his seasoned business judgment, are valuable to our Board of Directors.

**Ungyong Shu.** Mr. Shu is the President and Chief Executive Officer of Core Value Management Company, Limited, an advisory firm that he established in 2013. Mr. Shu worked in various positions for J.P. Morgan Securities Japan, Limited from 1986 - 2007. These positions included Mergers and Acquisitions Analyst, Corporate Finance Associate, Vice President of Investment Banking, head of Japan Financial Institutions Group, Managing Director, Co-Chief Operating Officer of Japan Investment Banking and Senior Investor Client Management. Mr. Shu worked in various positions for Merrill Lynch Japan Securities Limited from 2007-2012. These positions included Chairman of Japan Financial Institutions Group, Co-Head of Asia Financial Institutions Group, Co-Head of Japan Investment Banking and Vice Chairman. Mr. Shu graduated from Hitotsubashi University in Japan, where he majored in laws. Mr. Shu became a Director for the Company in 2015. We believe that Mr. Shu's background in business, including his experience and service in investment banking, his legal training, and strategic and financial planning knowledge, are valuable to us and our Board of Directors.

**Jesse J. Spikes.** Mr. Spikes is Senior Counsel with the Atlanta based law firm, Dentons US, specializing in corporate law. Mr. Spikes also works with businesses in the areas of advertising, marketing and sports law, including the negotiation of endorsements and the preparation of chance promotions and licensing agreements. Mr. Spikes has practiced law for more than thirty-five years. He joined one of Dentons' legacy firms in 1986, became a partner in 1989 and senior counsel in 2010. Mr. Spikes previously served as General Counsel of Atlanta Life Insurance Company and legal advisor for Al Bahrain Arab African Bank. Mr. Spikes has previously served as a Director of publicly and privately held companies. Mr. Spikes serves on the Board of Trustees for Hughes Spalding Children's

Hospital and Board of Advisors for Raburn Gap-Nacoochee School. He has also served in leadership roles with Boy Scouts of America. Mr. Spikes received his undergraduate degree in English from Dartmouth College, his undergraduate degree in Philosophy and Politics from University College at Oxford University and his Juris Doctorate from Harvard University. Mr. Spikes became a Director for the Company in 2011. We believe that Mr. Spikes' skills and experience as an attorney whose practice concentrated in areas of corporate and insurance law, with particular emphasis on corporate governance and compliance, internal investigations and audits, special board committee representations, corporate finance and mergers and acquisitions, and his experience as a leader in other business and civic organizations are valuable to our Board of Directors.

**William A. Terry.** Mr. Terry is one of the founders of Highland Associates, Inc., an investment advisory firm that advises on approximately \$20 billion of assets (as of December 2014) for not-for-profit health care organizations, foundations, endowments and select individuals. He is also a member of Highland Strategies, LLC. Before starting Highland Associates in 1987, Mr. Terry worked in the Investment Management Consulting Group of Interstate/Johnson Lane Corporation. Mr. Terry previously served as a member of the Executive Committee and President for the Mountain Brook City Schools Foundation and Chairman of the Executive Board of the Greater Alabama Council of Boy Scouts of America. Mr. Terry received an undergraduate degree from Davidson College and is a CFA charter holder. Mr. Terry became a Director for the Company in 2004. We believe that Mr. Terry's skills and experience at Highland Associates in the field of investments and as a leader of the firm; his experience as a leader in civic, educational and not-for-profit organizations; and his seasoned business judgment, are valuable to our Board of Directors.

**Shigeo Tsuyuki.** Mr. Tsuyuki joined Dai-ichi Mutual Life Insurance Company in 1977 and has had various roles at Dai-ichi Life, including Director, General Manager of the Investment Planning Department, General Manager of the

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Investment Affiliated Enterprises Department, Chief General Manager of Investment Planning, Managing Executive Officer, General Manager of the International Business Management Department, and Senior Managing Executive Officer. Mr. Tsuyuki currently serves as the Representative Director, Deputy President and is the head of international operations which include Australia, Vietnam, India, Indonesia and Thailand as well as the further development of new business opportunities. Mr. Tsuyuki also serves as the Non-Executive Director of Star Union Dai-ichi Life Insurance (India) and Corporate Auditor of Toyo Warf & Warehouse Co Ltd. Mr. Tsuyuki earned a Bachelor of Laws from Keio University in Tokyo, Japan. Mr. Tsuyuki became a Director for the Company in 2015. We believe that Mr. Tsuyuki's background in investments, asset management, and international and wholesale business, are valuable to us and our Board of Directors.

**W. Michael Warren, Jr.** Mr. Warren is President and Chief Executive Officer of Children's of Alabama, an independent, not-for-profit, free-standing pediatric healthcare center. Prior to joining Children's in January 2008, Mr. Warren was Chairman and Chief Executive Officer of Energen Corporation and its two primary subsidiaries, Alagasco and Energen Resources. Mr. Warren became President of Alagasco in 1984 and held a number of increasingly important positions with Energen before being named President and Chief Executive Officer in February 1997 and Chairman in January 1998. Mr. Warren was a lawyer in private practice in Birmingham, Alabama, before joining Alabama Gas in 1983. Mr. Warren served on the Board of Directors of Energen Corporation until his term expired in April 2010. Mr. Warren has served as Chairman of the Board of Directors of the Business Council of Alabama, the United Way, and Children's of Alabama. He also has been Chairman of the Metropolitan Development Board, the Alabama Symphony Board of Directors and the American Heart Association Board of Directors. He has chaired the general campaign of the United Way for Central Alabama and the United Negro College Fund. Mr. Warren received an undergraduate degree from Auburn University and a Juris Doctorate from Duke University. Mr. Warren became a Director for the Company in 2001. We believe that Mr. Warren's background as an attorney; his skills and long experience as Chairman and CEO of a highly regulated publicly held utility; his continuing experience as President and CEO of Children's of Alabama; his experience as a leader in other business, civic, and not-for-profit organizations; and his seasoned business judgment, are valuable to our Board of Directors.

**Involvement in Certain Legal Proceedings by Any Director**

After the entry into the Merger Agreement on June 3, 2014, multiple lawsuits were filed against the Company, our then current directors, Dai-ichi Life and DL Investment (Delaware), Inc. on behalf of alleged Company shareowners. These lawsuits were resolved by settlement or dismissal and no claims were outstanding as of December 31, 2015.

**Audit Committee**

The Board has a separately designated standing audit committee. Its members are Vanessa Leonard, William A. Terry and W. Michael Warren, Jr.

Our Board has determined that William A. Terry, a member of our Audit Committee, is an audit committee financial expert under the rules of the SEC and is independent under applicable SEC standards. While Mr. Terry possesses the attributes of an audit committee financial expert (as defined under the SEC rules), he is not and has never been an accountant or auditor, and this financial expert designation does not impose any

duties, obligations or liabilities that are greater than the duties, obligations and liabilities imposed by being a member of the Audit Committee or the Board.

### **Code of Ethics**

The Company has adopted a Code of Business Conduct, which applies to all directors, officers and employees of the Company. The Code of Business Conduct incorporates a code of ethics that applies to the principal executive officer and all financial officers (including the Chief Financial Officer and the Chief Accounting Officer) of the Company. The Code of Business Conduct is available on the Company's website ([www.protective.com](http://www.protective.com)).

### **Item 11. Executive Compensation**

Unless the context otherwise requires, the Company, we, us, or our refers to Protective Life Corporation.

#### **Compensation Discussion and Analysis**

In this section, we describe the material components of our executive compensation program for our named executive officers in 2015, whose compensation is set forth in the Summary Compensation Table and other compensation tables contained herein:



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*Named Executive Officers for 2015*

- **John D. Johns**, our Chairman of the Board, President, and Chief Executive Officer;
- **Richard J. Bielen**, our Vice Chairman and Chief Financial Officer;
- **Deborah J. Long**, our Executive Vice President, Secretary and General Counsel;
- **Michael G. Temple**, our Executive Vice President and Chief Risk Officer; and
- **Carl S. Thigpen**, our Executive Vice President and Chief Investment Officer.

*Overview*

On February 1, 2015, the Company consummated an Agreement and Plan of Merger (the Merger Agreement), pursuant to which the Company became a wholly owned subsidiary of the The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi Life), and the Company's stock ceased to be publicly traded. The Compensation Discussion and Analysis and the related tables and disclosures that follow provide details regarding our 2015 compensation programs, which have been modified since the Merger to reflect the fact that we no longer have a publicly traded class of stock to use in our compensation programs.

As a result of the Merger, we adopted new long-term incentive and annual incentive programs in 2015. In addition, in anticipation of the Merger, the named executive officers, as well as many other of the Company's key officers, entered into Employment Agreements with the Company (the Employment Agreements), which provide for, among other things, minimum compensation and benefits that each executive will be entitled to receive for their continuing services to the Company. Many of the Employment Agreements between the Company and our officers were amended to reflect new minimum annual incentive amounts to account for annual incentives paid in March 2015 due to the occurrence of the Merger in 2015. The Employment Agreements for Mr. Bielen, Mr. Temple, and Mr. Thigpen were amended to reflect increases in their guaranteed minimum annual incentive amounts. For more information about the Employment Agreements, please see Potential Payments upon Termination or Change of Control and the retention payments and Summary of Termination Benefits tables presented in this Item 11.

*Our Compensation Philosophy*

The objectives of our executive compensation program are to: 1) attract and retain the most qualified executives; 2) reward them for achieving high levels of performance; and 3) align executive and parent company interests.

*Principles of Our Compensation Program*

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To meet these objectives, we design our program to: 1) align compensation with business goals and results; 2) compete for executive talent; 3) support risk management practices; 4) take into account market and industry pay and practices; and 5) be communicated effectively, so our officers understand how compensation is linked to performance.

### *Compensation Committee*

The Compensation and Management Succession Committee of our Board of Directors, which consists of three independent directors, oversees the compensation program for our officers. During 2015, the members of the Committee were John J. McMahon, Jr., Chairman, Jesse J. Spikes, and William A. Terry. In 2015, the Committee met three times.

The responsibilities and composition of the Committee were modified upon the consummation of the Merger. Among its duties, the Committee is responsible for formulating compensation and related recommendations for approval by the Board, including: policies and programs applicable to the Company's officers and key employees; the Company's Annual Incentive Plan, including the total amount of bonuses to be paid each year under the Annual Incentive Plan and the methodology used to determine individual bonuses; the administration of the Company's long-term incentive plan and the achievement of any applicable performance objectives; corporate goals and objectives relevant to the compensation of the CEO and evaluation of the CEO's performance in light of these goals and objectives; base salary, Annual Incentive Plan bonus, long-term incentive compensation and other compensation of the CEO and the other senior officers of the Company; and the performance of senior officers and senior management succession plans. The Committee's charter, which sets out its duties and responsibilities, can be found on our website at <http://investor.protective.com/corporate-governance/compensation>.

The Committee has retained Willis Towers Watson, an independent compensation consultant, to help fulfill its duties. The consultant reports directly to the Committee, and the Committee may replace the consultant at any time. The Committee has reviewed the services provided by Willis Towers Watson, reviewed its independence and determined that it met the Committee's independence requirements. The consultant gives the Committee advice about: 1) the compensation provided to officers at other companies, using proxy statement data, published survey sources, and the consultant's proprietary data; 2) the amount and type of compensation to provide to our officers and key employees; 3) the value of long-term incentive grants; 4) the allocation of total compensation between cash and stock-based incentives; and 5) internal pay equity among key executives. Representatives of the compensation consultant attend regular Committee meetings, and consult with the Chairman of the Committee (with or without management present) upon request.

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*Compensation Peer Group*

For 2015, the compensation consultant focused on the pay practices of a peer group of 15 life insurance and financial services companies that are similar to us in size and business mix and that represent a possible source of officer and key employee talent. The Committee selects the companies in this compensation peer group taking into account the recommendations of the consultant and our management. The consultant also provides a summary of compensation survey data for other companies, to give the Committee additional information for comparison purposes.

The compensation peer group for the 2015 compensation cycle included:

- Aflac Incorporated
- Ameriprise Financial, Inc.
- Assurant, Inc.
- CNO Financial Group, Inc.
- FBL Financial Group, Inc.
- Genworth Financial, Inc.
- Lincoln National Corporation
- Primerica, Inc.
- Principal Financial Group, Inc.

- Reinsurance Group of America, Inc.
- StanCorp Financial Group, Inc.
- Symetra Financial Corporation
- Torchmark Corporation
- Unum Group
- XL Group plc

Our compensation consultant, along with our Compensation Committee and our management consider the composition of the peer group annually. We believe that the peer group has the appropriate mix of companies and that it provides the appropriate means of comparing our compensation programs and performance to that of key competitors.

#### *Pay for Performance*

The Committee is committed to tying executive compensation to Company performance. To evaluate its implementation of this pay for performance philosophy, the Committee members consider a wide range of information (including information they receive both as Committee members and as Board members), including: 1) our deployment of capital for acquisitions and products; 2) our operating earnings per share and the rate of growth of our operating earnings, and the degree of difficulty in achieving our earnings goals; 3) our financial strength (as measured by our statutory capital, risk-based capital ( RBC ) and rating agency ratings); 4) our budgets, expense management and budget variances; and 5) pay for performance analyses prepared by the compensation consultant.

The Committee does not place a particular weighting on any of these factors, but instead considers the information as a whole. Based on this ongoing review, the Committee believes that our compensation program provides a strong link between Company performance and the compensation of our officers.

#### **Components of Our 2015 Compensation Program**

The key components of our executive compensation program are: 1) base salaries; 2) annual cash incentive awards; 3) long-term incentives; and 4) retirement and deferred compensation plans.

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The Compensation Committee considers each component (separately and with the others) for our senior officers. The Committee targets the total annual compensation package to be at the median of the compensation peer group. As part of this review, the Committee considers the total mix of the base salary, annual cash incentive and long-term compensation delivered

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to our senior officers, and compares that compensation mix to the compensation mix of comparable officers at other companies. The annual incentive and long-term incentive components of the program are designed so above-average company performance will result in above-median total compensation, and below-average company performance will result in below-median total compensation. The Committee does not have formal policies regarding these factors, but tries to make our practices generally consistent with the practices of the peer group.

The compensation consultant recommends a compensation package for our Chief Executive Officer. Our Human Resources and Legal Departments provide the Committee with additional information about our officers and our compensation arrangements. Our Chief Executive Officer recommends compensation packages for our senior officers; however, he does not provide recommendations about his own compensation.

As previously disclosed, effective upon the Merger, the named executives, as well as many other key officers, entered into Employment Agreements with the Company. The Employment Agreements provide, among other things, the minimum compensation and benefits that each executive will be entitled to receive for their continuing services (including minimum base salaries; minimum annual bonus amounts; target long-term incentive compensation opportunities and the terms and conditions thereof (including normal and early retirement provisions); and retention payments). For more information about the Employment Agreements, see Potential Payments Upon Termination or Change of Control.

***Base Salaries***

Base salary is the primary fixed portion of executive pay. It compensates individuals for performing their day-to-day duties and responsibilities and provides them with a level of income certainty. Salary adjustments have historically been made in late February/early March, and have been effective March 1 of that year. In making its base salary recommendations to the Board, the Committee considers the responsibilities of the job, individual performance, the relative value of a position, experience, comparisons to salaries for similar positions in other companies, and internal pay equity. For the Chief Executive Officer, the Committee also considers Company performance. No particular weighting is given to any of these factors. For 2015, minimum base salaries for the named executive officers were established by their Employment Agreements with the Company.

The Compensation Committee reviewed the performance and base salaries of the named executives at its February 2015 meetings. At the recommendation of the Compensation Committee, the Board approved the following annual base salaries (and the related percentage increases from the previously-effective base salaries), effective March 1, 2015: 1) Johns, \$1,000,000 (2.6%); 2) Bielen, \$550,000 (4.8%); 3) Long, \$465,000 (3.3%); 4) Temple, \$400,000 (6.7%); 5) Thigpen, \$490,000 (3.2%).

***Annual Cash Incentive Awards***

Officers and key employees are eligible for annual cash incentive opportunities under our Annual Incentive Plan ( AIP ). The AIP 's purpose is attract, retain, motivate and reward qualified officers and key employees by providing them with the opportunity to earn competitive compensation directly linked to the Company 's performance. As previously disclosed, annual incentive payments for the named executive officers are subject to specified minimum amounts as established pursuant to Employment Agreements entered into with each of the named executive officers in connection with the Merger. The Employment Agreements we entered into with many of our officers were amended to reflect new minimum annual incentive amounts to account for the annual incentives paid in March 2015 for the 2014 plan year in light of the

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occurrence of the Merger in 2015. The Employment Agreements for Mr. Bielen, Mr. Temple, and Mr. Thipgen were amended to reflect increased annual incentive amounts. For more information about the amendments to the Employment Agreements, see the Grants of Plan-Based Awards Table set forth in this Item 11 and discussion following.

The Compensation Committee recommends to the Board for its approval the AIP target incentive opportunities and performance objectives for our named executives for the current year. Historically, in recommending these target opportunities, the Committee has considered the responsibilities of the job, individual performance, the relative value of a position, comparisons to annual incentive opportunities for similar positions in other companies, and internal pay equity. No particular weight is given to any of these factors.

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Subject to the guaranteed payments specified in the Employment Agreement, payment of AIP incentives is based on achievement of one or more performance goals. For 2015, the Board of Directors established these performance goals (weighted as shown in the table) for the named executives:

| <b>Goal (in millions, except percentages)</b> | <b>Threshold<br/>(80% payout)</b> | <b>Target<br/>(100% payout)</b> | <b>Maximum<br/>(200% payout)</b> |
|---|-----------------------------------|---------------------------------|----------------------------------|
| After Tax Operating Income (60%)              | \$229                             | \$269                           | \$309                            |
| Value of New Business (30%)                   | \$60                              | \$70                            | \$80                             |
| Expense Management (10%)                      | \$464                             | \$450                           | \$437                            |
| RBC below 375% (Negative modifier (20%))      | 375 %                             | 375 %                           | 375 %                            |

After Tax Operating Income is measured from February through December 2015 and is defined as total income earned after taxes, excluding the impact of realized gains/losses on investments and derivatives. Income also excludes any impairment losses recorded on goodwill and other tangible assets that exist at the date of the Merger. Value of New Business is measured from January through December 2015. For purposes of the Value of New Business goal, the variable annuity business measurement is based on a market consistent embedded value analysis. All other business is measured as present value of expected future earnings from new sales above the 6.5% assumed cost of capital. For many years, the Company has focused on effective and efficient operations and ensuring that its overall expense structure is competitive. The Board continued this emphasis for 2015 by establishing an expense management goal for annual cash incentives. Expense Management is measured from January through December 2015 and is defined as the total operating expenses, excluding some performance incentives, agent commissions and Dai-ichi Life merger costs and other requirements. In addition, certain expense items are considered variable and are therefore adjusted based on variations in new business volumes.

RBC is the company action level risk based capital percentage of Protective Life Insurance Company ( PLICO ) as of December 31, 2015, determined as set forth in the 2015 annual statement instructions established by the National Association of Insurance Commissioners ( NAIC ) and filed with the state of Tennessee, and based on statutory accounting principles. RBC is intended to be a limit on the amount of risk the Company can take, and it requires a company with a higher amount of risk to hold a higher amount of capital. The Board determined that the overall results achieved in operating earnings, expense management, and capital deployment goals would be reduced by 20% if RBC was less than 375% on December 31, 2015.

The amount payable based on each of the above described performance objectives can range from 80% (for performance at or below threshold levels) to 200% (for performance at or above maximum) of the portion of target award related to such performance objective. At the threshold level of performance, eighty percent (80%) of the allocable portion of the target award will be payable, with 100% payable for performance at target. For achievement between the stated performance levels (i.e., between threshold and target, and between target and maximum), the amount payable will be determined by mathematical interpolation. The Compensation Committee recommends to the Board of Directors for its determination the achievement of the performance objectives for the incentive opportunities granted to the named executives in the previous year. For other officers and managers, the Committee reviews the total incentive opportunities and the methods used to determine individual payments. The Committee may decrease (but not increase) the incentive paid to a named executive, even if the incentive s performance objectives were achieved. However, as previously noted, annual incentive payments for the named executive officers and other key officers are subject to specified minimum amounts as established pursuant to Employment Agreements effective as of February 1, 2015 and as amended effective March 1, 2015.



*Long-Term Incentive Awards*

Through 2014, the Compensation Committee implemented long-term incentives through grants under our Long-Term Incentive Plan ( LTIP ). In 2015, the Board approved a new program that established a formula equity value for the Company under which our named executives receive awards, payable in cash, that will increase or decrease in value as the value determined under this formula changes based on the operation of our business.

In February 2015, the Compensation Committee and Board determined the total value of the long-term incentives to be granted to each officer. The Committee considered a named executive s responsibilities, performance, previous long-term incentive awards, the amount of long-term incentives provided to officers in similar positions at our peer companies, and internal compensation equity, when making the award for a given year. No particular weight was given to any of these factors. As previously disclosed, the Employment Agreements establish initial target awards under the Company s long-term incentive plan subject to annual review for increase (but not decrease) consistent with past practice. Pursuant to the Employment Agreements, the performance metrics and weightings under the long-term incentive program are established by the Board, the parent, and the Company s CEO.

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The Committee considered a number of factors when it made LTIP awards in 2015, including: maintaining the appropriate balance between performance-based and retention-based incentives and information provided by the compensation consultant comparing the value of our long-term incentive awards to executives and officers to the value provided by our compensation peer group.

The 2015 long-term incentive opportunities for the named executive officers are comprised of three separate awards:

1. Phantom performance units are generally designed to vest based on the achievement of two objectives - cumulative after tax operating income ( Operating Income Objective ) and average return on equity ( ROE Objective ) - over the period 2015-2017 and generally subject to the executive s continued employment until the applicable payment date of the earned award;
2. Phantom restricted units are generally designed to vest in two approximately equal installments on each of December 31, 2017 and December 31, 2018, generally subject to the executive s continued employment until such date; and
3. A dollar denominated award that is generally designed to vest in 2017 based on the executive s continued employment, the value of which will be adjusted to reflect the change in the value of Dai-ichi Life s common stock over the measurement period stated below.

The number of units subject to each performance unit award is determined by dividing 60% of each named executive s target long-term incentive opportunity by an amount equal to 90% of the Company s applicable tangible book value per unit as of February 1, 2015. The number of restricted units subject to each restricted unit award is determined by dividing 30% of each named executive s target long-term incentive opportunity by an amount equal to the Company s applicable tangible book value per unit as of February 1, 2015. One-half of the units subject to each performance unit award will be subject to achieving the ROE Objective and one-half will be subject to achieving the Operating Income Objective. The amount payable in respect of each unit can range from 0% (for performance against the applicable objective below the threshold level) to 200% (for performance at or above maximum). One hundred percent (100%) of the award will be payable for performance at target. For achievement between the stated performance levels (i.e., between threshold and target, and between target and maximum), the amount will be determined by mathematical interpolation.

Specifically, payment with respect to the ROE Objective will be based on the following schedule:

**Percentage of Performance**

| Average Return on Equity | Units Earned |
|--------------------------|--------------|
| Less than 5.0%           | %            |
| 5.5%                     | 100%         |
| 6.0% or more             | 200%         |

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There will be straight-line interpolation between Average Return on Equity between 5.0% and 5.5% to determine the exact percentage to be paid between 0% and 100%; and between 5.5% and 6.0% to determine the exact percentage to be paid between 100% and 200%. Payment with respect to the Operating Income Objective will be based on the following schedule:

### Cumulative After Tax

| Operating Earnings    | Percentage of Performance |
|-----------------------|---------------------------|
| (Dollars In Millions) | Units Earned              |
| Less than \$813       | %                         |
| \$926                 | 100%                      |
| \$1,039 or more       | 200%                      |

There will be straight-line interpolation between Cumulative After Tax Operating Earnings between \$813,000,000 and \$926,000,000 to determine the exact percentage to be paid between 0% and 100%; and between \$926,000,000 and \$1,039,000,000 to determine the exact percentage to be paid between 100% and 200%.

The performance unit awards and restricted unit awards generally will be forfeited if the named executive's employment terminates prior to the date of payment, in the case of the performance unit award, or the date of vesting, in the case of the restricted unit award. However, an executive whose employment terminates earlier due to death, disability or retirement will receive a pro-rated portion, based on service through the date of termination, of the performance unit award that would otherwise be payable (or such greater amount as the Committee may determine in its discretion). An executive who terminates employment due to death, disability, or retirement at or after normal retirement age, or is terminated by the Company without

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cause, will be fully vested in his or her restricted unit award. An executive who terminates employment due to retirement at an early retirement date will receive at least a pro-rated portion of the restricted unit award (or such greater amount as the Committee may determine in its discretion).

The initial cash value of the parent stock-based award is equal to 10% of the target long-term incentive award opportunity for each named executive officer. At vesting, the amount payable in respect of such parent stock-based award shall be such initial value multiplied by the percentage change, whether positive or negative, in the value of the common stock of Dai-ichi Life over the period from February 1, 2015 to December 31, 2017, as measured based on the average value of such common stock in February 2015 and December 2017, respectively. Payment of the award will generally be contingent upon the officer being employed on the date of payment, except that an executive whose employment terminates due to death, disability, or retirement at or after normal retirement age will fully vest in such parent stock-based award. An executive who retires early will vest in at least a pro-rated portion of the parent stock-based award (based on service completed through the date of termination).

The Grants of Plan-Based Awards Table has more information about these awards.

***Executive Stock Ownership***

When we had publicly traded stock, we encouraged our officers to hold shares of our common stock. We believed this aligned their interests with those of our shareowners. Pursuant to the terms of the Merger Agreement, any interests in common stock that our named executives held were either cashed out or settled upon the consummation of the Merger. Given that the Company's stock is no longer publicly traded, the Company's named executives are no longer subject to stock ownership guidelines.

***Retirement and Deferred Compensation Plans***

We believe it is important to provide our employees, including our named executives, with the opportunity to accumulate retirement savings. The Company does not have any enhanced benefit or top-hat plans for our officers, and all similarly-situated employees earn benefits under the same formula. However, we also believe that we should provide retirement savings without imposing the restrictions on benefits contained in the Internal Revenue Code that would otherwise limit our employees' retirement security.

For more information about these plans, see the All Other Compensation Table, Post-Employment Benefits, and Nonqualified Deferred Compensation.

***Perquisites and Other Benefits***

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The Company has other programs that help us attract and retain key talent and enhance their productivity. In 2015, we provided modest perquisites to our named executive officers, including a financial and tax planning program for certain senior officers, and dining club memberships for Mr. Johns, Mr. Bielen, Ms. Long and Mr. Thigpen. We reimburse the officers for business-related meals in accordance with our regular policies. They pay for all personal meals.

### *Company Aircraft Policy*

We do business in every state in the United States and have offices in ten states. Our employees and officers routinely use commercial air service for business travel, and we generally reimburse them only for the coach fare for domestic air travel. We also maintain a company aircraft program in order to provide for timely and cost-effective travel to these wide-spread locations.

Under this program, we do not operate any aircraft, own a hanger or employ pilots. Instead, we have purchased a fractional interest in each of four aircraft. We pay a fixed fee per aircraft, plus a variable charge for hours actually flown, in exchange for the right to use the four aircraft for an aggregate of approximately 290 hours per year. Our directors, officers and employees use these aircraft for selected business trips. All travel under the program must be approved by our Chief Executive Officer. Whether a particular trip will be made on a Company aircraft or on a commercial flight depends, in general, upon the availability of commercial air service at the destination, the schedule and cost of the commercial air travel, the number of employees who are making the trip, the expected travel time, and the need for flexible travel arrangements.

Based on information provided by the compensation consultant, the Compensation Committee has adopted a policy that allows the Chief Executive Officer (and his guests) to use the Company aircraft for personal trips for up to 25 hours per year to reduce his personal travel time and thereby increase the time he can effectively conduct Company business. The Company does not provide tax reimbursement payments with respect to this air travel.

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*Spousal Travel Policy*

If an employee's spouse travels with the employee on Company business, we reimburse the employee for the associated travel expenses if the spouse's presence on the trip is deemed necessary or appropriate for the purpose of the trip. The Company does not provide the named executives with tax reimbursement payments with respect to these reimbursed expenses.

For more information about perquisites and other benefits, see the All Other Compensation Table.

*Accounting and Tax Issues*

We are not subject to the deduction limitations applicable under section 162(m) of the Internal Revenue Code. Because our stock is not publicly traded, we are no longer using our stock as a currency for our long-term incentive awards, which limits our flexibility in structuring our compensation to avail ourselves of the benefit of fixed equity accounting. We still structure our programs taking into account the provisions of section 409A of the Internal Revenue Code, and the Employment Agreements entered into in anticipation of the Merger have provisions addressing the application of section 280G of the Internal Revenue Code.

*Clawback Policy*

Under the federal securities laws, if we have to prepare an accounting restatement due to our material noncompliance, due to misconduct, with the United States Securities and Exchange Commission (the "SEC") financial reporting requirements, then our Chief Executive Officer and Chief Financial Officer would have to reimburse us for: 1) any bonus or other incentive or equity-based compensation they received during the 12 month period before we first issue or file the financial document that reflects the restatement; 2) any profits they realized from the sale of our stock during the 12 month period; 3) amounts previously paid under long-term incentives; 4) the value of outstanding long-term incentive opportunities; and 5) severance benefits that would be payable under various circumstances (including a change of control).

*Risk Assessment*

Based on its review of the Company's compensation policies as described in the Compensation Discussion and Analysis, the Committee concluded that our compensation program in 2015: 1) provided the appropriate level of compensation to our senior officers; 2) was properly designed to link compensation and performance; and 3) did not encourage our officers or employees to take unnecessary and excessive risks or to manipulate earnings or other financial measures.

**COMPENSATION COMMITTEE REPORT**

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The Compensation and Management Succession Committee reviewed and discussed the Compensation Disclosure and Analysis with management. Based on this review and discussion, the Committee recommended to the Board of Directors that the Compensation Disclosure and Analysis be included in this annual report.

### COMPENSATION AND MANAGEMENT

#### SUCCESSION COMMITTEE

*John J. McMahon, Jr., Chairman*

*Jesse J. Spikes*

*William A. Terry*

Table of Contents**Summary Compensation Table**

This table has information about the compensation of the executives named below.

| <b>Summary Compensation Table</b>   |                 |                       |                         |                                   |                           |   |  |                                       |                      |
|---|-----------------|-----------------------|-------------------------|-----------------------------------|---------------------------|---|--|---------------------------------------|----------------------|
| <b>Name and principal position with the Company (a)</b>   | <b>Year (b)</b> | <b>Salary (\$)(c)</b> | <b>Bonus (\$)(d)(1)</b> | <b>Stock awards (\$)(e)(2)(3)</b> | <b>SAR awards (\$)(f)</b> | <b>Non equity incentive plan compensation (\$)(g)</b> | <b>Change in pension value &amp; nonqualified deferred compensation earnings (\$)(h)</b> | <b>All other compensation (\$)(i)</b> | <b>Total (\$)(j)</b> |
| <b>John D. Johns</b><br>Chairman of Board,<br>President &<br>Chief Executive<br>Officer<br>(principal executive<br>officer) | 2015            | \$ 995,833            | \$ 2,223,000            | \$                                | \$                        | \$ 208,000  | \$ 2,467,337   | \$ 167,491                            | \$ 6,061,661         |
|   | 2014            | \$ 970,833            | \$                      | \$ 4,217,031 (4)                  | \$                        | \$ 2,205,500  | \$ 3,243,077   | \$ 554,044                            | \$ 11,190,485        |
|   | 2013            | \$ 945,833            | \$                      | \$ 3,753,125 (5)                  | \$                        | \$ 2,223,000  | \$ 493,959   | \$ 354,478                            | \$ 7,770,395         |
| <b>Richard J. Bielen</b><br>Vice Chairman &<br>Chief Financial Officer<br>(principal financial<br>officer)                  | 2015            | \$ 545,833            | \$ 2,540,881            | \$                                | \$                        | \$ 115,000  | \$ 1,186,527   | \$ 60,815                             | \$ 4,449,056         |
|   | 2014            | \$ 520,833            | \$                      | \$ 1,220,313 (4)                  | \$                        | \$ 913,500  | \$ 1,146,978   | \$ 69,822                             | \$ 3,871,446         |
|   | 2013            | \$ 496,666            | \$                      | \$ 909,375 (5)                    | \$                        | \$ 810,000  | \$ (21,094)  | \$ 49,407                             | \$ 2,244,354         |
| <b>Deborah J. Long</b><br>Executive Vice<br>President,<br>Secretary & General<br>Counsel                                    | 2015            | \$ 462,500            | \$ 1,525,404            | \$                                | \$                        | \$ 56,200   | \$ 577,628   | \$ 55,343                             | \$ 2,677,075         |
|   | 2014            | \$ 447,500            | \$                      | \$ 581,838 (4)                    | \$                        | \$ 509,000  | \$ 927,222   | \$ 97,467                             | \$ 2,563,027         |
|   | 2013            | \$ 432,500            | \$                      | \$ 509,375 (5)                    | \$                        | \$ 509,000  | \$ 18,024  | \$ 74,697                             | \$ 1,543,596         |
| <b>Michael G. Temple</b><br>Executive Vice<br>President &<br>Chief Risk Officer   | 2015            | \$ 395,833            | \$ 1,103,870            | \$                                | \$                        | \$ 62,100   | \$ 33,628  | \$ 958,945                            | \$ 2,554,376         |
|   | 2014            | \$ 366,666            | \$                      | \$ 499,453 (4)                    | \$                        | \$ 424,100  | \$ 46,129  | \$ 36,838                             | \$ 1,373,186         |
|   | 2013            | \$ 325,000            | \$ 30,000               | \$ 321,875 (5)                    | \$                        | \$ 380,300  | \$   | \$ 61,671                             | \$ 1,118,846         |
| <b>Carl S. Thigpen</b><br>Executive Vice<br>President &<br>Chief Investment<br>Officer                                      | 2015            | \$ 487,500            | \$ 2,025,300            | \$                                | \$                        | \$ 76,400   | \$ 1,217,685   | \$ 50,018                             | \$ 3,856,903         |
|   | 2014            | \$ 471,666            | \$                      | \$ 805,819 (4)                    | \$                        | \$ 702,500  | \$ 1,325,084   | \$ 48,322                             | \$ 3,353,391         |
|   | 2013            | \$ 452,166            | \$                      | \$ 750,000 (5)                    | \$                        | \$ 696,200  | \$ 2,287   | \$ 40,180                             | \$ 1,940,833         |

(1) These numbers for 2015 include the following amounts of guaranteed annual incentives under the terms of the named executive's Employment Agreement, which will be paid in 2016 for 2015 performance: Johns, \$2,223,000; Bielen, \$913,500; Long, \$509,000; Temple, \$424,100; and Thigpen, \$702,500. These numbers also include the following amounts of retention bonus under the terms of the named executive's Employment Agreement, which will be paid in 2016 for 2015 service: Johns \$0; Bielen, \$1,627,381; Long, \$1,016,404; Temple, \$679,770; and Thigpen, \$1,322,800.

(2) For 2013 and 2014, these numbers show the fair value of awards as of the date of grant. These numbers were calculated in accordance with the proxy statement disclosure rules and Financial Accounting Standards Codification 718, Stock Compensation. The assumptions we used under ASC Topic 718 are set forth in Note 15, *Stock-Based Compensation* of the Notes to our Consolidated Financial Statements in this Form 10-K. In 2015, the Board approved a new program that established a formula equity value for the Company under which our named executives will receive awards, payable in cash, that will increase or



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decrease in value as the value determined under this formula changes based on the operation of our business. As a result, the 2015 awards are not accounted for as stock-based compensation and are therefore not reflected in this column. The awards will be reflected in this table at the time they are paid out. The Grants of Plan-Based Awards Table has more information about the long-term incentives granted in 2015.

(3) Upon the effective date of the Merger (February 1, 2015), each outstanding performance share earned, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the per share merger consideration by (ii) the number of performance shares. All performance share awards were paid out at the maximum level (200%) provided in the awards due to the closing of the Merger in 2015. In addition, upon the effective date of the Merger, each then outstanding RSU, whether vested or not, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the per share merger consideration by (ii) the number of RSUs.

(4) These numbers include the following amounts, which represent the value as of the date of grant of performance shares awarded to the named executives, based on the probable outcome of the award's performance conditions (assumed to be 100%): Mr. Johns, \$3,043,059; Mr. Bielen, \$880,479; Ms. Long, \$419,644; Mr. Temple, \$360,430; and Mr. Thigpen, \$581,837. (If the performance conditions were achieved at the maximum

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level provided in the awards (200%), the value of the performance share awards as of the date of grant would be: Mr. Johns, \$6,086,118; Mr. Bielen, \$1,760,958; Ms. Long, \$839,288; Mr. Temple, \$720,860; and Mr. Thigpen, \$1,163,674). These numbers also include the following amounts, which represent the value as of the date of grant of restricted stock units awarded to the named executives: Mr. Johns, \$1,173,972; Mr. Bielen, \$339,834; Ms. Long, \$162,194; Mr. Temple, \$139,023; and Mr. Thigpen, \$223,982.

(5) These numbers include the following amounts, which represent the value as of the date of grant of performance shares awarded to the named executives, based on the probable outcome of the award's performance conditions (assumed to be 100%): Mr. Johns, \$2,709,375; Mr. Bielen, \$656,250; Ms. Long, \$368,750; Mr. Temple, \$231,250; and Mr. Thigpen, \$540,625. (If the performance conditions were achieved at the maximum level provided in the awards (200%), the value of the performance share awards as of the date of grant would be: Mr. Johns, \$5,418,750; Mr. Bielen, \$1,312,500; Ms. Long, \$737,500; Mr. Temple, \$462,500; and Mr. Thigpen, \$1,081,250). These numbers also include the following amounts, which represent the value as of the date of grant of restricted stock units awarded to the named executives: Mr. Johns, \$1,043,750; Mr. Bielen, \$253,125; Ms. Long, \$140,625; Mr. Temple, \$90,625; and Mr. Thigpen, \$209,375.

**Discussion of Summary Compensation Table**

*Column (c) Salary.* These amounts include base salary for 2015 that the executive contributed to our 401(k) plan and to our nonqualified deferred compensation plan. The Nonqualified Deferred Compensation Table has more information about 2015 participation in this plan.

*Column (d) Bonus.* For 2015, these amounts include 1) annual cash incentives guaranteed under the Employment Agreements payable in 2016 for 2015 performance and 2) retention bonuses payable in 2016 guaranteed under the terms of the Employment Agreements for 2015 service.

*Column (e) Stock Awards.* These values include performance share unit and restricted stock unit awards granted in 2013 and 2014. In 2015, our stock ceased to be publicly traded. The 2015 grants of performance units, restricted units and parent stock-based awards, which are now cash-based awards, are not reflected in the Summary Compensation Table. The 2015 awards will be reflected in the Summary Compensation Table when they vest and are paid. The Grants of Plan-Based Awards Table has information about the 2015 performance unit, restricted unit, and parent stock-based award grants.

*Column (g) Non-equity incentive plan compensation.* For 2013, these amounts show the annual cash incentives payable in March 2014 under our Annual Incentive Plan for 2013 performance. Likewise, for 2014, these amounts show the annual cash incentives payable in March 2015 under our Annual Incentive Plan for 2014 performance. For 2015, these amounts reflect the cash incentives payable in March 2016 for 2015 performance under our Annual Incentive Plan in excess of the amounts guaranteed under the Employment Agreements. These amounts are based on the achievement of the Company's goals as determined by the Committee and the Board. All amounts reflected include any portion of the incentives that the executive elected to contribute to our 401(k) plan or to our nonqualified deferred compensation plan. The Grants of Plan-Based Awards Table and discussion following the table have more information about the 2015 incentive opportunity.

*Column (h) Change in pension value and nonqualified deferred compensation earnings.* These amounts represent the increase or decrease in the present value of the named executive's benefits under our tax-qualified defined benefit pension plan and our nonqualified defined benefit excess pension plan. Changes in interest rates can significantly affect these numbers from year to year. For 2015, the total change in the present value of pension benefits for each executive was divided between the plans as follows:

| <b>Name</b> | <b>Tax-qualified</b> | <b>Non-qualified</b> |
|-------------|----------------------|----------------------|
| Johns       | \$ 76,527            | \$ 2,390,810         |
| Bielen      | \$ 46,221            | \$ 1,140,306         |
| Long        | \$ 64,636            | \$ 512,992           |
| Temple      | \$ 10,101            | \$ 23,527            |
| Thigpen     | \$ 66,550            | \$ 1,151,135         |

The Pension Benefits Table has more information about each officer's participation in these plans.

All of the named executives have account balances in our nonqualified deferred compensation plan. The Nonqualified Deferred Compensation Table has more information. The earnings on an executive's balance reflect the earnings of investments selected by that executive. These earnings are the same as for any other investor in these investments, and we do not provide any above-market or preferential earnings rates.

*Column (i) All other compensation.* For 2015, these amounts include the following:

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| <b>All Other Compensation Table</b> |  |                      |  |                               |   |                              |
|-------------------------------------|--|----------------------|--|-------------------------------|---|------------------------------|
| <b>Name</b>                         | <b>Nonqualified<br/>deferred<br/>compensation<br/>plan</b> |                      |  | <b>Tax<br/>reimbursements</b> | <b>Financial<br/>planning<br/>program</b> | <b>Other<br/>perquisites</b> |
|                                     | <b>401(k)<br/>matching</b>                                 | <b>contributions</b> |  |                               |   |                              |
| <b>Johns</b>                        | \$ 10,600  | \$ 117,453           |  | \$                            | \$ 14,010                                 | \$ 25,428                    |
| <b>Bielen</b>                       | \$ 10,600  | \$ 47,773            |  | \$                            | \$  | \$ 2,442                     |
| <b>Long</b>                         | \$ 10,600  | \$ 28,260            |  | \$                            | \$ 13,927                                 | \$ 2,556                     |
| <b>Temple</b>                       | \$ 10,600  | \$ 13,358            |  | \$ 919,936                    | \$ 14,593                                 | \$ 458                       |
| <b>Thigpen</b>                      | \$ 10,600  | \$ 37,000            |  | \$                            | \$  | \$ 2,418                     |

***401(k) Matching***

Our employees can contribute a portion of their salary, overtime and cash incentives to our tax-qualified 401(k) plan and receive a dollar-for-dollar company matching contribution. The maximum match is 4% of the employee's eligible pay (which is subject to limits imposed by the Internal Revenue Code). The table shows the matching received by the named executives.

***Nonqualified Deferred Compensation Plan Contributions***

The table includes contributions that we made to each named executive's account under our nonqualified deferred compensation plan. The Nonqualified Deferred Compensation Table has more information about this plan.

***Tax Reimbursements***

Each of our named executives is entitled under his or her Employment Agreement to receive incremental payments as reimbursements for the excise, income and employment taxes arising by reason of any payments that were made in connection with or otherwise on account of the Merger with a subsidiary of Dai-ichi Life being subject to the excise tax imposed on so called parachute payments under Section 4999. By reason of certain accelerated vesting of outstanding equity awards in connection with the Merger, Mr. Temple became subject to such excise taxes and the Company paid a reimbursement payment for his benefit in the amount of \$919,936. The amount of such payment was paid to the applicable taxing authorities in satisfaction of the tax liabilities arising under such Section 4999 and in respect of the reimbursement payment.

***Financial Planning Program***

These amounts include the amounts we pay for the fees and travel expenses of the third party provider of our financial and tax planning program.

*Other Perquisites*

These amounts include: 1) the amount we paid for dining club memberships for Mr. Johns (\$3,409), Mr. Bielen (\$1,695), Ms. Long (\$1,987), and Mr. Thigpen (\$1,746); 2) the amount of expense reimbursement that we paid to Mr. Bielen (\$747), Ms. Long (\$569), Mr. Temple (\$458), and Mr. Thigpen (\$672) under our spousal travel policy; and 3) for Mr. Johns, the estimated incremental cost that we incurred in 2015 for Mr. Johns, and his guests, to use company aircraft for personal trips (\$22,019). This amount is based on incremental hourly charges, fuel, taxes, and similar items allocable to the personal travel time on the aircraft.

**GRANTS OF PLAN-BASED AWARDS**

As a result of the Merger, we adopted a new long-term incentive program in 2015 that established a formula equity value for the Company under which our named executives will receive awards, payable in cash, that will increase or decrease in value as the value determined under this formula changes based on the operation of our business. The 2015 long-term incentive opportunities for the named executive officers are comprised of three separate awards: 1) phantom performance units; 2) phantom restricted units; and 3) parent stock-based awards.

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This table has information about: 1) the long-term incentive awards granted in 2015 and 2) the AIP incentive opportunities guaranteed for 2015, which will be payable in March 2016. As previously disclosed, the Employment Agreements for each named executive establish guaranteed minimum AIP opportunities and target long-term incentive opportunities. Because we no longer have publicly traded stock, none of the incentive awards granted in 2015 were equity incentive awards.

**Grants of Plan-Based Awards Table**

| Name<br>(a)    | Grant<br>Date<br>(b) | Number of<br>Units<br>(c) | Estimated Possible Payouts Under<br>Non-Equity Incentive Plan Awards |                       |                        |
|----------------|----------------------|---------------------------|--|-----------------------|------------------------|
|                |                      |                           | Threshold<br>(\$)<br>(d)   | Target<br>(\$)<br>(e) | Maximum<br>(\$)<br>(f) |
| <b>Johns</b>   | 2/20/15              |                           | \$   | \$ 2,223,000(1)       | \$                     |
|                | 6/1/15               | 26,665(2)                 |  | 2,666,500(2)          |                        |
|                | 6/1/15               | 12,000(3)                 |  | 1,200,000(3)          |                        |
|                | 6/1/15               | 4,000(4)                  |  | 400,000(4)            |                        |
| <b>Bielen</b>  | 2/20/15              |                           | \$   | \$ 913,500(1)         | \$                     |
|                | 6/1/15               | 7,835(2)                  |  | 783,500(2)            |                        |
|                | 6/1/15               | 3,525(3)                  |  | 352,500(3)            |                        |
|                | 6/1/15               | 1,175(4)                  |  | 117,500(4)            |                        |
| <b>Long</b>    | 2/20/15              |                           | \$   | \$ 509,000(1)         | \$                     |
|                | 6/1/15               | 3,635(2)                  |  | 363,500(2)            |                        |
|                | 6/1/15               | 1,635(3)                  |  | 163,500(3)            |                        |
|                | 6/1/15               | 545(4)                    |  | 54,500(4)             |                        |
| <b>Temple</b>  | 2/20/15              |                           | \$   | \$ 424,100(1)         | \$                     |
|                | 6/1/15               | 3,335(2)                  |  | 333,500(2)            |                        |
|                | 6/1/15               | 1,500(3)                  |  | 150,000(3)            |                        |
|                | 6/1/15               | 500(4)                    |  | 50,000(4)             |                        |
| <b>Thigpen</b> | 2/20/15              |                           | \$   | \$ 702,500(1)         | \$                     |
|                | 6/1/15               | 5,000(2)                  |  | 500,000(2)            |                        |
|                | 6/1/15               | 2,250(3)                  |  | 225,000(3)            |                        |
|                | 6/1/15               | 750(4)                    |  | 75,000(4)             |                        |

(1) These numbers include the amount of annual incentive guaranteed by the named executive's Employment Agreement. Effective March 1, 2015, the Employment Agreements for many of the Company's officers were amended to reflect new minimum annual incentive amounts in light of the occurrence of the Merger in 2015. The guaranteed annual incentive amounts were increased, or in some cases, decreased, based on the officer's annual incentive award paid in 2015. The Employment Agreements for Mr. Bielen, Mr. Temple and Mr. Thigpen were amended to reflect the following increases in their guaranteed minimum annual incentive amount: Mr. Bielen, increase from \$810,000 to \$913,500; Mr. Temple, increase from \$410,300 to \$424,100; and Mr. Thigpen, increase from \$696,200 to \$702,500. The named executives will receive the following additional amounts in excess of the guaranteed annual incentives reflected above based on the achievement of the Company's goals as determined by the Board: Johns, \$208,000; Bielen, \$115,000; Long, \$56,200; Temple, \$62,100; and Thigpen, \$76,400.

(2) These numbers reflect the phantom performance units and target value of phantom performance units granted to each named executive. The number of units determined to be granted reflect a discount to the book value to reflect the risk of forfeiture associated with performance conditions.

(3) These numbers reflect the phantom restricted units and target value of phantom restricted units granted to each named executive.

(4) These numbers reflect the parent stock-based award units and target value of the parent stock-based awards granted to each named executive.

**Discussion of Grants of Plan-Based Awards Table**

*Columns (b) - Grant date.*

At its February 20, 2015 meeting, the Board granted long-term incentives valued in the amounts reflected in the table with a grant date of June 1, 2015.

*Columns (c) - Number of units.*

These amounts reflect the number of each of the performance units, restricted units, and parent stock-based awards granted to named executives in 2015. The target value of each award is reflected in column (e).

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*Columns (d), (e), and (f) - Estimated possible payouts under non-equity incentive plan awards.*

At its February 15, 2016 meeting, the Board determined that, in respect to 2015 performance: 1) our After Tax Operating Income was \$323.0 million; 2) our value of new business was \$76.0 million; 3) our expenses were \$438.0 million; and 4) our RBC was above 400%.

Based on the achievement of the goals as described above, the Board determined that the amounts shown for 2015 in column (g) of the Summary Compensation Table were payable to the name executives as annual incentives under the AIP in addition to the amounts guaranteed under each officer's Employment Agreement. These payments will be made in March 2016.

***Termination of Employment; Change of Control***

Special vesting and payment provisions apply to performance unit, restricted unit, and parent stock-based awards if the officer's employment ends. See Potential Payments upon Termination or Change of Control and Summary of Termination Benefits for more information.



Table of Contents**OUTSTANDING EQUITY AWARDS**

Pursuant to the terms of the Merger Agreement, upon the effective date of the Merger, each then outstanding restricted stock unit and performance share unit, whether or not vested, was cancelled and converted into the right to receive an amount in cash. All SARs that had been granted prior to the Merger had already vested in accordance with their terms. Any SARs outstanding at the closing of the Merger were cancelled for a cash payment based on the per share value paid in the Merger minus the base price of the SAR. None of the named executive officers held any unexercised SARs at the time the Merger became effective. Accordingly, as of December 31, 2015, the named executives had no outstanding equity awards.

**SAR EXERCISES, EARNED PERFORMANCE SHARES AND VESTED RESTRICTED STOCK UNITS**

This table presents, for each named executive the value realized upon the vesting of restricted stock units and performance share units in 2015. As previously disclosed, the Merger constituted a change in control under our previous long-term incentive program and triggered the accelerated vesting and payment of all outstanding awards under the program, including awards that were not yet vested. Upon the effective date of Merger, each then outstanding restricted stock unit and performance share unit was cancelled and converted into the right to receive an amount in cash. All SARs that had been granted prior to the Merger had already vested in accordance with their terms; and each of the named executives had exercised all such SARs prior to 2015. Thus, none of the named executives held unexercised SARs at the time the Merger became effective.

| Name    | SAR Awards               |                            | Stock Awards                         |                           |
|---------|--------------------------|----------------------------|--------------------------------------|---------------------------|
|         | Number of SARs exercised | Value realized on exercise | Number of shares acquired on vesting | Value realized on vesting |
| (a)     | (b)                      | (c)                        | (d)(1)                               | (e)(2)                    |
| Johns   |                          | \$                         |                                      | \$ 41,573,840             |
| Bielen  |                          | \$                         |                                      | \$ 10,248,840             |
| Long    |                          | \$                         |                                      | \$ 5,383,280              |
| Temple  |                          | \$                         |                                      | \$ 2,585,310              |
| Thigpen |                          | \$                         |                                      | \$ 7,881,510              |

(1) All restricted stock units and performance share units outstanding at the time of the Merger, whether or not vested, were cancelled and converted into the right to receive cash. The following restricted stock units and performance share units vested at the effective time of the Merger for each named executive:

- Johns - 119,512 restricted stock units and 474,400 performance share units.
- Bielen - 29,212 restricted stock units and 117,200 performance share units.
- Long - 15,204 restricted stock units and 61,700 performance share units.
- Temple - 8,133 restricted stock units and 28,800 performance share units; and
- Thigpen - 22,593 restricted stock units and 90,000 performance share units.

These performance share units reflect an earn-out of 200%.

Mr. Johns elected to defer a portion of his restricted stock units and Mr. Bielen elected to defer a portion of his restricted stock units and performance share units.

(2) Upon the effective date of the Merger, each then outstanding restricted stock unit and performance share unit was cancelled and converted into the right to receive cash, without interest, less any applicable withholding taxes determined by multiplying the i) the per share Merger consideration (\$70.00) by ii) the number of restricted stock units or performance share units.

Table of Contents**Post-Employment Benefits**

This table contains information about benefits payable to the named executives upon their retirement.

| Name    | Plan Name      | Pension Benefits Table | Present       | Payments    |
|---------|----------------|------------------------|---------------|-------------|
|         |                | Number                 | value of      | during the  |
|         |                | of years               | accumulated   | last fiscal |
|         |                | credited               | benefit       | year        |
|         |                | service                |               |             |
|         |                | (#)                    | (\$)          | (\$)        |
| (a)     | (b)            | (c)(1)                 | (d)(2)        | (d)         |
| Johns   | Pension        | 22                     | \$ 993,977    | \$          |
|         | Excess Benefit | 22                     | 12,726,599    |             |
|         | Total          |                        | \$ 13,720,576 | \$          |
| Bielen  | Pension        | 25                     | \$ 726,384    | \$          |
|         | Excess Benefit | 25                     | 4,004,336     |             |
|         | Total          |                        | \$ 4,730,720  | \$          |
| Long    | Pension        | 22                     | \$ 911,030    | \$          |
|         | Excess Benefit | 22                     | 2,717,155     |             |
|         | Total          |                        | \$ 3,628,185  | \$          |
| Temple  | Pension        | 3                      | \$ 29,410     | \$          |
|         | Excess Benefit | 3                      | 50,347        |             |
|         | Total          |                        | \$ 79,757     | \$          |
| Thigpen | Pension        | 32                     | \$ 1,103,917  | \$          |
|         | Excess Benefit | 32                     | 4,634,315     |             |
|         | Total          |                        | \$ 5,738,232  | \$          |

(1) The number of years of service that are used to calculate the executive's benefit under each plan, as of December 31, 2015.

(2) The actuarial present value of the executive's benefit under each plan as of December 31, 2015. The valuation method and material assumptions that we used to calculate these amounts are set forth in Note 16, *Employee Benefit Plans* of the Notes to our Consolidated Financial Statements in this Form 10-K.

**Discussion of Pension Benefits Table**

We have defined benefit pension plans to help provided our employees with retirement security.

***Pension Plan***

Almost all of our full-time employees participate in our tax qualified pension plan. The plan provides different benefit formulas for three different groups: 1) the grandfathered group any employee employed on December 31, 2007 whose age plus years of vested service total 55 or more as of that date; 2) the non-grandfathered group any employee employed on December 31, 2007 whose age plus years of vested service was less than 55 as of that date; and 3) the post-2007 group any employee first hired or rehired after December 31, 2007 or any former employee who is rehired after that date.

Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen are grandfathered employees; and Mr. Temple is a post 2007 hire.

For both grandfathered and non-grandfathered employees, the monthly life annuity benefit payable under the plan at normal retirement age (usually age 65) for service before 2008 equals:

- 1.1% of the employee's *final average pay* **times** years of service through 2007 (up to 35 years), plus
- 0.5% of the employee's final average pay over the employee's *Social Security covered pay* **times** years of service through 2007 (up to 35 years), plus
- 0.55% of the employee's final average pay **times** years of service through 2007 (over 35 years).

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For service after 2007, grandfathered employees continue to earn a monthly life annuity benefit payable at normal retirement age (usually age 65), calculated as follows:

- 1.0% of the employee's *final average pay* **times** years of service through 2007 (up to 35 years minus service before 2008), plus
  
- 0.45% of the employee's final average pay over the employee's *Social Security covered pay* **times** years of service through 2007 (up to 35 years minus service before 2008), plus
  
- 0.50% of the employee's final average pay **times** the lesser of years of service after 2007 and total years of service minus 35 years,
  
- but no less than the benefit the employee would have received had he been a non-grandfathered employee.

For service after 2007, non-grandfathered employees earn a hypothetical account balance that is credited with pay credits and interest credits. Pay credits for a year are based on a percentage of *eligible pay* for that year, as follows:

| <u>Credited Service</u> | <u>% of Pay Credit</u> |
|-------------------------|------------------------|
| 1 - 4 years             | 4%                     |
| 5 - 8 years             | 5%                     |
| 9 - 12 years            | 6%                     |
| 13 - 16 years           | 7%                     |
| 17 or more years        | 8%                     |

*Final average pay* for grandfathered employees is the average of the employee's eligible pay for the 60 consecutive months that produces the highest average. (However, if the employee's average eligible pay for any 36 consecutive months as of December 31, 2007 is greater than the 60-consecutive month average, the 36-month number will be used.) For non-grandfathered employees, final average pay is the average of the employee's eligible pay for the 36 consecutive months before January 1, 2008 that produces the highest average.

*Eligible pay* includes components of pay such as base salary, overtime and AIP incentives. Pay does not include payment of performance shares, gains on SAR exercises, vesting of restricted stock units, severance pay, or other

extraordinary items.

*Social Security covered pay* is one-twelfth of the average of the Social Security wage bases for the 35-year period ending when the employee reaches Social Security retirement age. For non-grandfathered participants, Social Security covered pay is determined as of December 31, 2007. The wage base is the maximum amount of pay for a year for which Social Security taxes are paid. Social Security retirement age is between age 65 and 67, depending on the employee's date of birth.

Unless special IRS rules apply, benefits are not paid before employment ends. An employee may elect to receive:

- a life annuity (monthly payments for the employee's life only), or
  
- a 50%, 75% or 100% joint and survivor annuity (the employee receives a smaller benefit for life, and the employee's designated survivor receives a benefit of 50%, 75% or 100% of the reduced amount for life), or
  
- a 5, 10, or 15 year period certain and life annuity benefit (the employee receives a smaller benefit for life and, if the employee dies before the selected period, the employee's designated survivor receives the reduced amount until the end of the period), or
  
- a lump sum benefit.

If an employee chooses one of these benefit options, the benefit is adjusted using the interest rate assumptions and mortality tables specified in the plan, so it has the same value as the benefit determined by the plan formulas.

An employee whose employment ends before age 65 may begin benefit payments after termination of employment. The benefit is reduced for commencement before age 65, so the benefit remains the actuarial equivalent of a benefit beginning at age 65.

If an employee retires after age 55 with at least 10 years of service, the employee may take an early retirement benefit with respect to benefits earned through 2007, beginning immediately after employment ends. Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen are eligible for early retirement. The early retirement benefit for pre-2008 service is based on the pension plan formula. The benefit is reduced below the level of the age 65 benefit; however, the reduction for an early retirement benefit is not as great as the reduction for early commencement of a vested benefit. (For example, the early retirement reduction at age 55



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is 50%; the actuarial reduction (using the plan interest rates and mortality tables) is 62%. At age 62, the early retirement reduction is 20%, and the actuarial reduction is 27%.)

### *Nonqualified Excess Pension Plan*

Benefits under our tax qualified pension plan are limited by the Internal Revenue Code. We believe we should pay our employees the total pension benefit they have earned, without imposing these Code limits. Therefore, like many large companies, we have a nonqualified excess benefit pension plan that makes up the difference between: 1) the benefit determined under the tax qualified plan formula, without applying these limits; and 2) the benefit actually payable under the tax qualified plan, taking these limits into account.

Prior to the Merger, benefits under the excess plan with respect to service before 2005 were paid at the same time and in the same form as the related benefits from our tax qualified pension plan, and benefits under the excess plan with respect to service after 2004 were paid after the participant's termination of employment in the form elected by the participant. The Merger constituted a change in control under the terms of the plan. Pursuant to the change in control provision, an officer's excess pension benefit will be paid in a single lump sum payment regardless of any elections previously made within 30 days after January 1 of the calendar year immediately following the officer's termination of employment. Payment is made from our general assets (and is therefore subject to the claims of our creditors), and not from the assets of the tax qualified plan.

## NONQUALIFIED DEFERRED COMPENSATION

This table has information about the named executives' participation in our nonqualified deferred compensation plan in 2015.

### Nonqualified Deferred Compensation Table

| Name   | Executive<br>contributions<br>in last FY<br>(\$) | Registrant<br>contributions<br>in last FY<br>(\$) | Aggregate<br>earnings<br>in last FY<br>(\$) | Aggregate<br>withdrawals/<br>distributions<br>(\$) | Aggregate<br>balance at<br>last FYE<br>(\$) |
|--------|--|---|---|--|---|
| (a)    | (b)(1)   | (c)(2)  | (d)   | (e)  | (f)(3)                                      |
| Johns  | \$ 2,391,573                                     | \$ 117,353  | \$ 301,762                                  | \$ 9,595,777                                       | \$ 24,544,246                               |
| Bielen | \$ 3,579,963                                     | \$ 42,833   | \$ 123,492                                  | \$   | \$ 14,938,377                               |
| Long   | \$ 38,860  | \$ 27,860   | \$ 14,749                                   | \$ 3,370,580                                       | \$ 487,090                                  |
| Temple | \$   | \$ 12,596   | \$ 85                                       | \$   | \$ 22,656                                   |



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|         |    |        |    |        |    |       |    |        |    |         |
|---------|----|--------|----|--------|----|-------|----|--------|----|---------|
| Thigpen | \$ | 70,250 | \$ | 36,315 | \$ | (892) | \$ | 68,849 | \$ | 511,051 |
|---------|----|--------|----|--------|----|-------|----|--------|----|---------|

(1) These amounts include the following amounts that are also included in column (c) (Salary) of the Summary Compensation Table as compensation paid to the officer in 2015: Johns, \$39,833; Bielen, \$21,833; Long, \$18,500. These amounts include the following amounts that are also included in column (g) (Non-equity incentive plan compensation) of the Summary Compensation Table as compensation paid to the officer in 2015: Johns, \$88,220; Bielen, \$36,540; Long, \$20,360; and Thigpen, \$70,250. These amounts include the following amounts that include the deferral of vested restricted stock units and performance share units: Johns, \$2,263,520; Bielen, \$3,521,590.

(2) These amounts are supplemental matching contributions made to the officer's account in 2015 with respect to the officer's participation in our 401(k) plan during 2014. These amounts are reported in the Summary Compensation Table as compensation for 2014.

(3) These amounts reflect the following amounts that have been reported as compensation to the officer in previous proxy statements: Johns, \$31,329,334; Bielen, \$11,192,089; Long, \$3,776,202; Temple, \$9,975; Thigpen, \$470,228.

**Discussion of Nonqualified Deferred Compensation Table**

*Deferrals by Our Officers*

The named executives and other key officers can elect to participate in our nonqualified deferred compensation plan. An officer who defers compensation under the plan does not pay taxes on the compensation at that time. Instead, the officer pays taxes on the compensation (and any earnings on the compensation) only when the officer receives the compensation and earnings from the plan.

Eligible officers may defer: 1) up to 25% of their 2015 base salary and up to 75% of their 2016 base salary; 2) up to 85% of any AIP incentive; and/or 4) up to 94% of the amounts payable when performance units, restricted units, or

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parent stock-based awards are earned. Officers may also defer up to 85% of their retention bonus installments payable in 2017 and 2018.

An election to defer base salary for a calendar year must be made by December 31 of the previous year. Generally, an election to defer an AIP incentive for a calendar year must be made by June 30 of that year. An election to defer earned performance units must be made by June 30 of the last year in the award's performance period. An election to defer earned restricted units or parent stock-based awards must be made within 30 days after the date of the award. Due to the guaranteed nature of the 2015 AIP incentive, which is payable in March 2016, officers were only allowed to defer amounts over the guaranteed incentive, if any. Deferred compensation accrues earnings based on the investment choices available under the plan. For 2015, the investment returns for each of the investment choices were:

| <b><u>Investment Choice</u></b>         | <b>Return</b> |
|---|---------------|
| Wells Fargo Advantage Cash Money Market | 0.01 %        |
| Dodge and Cox Stock Fund                | (4.49 )%      |
| Vanguard Total Bond Index               | 0.40 %        |
| Templeton Foreign A                     | (12.43 )%     |
| Columbia Mid Cap Index                  | (2.35 )%      |
| DFA Emerging Markets                    | (15.81 )%     |
| DFA U.S. Small Cap                      | (3.29 )%      |
| Dodge and Cox International Stock       | (11.35 )%     |
| Fidelity Spartan 500 Index              | 1.31 %        |
| JP Morgan Mid-Cap Growth                | 2.94 %        |
| MetWest Low Duration Bond               | 0.45 %        |
| T Rowe Price Growth Stock               | 10.85 %       |
| Pimco Real Return Instl                 | (2.83 )%      |
| Protective Life Libor Fund              | 0.96 %        |

An officer may elect to receive payments in a lump sum or in up to 10 annual installments. An officer may elect to receive a deferred amount (and earnings) upon termination of employment. The officer may not change this election. An officer may instead elect to receive a deferred amount (and earnings) on a fixed date (before the officer's 70th birthday). An officer may also request a distribution if the officer has an extreme and unexpected financial hardship, as determined under IRS rules.

### ***Supplemental Matching***

We make supplemental matching contributions to the account of eligible officers. These contributions provide matching that we would otherwise contribute to our tax qualified 401(k) plan, but which we cannot contribute because of Internal Revenue Code limits on 401(k) plan matching. For a calendar year, the supplemental match that an officer receives is:

- the lesser of
- 4% of the officer's base salary and AIP incentive during the year, and
- the amount the officer deferred under both our 401(k) plan and our nonqualified deferred compensation plan during the year; minus
- the actual match the officer received in the 401(k) plan for that year, applying the Internal Revenue Code limits.

An officer's supplemental matching contributions may be allocated in 1% increments among the same investment funds available under the nonqualified deferred compensation plan. Supplemental matching is paid only after termination of employment. The officer can elect payment in a lump sum or in up to 10 annual installments.

***Other Provisions***

Investment choices must be in 1% increments. An officer may transfer money between the mutual funds on any business day. We do not provide any above-market or preferential earnings rates, and do not guarantee that an officer's investments will make money.

If an officer terminates employment due to death or disability, the officer's plan balance is paid immediately in a lump sum. Amounts invested are paid in cash.

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**Potential Payments upon Termination or Change of Control**

**Termination of Employment and Change Of Control**

Our policies regarding potential payments that could occur by reason of a termination or a change in control were affected by the Merger. The Merger constituted a change in control under our previous long-term incentive program and triggered the accelerated vesting and payment of outstanding awards under the long-term incentive program, including awards that were not yet vested. Additionally, effective upon the Merger, the employment continuation agreements that would have applied to each of our named officers replaced due to the change in control were superseded by new employment agreements with the Company (the *Employment Agreements*).

***Long-Term Incentive Plan***

Upon the Merger, all outstanding performance share awards granted in 2013 and 2014 became payable based on the actual level of achievement that would have applied with respect to such awards had the performance period ended at December 31, 2014, the last fiscal year ended prior to the Merger. The performance period for the awards granted in 2012 ended December 31, 2014 and such awards were therefore not affected by the Merger. The named executive officers received the following amounts in respect of the outstanding 2013 and 2014 performance share awards: Mr. Johns, \$20,412,000; Mr. Bielen, \$5,334,000; Ms. Long, \$2,793,000; Mr. Temple, \$2,016,000; and Mr. Thigpen, \$4,004,000.

Additionally, upon the consummation of the Merger, all unvested restricted stock units became vested and payable, and were cancelled for a cash payment based on the per share value paid in the Merger. The amounts received by each of the named executive officers in respect of their restricted stock units outstanding at the Merger are: Mr. Johns, \$8,365,840; Mr. Bielen, \$2,044,840; Ms. Long, \$1,064,280; Mr. Temple, \$569,310; and Mr. Thigpen, \$1,581,510.

All SARs that had been granted prior to the Merger had already vested in accordance with their terms. Any SARs outstanding at the closing of the Merger were cancelled for a cash payment based on the per share value paid in the Merger minus the base price of the SAR. None of the named executive officers held any unexercised SARs at the time the Merger became effective.

***Employment Agreements***

Upon consummation of the Merger, the *Employment Agreements* became effective for our named executives. These *Agreements* replaced previously effective employment continuation agreements, which would have provided the affected executives assurances regarding the terms and conditions of their continued employment and enhanced severance benefits. Under the terms of each of our executive officer's *Employment Agreement*, the executive agrees to remain employed by the Company for a period of three years following the closing of the Merger, in the position and with the title specified in the *Employment Agreement*. The *Employment Agreements* provide, among other things, the minimum compensation and benefits that each executive will be entitled to receive for their continuing services (including minimum base salaries; minimum annual bonus amounts; minimum long-term incentive compensation opportunities and the terms and conditions thereof (including normal and early retirement provisions); and retention payments). Pursuant to the *Employment Agreements*, each officer agrees, for the benefit

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of the Company, to certain adjustments to the circumstances under which he or she would have the right to terminate employment and receive payment of the stated severance benefits, including foregoing certain claims arising from changes in their duties arising by reason of the Merger.

Effective March 1, 2015, the Employment Agreements for many of the Company's officers were amended to reflect new minimum annual incentive amounts to account for annual incentives paid in March 2015 for the 2014 plan year in light of the occurrence of the Merger in 2015. The guaranteed annual incentive amounts were increased, or in some cases, decreased, based on the officer's annual incentive award paid in 2015. The Employment Agreements for Mr. Bielen, Mr. Temple and Mr. Thigpen were amended to reflect an increase in their guaranteed minimum annual incentive amount.

As an inducement for the executives to enter into the Employment Agreements and remain employed following the closing of the Merger, each officer, except Mr. Johns, will receive a retention payment for continuing in the Company's employ. Mr. Johns agreed that he would not receive any retention payment. In the case of Mr. Bielen, Ms. Long, Mr. Temple and Mr. Thigpen, this retention payment is payable in three equal installments on each of the first three anniversaries of the closing, generally subject to the executive's continued employment through such date (except in the case of death and disability, or involuntary termination without cause or resignation for good reason, as defined in the Employment Agreement). In the event that any executive becomes entitled to receive severance benefits under the Employment Agreements, the retention payment paid or payable will reduce the severance benefits otherwise payable.

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The table set forth below lists the retention payments that will be made to each of the named executive officers (other than Mr. Johns) under his or her Employment Agreement, subject to the executive's continued performance of services until the date of such retention payment. The first retention payments, which are for performance in 2015, are expected to be paid in March 2016.

| <b>Name</b>       | <b>Amount payable if<br/>employed on first<br/>anniversary of the<br/>effective date</b> | <b>Amount payable if<br/>employed on second<br/>anniversary of the<br/>effective date</b> | <b>Amount payable if<br/>employed on third<br/>anniversary of the<br/>effective date</b> | <b>Total retention<br/>payments payable if<br/>employed for three<br/>years following the<br/>effective date</b> |
|-------------------|--|---|--|--|
| John D. Johns     | \$   | \$  | \$   | \$   |
| Richard J. Bielen | \$ 1,627,381   | \$ 1,627,381  | \$ 1,627,380   | \$ 4,882,142   |
| Deborah J. Long   | \$ 1,016,404   | \$ 1,016,404  | \$ 1,016,403   | \$ 3,049,211   |
| Michael G. Temple | \$ 679,770   | \$ 679,770  | \$ 679,770   | \$ 2,039,310   |
| Carl S. Thigpen   | \$ 1,322,800   | \$ 1,322,800  | \$ 1,322,799   | \$ 3,968,399   |

If the executive stays employed for three years and receives the full amount of any retention payments available, no severance benefits will be payable to the executive under the terms of the Employment Agreements upon a termination of employment for any reason following the three-year term. If such an executive quits for good reason or is terminated without cause after the second anniversary, but before the third anniversary, of the effective time, the only severance benefit payable to such executive under the Employment Agreement will be the last installment of the retention payments.

If, prior to the second anniversary of the closing of the Merger, the employment of any of the named executive officers, including Mr. Johns, is terminated without cause, or such officer resigns for good reason, such officer will receive the following special termination benefits (subject, as noted above, to an offset for any retention payment received):

1) a lump sum cash severance payment equal to 3 times the sum of:

a) the officer's annual salary as in effect at the time of the Merger agreement was executed,

b) the average of the officer's AIP incentive payments for 2012, 2013, and 2014, and

c) the average of the value of the long-term incentives granted to the officer in 2012, 2013, and 2014.

2) a lump sum cash payment equal to the officer's target AIP incentive for the year in which the officer's termination occurs. (If termination is on or after December 31, the payment is based on the actual achievement of the performance goals for that year).

3) a cash lump sum supplemental retirement benefit, determined by:

a) calculating the officer's benefit at age 65 under our pension plan and excess benefit plan after giving the officer credit for 3 extra years of service,

b) Subtracting the officer's actual benefit at age 65 under these plans, and

c) Determining the actuarial lump sum value of the resulting amount, using the pension plan's standard actuarial table and an interest rate of the 10-year Treasury Note rate plus 0.75%.

4) continuation of the officer's medical, dental, disability and life insurance, and other welfare benefits, for 2 years after the officer's termination date (or the cash equivalent value of such coverage). The obligation to continue any such coverage will end if the officer gets comparable benefits from another employer. If a medical or dental benefit plan is self-insured by the Company, then coverage under the plan generally continues for 18 months, and the officer receives an additional cash payment equal to the cost of 6 months of coverage under that plan.; and

5) tax reimbursement payments that will put the officer in the same after-tax position that the officer would be in if the excise tax imposed under the Internal Revenue Code with respect to so-called parachute payments did not apply to the executive in respect to payments received from the Company.

Termination is for good reason if any of these events occurs without the officer's written consent: 1) there is a material adverse change in the officer's duties, authority or responsibilities from those specified in the Employment Agreement; 2) we fail to provide the officer with the promised level of compensation during the 2-year period following the merger; or 3) we require the officer to work in an office that is more than 20 miles from the office where they worked before the Merger.

In addition, any named executive officer whose employment terminates due to death, disability, or retirement will receive a pro-rated portion, based on service through the date of termination, or such greater amount as the Committee may

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determine in its discretion, of the performance unit awards granted in 2015 that would otherwise be payable. Any named executive officer who terminates employment due to death, disability, or retirement at or after normal retirement age, or is terminated by the Company without cause, will be fully vested in his or her restricted unit award granted in 2015. An executive who terminates employment due to retirement at an early retirement date will receive at least a pro-rated portion of such restricted unit award (or such greater amount as the Committee may determine in its discretion). No additional vesting or benefits are payable under these awards in connection with a change in control.

The table set forth below shows the severance and other benefits that would have been payable to each of these executive officers on his or her agreement had his or her employment been terminated in a qualifying termination on December 31, 2015.

| <b>Name</b>   | <b>Cash(1)</b> | <b>Pensions/<br/>NQDC(2)</b> | <b>Perquisites/<br/>Benefits(3)</b> | <b>Long-Term<br/>Incentives</b> | <b>Tax<br/>Reimbursement(4)</b> | <b>Total</b>  |
|---|----------------|------------------------------|-------------------------------------|---------------------------------|---------------------------------|---------------|
| John D. Johns, Chairman of the Board, President and Chief Executive Officer | \$ 22,011,596  | \$ 1,755,269                 | \$ 24,941                           | \$ 4,523,743                    | \$                              | \$ 28,315,549 |
| Richard J. Bielen, Vice Chairman and Chief Financial Officer                | \$ 7,715,370   | \$ 549,002                   | \$ 26,986                           | \$ 1,329,075                    | \$ 3,780,972                    | \$ 13,401,405 |
| Deborah J. Long, Executive Vice President, Secretary & General Counsel      | \$ 4,635,532   | \$ 480,039                   | \$ 14,257                           | \$ 616,558                      | \$ 2,299,650                    | \$ 8,046,036  |
| Michael G. Temple, Executive Vice President & Chief Risk Officer            | \$ 3,928,910   | \$ 115,854                   | \$ 8,617                            | \$ 565,664                      | \$ 2,349,909                    | \$ 6,968,954  |
| Carl S. Thigpen, Executive Vice President & Chief Investment Officer        | \$ 5,994,559   | \$ 527,459                   | \$ 19,930                           | \$ 848,235                      | \$                              | \$ 7,390,183  |

(1) Includes the following amounts:

- Johns, \$20,711,596 severance payment and \$1,300,000 payment of AIP incentive.
- Bielen, \$7,165,370 severance payment and \$550,000 payment of AIP incentive.
- Long, \$4,333,282 severance payment and \$302,250 payment of AIP incentive.
- Temple, \$3,668,910 severance payment and \$260,000 payment of AIP incentive.
- Thigpen, \$5,578,059 severance payment and \$416,500 payment of AIP incentive.

(2) Includes the value of the supplemental retirement benefit payable under the Employment Agreements.



- (3) Includes the value of continued coverage under the Company's medical, dental, disability and life insurance, and other welfare benefits, as provided under the Employment Agreements.
- (4) These amounts represent the tax reimbursement payments provided under the Employment Agreements assuming the executive's termination of employment occurred on December 31, 2015.

#### **Compensation Policies and Practices as Related to Risk Management**

The Compensation Committee meets at least once a year with the Company's Chief Risk Officer to review incentive compensation arrangements in order to identify any features that might encourage unnecessary or excessive risk taking. In conducting this review, we considered numerous factors pertaining to each such program, including the following: the purpose of the program; the design of the plan, including risk adjustments; the number of participants, as well as key employees or employee groups; the total amount that could be paid under the program; the ability of the participants to take actions that could influence the calculation of the compensation payable; the scope of the risks that could be created by actions taken; alignment with the Company's risk appetite; and the manner in which our risk management policies and practices serve to reduce these risks. Based on this review, we have concluded that none of our programs create risks that are reasonably likely to have a material adverse effect on us or our shareowners.

Table of Contents**Director Compensation**

This table contains information about the 2015 compensation of our non-employee directors.

| Name<br>(a)            | Director Compensation Table                      |         | All other<br>compensation<br>(\$)<br>(c) | Total<br>(\$)<br>(d) |
|------------------------|--|---------|--|----------------------|
|                        | Fees earned<br>or paid<br>in cash<br>(\$)<br>(b) |         |  |                      |
| Shinichi Aizawa        | \$   |         | \$                                       | \$                   |
| Robert O. Burton(1)    | \$   | 4,167   | \$                                       | 8,456                |
| Elaine L. Chao(1)      | \$   | 4,167   | \$                                       | 993                  |
| Thomas L. Hamby(1)     | \$   | 5,000   | \$                                       | 8,759                |
| Vanessa Leonard        | \$   | 106,667 | \$                                       | 8,456                |
| Charles D. McCrary(1)  | \$   | 4,167   | \$                                       | 8,456                |
| John J. McMahon, Jr.   | \$   | 102,167 | \$                                       | 993                  |
| Hans H. Miller(1)      | \$   | 4,167   | \$                                       | 8,456                |
| Malcolm Portera(1)     | \$   | 4,167   | \$                                       | 993                  |
| C. Dowd Ritter(1)      | \$   | 4,167   | \$                                       | 8,456                |
| Ungyong Shu            | \$   | 75,000  | \$                                       |                      |
| Jesse J. Spikes        | \$   | 95,833  | \$                                       | 8,804                |
| William A. Terry       | \$   | 95,833  | \$                                       | 993                  |
| Shigeo Tsuyuki         | \$   |         | \$                                       |                      |
| W. Michael Warren, Jr. | \$   | 98,583  | \$                                       | 8,456                |
| Vanessa Wilson(1)      | \$   | 4,167   | \$                                       | 1,196                |

(1) Mr. Burton, Secretary Chao, Mr. Hamby, Mr. McCrary, Mr. Miller, Mr. Portera, Mr. Ritter, and Ms. Wilson served as members of the Board in 2015 until the effective date of the Merger. The Company paid prorated fees to these non-employee directors who served from January 2015 through the effective date of the Merger (February 1, 2015).

**Discussion of Director Compensation Table****Column (b) - Fees earned or paid in cash**

The 2015 cash compensation components were -

For January 2015 only -

- Board membership - \$4,167
- Additional retainer for Audit Committee Chair - \$1,667
- Additional retainer for Compensation and Management Succession Committee Chair - \$833
- Additional retainer for Corporate Governance and Nominating Committee Chair - \$833

For February through December 2015 -

- Board membership - \$25,000 per quarter
- Additional retainer for Audit Committee Chair - \$2,500 per quarter
- Additional retainer for Compensation and Management Succession Committee Chair - \$1,500 per quarter
- Additional retainer for Corporate Governance and Nominating Committee Chair - \$750 per quarter

Cash retainers are paid in February, May, August, and November. Mr. Shu will receive his February 2015 retainer fee in 2016.

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***Column (c) All Other Compensation***

If a director's spouse or appropriate guest travels with the director on Company business, we reimburse the director for the associated travel expenses if the spouse's or guest's presence on the trip is deemed necessary or appropriate for the purpose of the trip. When reimbursement of these expenses results in taxable income to the director, the Company provides the director a payment to cover the taxes that the director is expected to incur with respect to the reimbursement (and the related payment). In some situations, these tax reimbursement payments are paid in the year after the spouse's or guest's trip. The amount in this column reflects tax reimbursements to the director as a result of reimbursement for spousal travel expenses incurred in 2014 to each of: Mr. Burton (\$7,463); Mr. Hamby (\$7,464); Ms. Leonard (\$7,463); Mr. McCrary (\$7,463); Mr. Miller (\$7,463); Mr. Ritter (\$7,463); Mr. Spikes (\$7,770); and Mr. Warren (\$7,463).

This column also reflects tax reimbursements to the director for gifts given in 2014 to each of: Mr. Burton (\$993); Secretary Chao (\$993); Mr. Hamby (\$1,295); Ms. Leonard (\$993); Mr. McCrary (\$993); Mr. McMahon (\$993); Mr. Miller (\$993); Mr. Portera (\$993); Mr. Ritter (\$993); Mr. Spikes (\$1,034); Mr. Terry (\$993); Mr. Warren (\$993); and Ms. Wilson (\$1,196).

**Deferred Compensation Plan**

Prior to the Merger, directors were allowed to elect to defer their compensation. They could defer cash amounts into a common stock equivalent or an interest-bearing equivalent (earning interest at the 30-day LIBOR rate plus 0.75%). Directors could defer stock compensation only as common stock equivalents. The Company did not provide any above-market or preferential earnings rates, and did not guarantee that a director's investment in common stock equivalents would make money. Under the terms of the Deferred Compensation Plan for Non-Employee Directors, the balance of each director's account was paid out in full following the effective date of the Merger.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

On February 1, 2015, the Company consummated an Agreement and Plan of Merger, pursuant to which the Company became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, and our stock ceased to be publicly traded. By reason of this transaction, our executive officers and directors no longer hold shares of common stock of the Company. Dai-ichi Life now owns 100% of the outstanding common stock of the Company.

**Item 13. Certain Relationships and Related Transactions**

We review all relationships and transactions in which we and related parties (our directors, director nominees, executive officers, and their immediate family members) participate to determine if any related party has a direct or indirect material interest. Our General Counsel's Office is primarily responsible for developing and implementing processes to obtain the necessary information and for determining, based on the facts and circumstances, whether a direct or indirect material interest exists. We disclose any such transactions in our Annual Report, as required by SEC rules.

If the General Counsel's Office determines that a transaction may require disclosure under SEC rules, the General Counsel's Office will notify:

- the Corporate Governance and Nominating Committee, if the transaction involves one of our directors or director nominees; otherwise
- the Audit Committee.

The relevant Board committee will approve or ratify the transaction only if it determines that the transaction is in our best interests. In considering the transaction, the committee will consider all relevant factors, including (as applicable):

- our business rationale for entering into the transaction;
- the alternatives to entering into the transactions;
- whether the terms of the transaction are comparable to those that could be obtained in arms-length dealings with an unrelated third party;
- the potential for the transaction to lead to an actual or apparent conflict of interest, and any safeguards imposed to prevent actual or apparent conflicts; and
- the overall fairness of the transaction to us.

Based on the information available to the Company's General Counsel's Office and to the Board, there have been no transactions between the Company and any related party since January 1, 2015, nor are any currently proposed, for which disclosure is required under the SEC rules.

Table of Contents**Director Independence**

The Board reviewed the independence of all directors. Before the meeting at which the review occurred, each director was asked to supply the Board with complete information about the director's relationships with us and Dai-ichi Life. Our management provides additional information about transactions, relationships or arrangements between us and the directors or parties related to the directors. After review and discussion of the information provided to it, the Board affirmatively determined that all of our current non-employee directors (Ms. Leonard, Mr. McMahon, Mr. Shu, Mr. Spikes, Mr. Terry and Mr. Warren) are independent. Mr. Johns, Mr. Aizawa, Mr. Bielen, and Mr. Tsuyuki are our non-independent directors. The Board also determined that all members of the Audit Committee, the Compensation and Management Succession Committee, and the Corporate Governance and Nominating Committee are independent.

**Item 14. Principal Accountant Fees and Services**

The following table shows the aggregate fees billed by PricewaterhouseCoopers LLP for 2015 and 2014 with respect to various services provided to the Company and its subsidiaries:

|                    | 2015                  | For The Year<br>Ended<br>December 31, | 2014   |
|--------------------|-----------------------|---------------------------------------|--------|
|                    | (Dollars In Millions) |                                       |        |
| Audit fees         | \$                    | 6.4                                   | \$ 6.0 |
| Audit related fees |                       | 0.8                                   | 0.8    |
| Tax fees           |                       | 0.5                                   | 0.5    |
| All other fees     |                       |                                       |        |
|                    | \$                    | 7.7                                   | \$ 7.3 |

**Audit Fees** were for professional services rendered for the audits of our consolidated financial statements, including integrated audits of our consolidated financial statements and the effectiveness of internal controls over financial reporting, audits (GAAP and statutory basis) of certain of our subsidiaries, issuance of comfort letters and consents, assistance with review of documents filed with the SEC and other regulatory authorities, and expenses related to the above services.

**Audit-Related Fees** were for assurance and related services related to employee benefit plan audits, due diligence and accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

**Tax Fees** were for services related to tax compliance, including the preparation and review of tax returns and claims for refund and tax planning and tax advice, including assistance with tax audits and appeals, advice related to

acquisitions, tax services for employee benefit plans, and requests for rulings or technical advice from tax authorities.

*All other Fees* include fees that are appropriately not included in the Audit, Audit-Related, and Tax categories.

On February 20, 2015, the Audit Committee approved the engagement of PricewaterhouseCoopers LLP to render audit and non-audit services for the Company and its subsidiaries for the period ended February 2016. The Committee's policy is to pre-approve, generally for a 12-month period, the audit, audit-related, tax and other services provided by the independent accountants to the Company and its subsidiaries. Under the pre-approval process, the Committee reviews and approves specific services and categories of services and the maximum aggregate fee for each service or service category. Performance of any additional services or categories of services, or of services that would result in fees in excess of the established maximum, requires the separate pre-approval of the Audit Committee or one of its members who has been delegated pre-approval authority. The Committee or its Chairman pre-approved all Audit, Audit-Related, Tax and Other services performed for the Company by PricewaterhouseCoopers LLP with respect to fiscal year 2014.

In evaluating the selection of PricewaterhouseCoopers LLP as principal independent accountants for the Company and its subsidiaries, the Audit Committee considered whether the provision of the non-audit services described above is compatible with maintaining the independent accountants' independence. The Committee determined that such services have not affected PricewaterhouseCoopers LLP's independence. The Committee also reviewed the non-audit services performed in 2014 and determined that those services were consistent with our policy. In addition, the Audit Committee considered the non-audit professional services that PricewaterhouseCoopers LLP will likely be asked to provide for us during 2015, and the effect which performing such services might have on audit independence.

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**PART IV**

**Item 15. Exhibits, Financial Statement Schedules**

The following documents are filed as part of this report:

1. Financial Statements (See Item 8, *Financial Statements and Supplementary Data*)
2. Financial Statement Schedules:

The following schedules are located in this report on the pages indicated. All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

|   | <b>Page</b> |
|---|-------------|
| Schedule II Condensed Financial Information of Registrant | 247         |
| Schedule III Supplementary Insurance Information          | 258         |
| Schedule IV Reinsurance                                   | 260         |
| Schedule V Valuation and Qualifying Accounts              | 261         |

The Report of Independent Registered Public Accounting Firm which covers the financial statement schedules appears on page 216 of this report.

3. Exhibits:

For a list of exhibits, refer to the Exhibit Index filed as part of this report beginning on page 264 below, and incorporated herein by this reference.

The exhibits to this report are included to provide you with information regarding the terms thereof and are not intended to provide any other factual or disclosure information about the Company or the other parties thereto or referenced therein. Such documents may contain representations and warranties by the parties to such documents that have been made solely for the benefit of the parties specified therein. These



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representations and warranties (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate, (ii) may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable document, which disclosures are not necessarily reflected in the documents, (iii) may apply standards of materiality in a way that is different from what may be viewed as material to you, and (iv) were made only as of the date or dates specified in the documents and are subject to more recent developments. Accordingly, the representations and warranties contained in the documents included as exhibits may not describe the actual state of affairs as of the date they were made or at any other time.

Table of Contents**SCHEDULE II CONDENSED FINANCIAL INFORMATION****OF REGISTRANT****STATEMENTS OF INCOME****PROTECTIVE LIFE CORPORATION****(Parent Company)**

|  | 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) |                   |
| <b>Revenues</b>  |                        |                  |                        |                   |
| Dividends from subsidiaries*   | \$ 32,365              | \$ 16            | \$ 301,314             | \$ 86,420         |
| Service fees from subsidiaries*  | 220,105                | 19,530           | 213,093                | 178,420           |
| Net investment income  | 49,925                 | 4,809            | 64,776                 | 65,389            |
| Realized investment gains (losses)                                     | 3,817                  | (15,863)         | (2,786)                | 15,040            |
| Other income   | 44                     |                  | 6                      | 194               |
| <b>Total revenues</b>  | <b>306,256</b>         | <b>8,492</b>     | <b>576,403</b>         | <b>345,463</b>    |
| <b>Expenses</b>  |                        |                  |                        |                   |
| Operating and administrative   | 121,433                | 8,549            | 116,517                | 99,400            |
| Interest subordinated debt   | 17,191                 | 2,823            | 33,873                 | 33,873            |
| Interest other   | 40,596                 | 6,113            | 84,528                 | 90,636            |
| <b>Total expenses</b>  | <b>179,220</b>         | <b>17,485</b>    | <b>234,918</b>         | <b>223,909</b>    |
| Income (loss) before income tax and other items below                  | 127,036                | (8,993)          | 341,485                | 121,554           |
| Income tax (benefit) expense   |                        |                  |                        |                   |
| Current  | (58,547)               | 6,376            | 10,605                 | 35,250            |
| Deferred   | 99,146                 | (11,123)         | 8,798                  | (16,936)          |
| <b>Total income tax expense (benefit)</b>                              | <b>40,599</b>          | <b>(4,747)</b>   | <b>19,403</b>          | <b>18,314</b>     |
| Income (loss) before equity in undistributed income from subsidiaries* | 86,437                 | (4,246)          | 322,082                | 103,240           |
| Equity in undistributed income of subsidiaries                         | 181,862                | 5,755            | 62,793                 | 290,224           |
| <b>Net income</b>  | <b>\$ 268,299</b>      | <b>\$ 1,509</b>  | <b>\$ 384,875</b>      | <b>\$ 393,464</b> |

See Notes to Consolidated Financial Statements

\* Eliminated in Consolidation

[Table of Contents](#)**SCHEDULE II CONDENSED FINANCIAL INFORMATION OF REGISTRANT****STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****PROTECTIVE LIFE CORPORATION****(Parent Company)**

|  | <b>Successor Company</b>      |                         | <b>Predecessor Company</b>    |                |
|--|-------------------------------|-------------------------|-------------------------------|----------------|
|  | <b>February 1, 2015</b>       | <b>January 1, 2015</b>  | <b>For The Year Ended</b>     |                |
|  | <b>to</b>                     | <b>to</b>               | <b>December 31,</b>           |                |
|  | <b>December 31, 2015</b>      | <b>January 31, 2015</b> | <b>2014</b>                   | <b>2013</b>    |
|  | <b>(Dollars In Thousands)</b> |                         | <b>(Dollars In Thousands)</b> |                |
| <b>Net income</b>                              | \$ 268,299                    | \$ 1,509                | \$ 384,875                    | \$ 393,464     |
| <b>Total other comprehensive income (loss)</b> | \$ (1,241,134)                | \$ 465,968              | \$ 924,010                    | \$ (1,242,656) |
| <b>Total comprehensive income (loss)</b>       | \$ (972,835)                  | \$ 467,477              | \$ 1,308,885                  | \$ (849,192)   |

See Notes to Consolidated Financial Statements

\* Eliminated in Consolidation

Table of Contents**SCHEDULE II CONDENSED FINANCIAL INFORMATION OF REGISTRANT****BALANCE SHEETS****PROTECTIVE LIFE CORPORATION****(Parent Company)**

|  | <b>Successor Company</b>      | <b>Predecessor Company</b>    |
|--|-------------------------------|-------------------------------|
|  | <b>As of</b>                  | <b>As of</b>                  |
|  | <b>December 31, 2015</b>      | <b>December 31, 2014</b>      |
|  | <b>(Dollars In Thousands)</b> | <b>(Dollars In Thousands)</b> |
| <b>Assets</b>  |                               |                               |
| Fixed maturities   | \$ 54,637                     | \$ 53,349                     |
| Equity securities  | 39,338                        | 46,441                        |
| Surplus notes from affiliate   | 1,148,237                     | 800,000                       |
| Investments in subsidiaries (equity method)*   | 5,403,025                     | 5,993,218                     |
| Total investments  | 6,645,237                     | 6,893,008                     |
| Cash   | 68,615                        | 62,465                        |
| Receivables from subsidiaries*   | 24,781                        | 6,940                         |
| Property and equipment, net  | 1,189                         | 1,017                         |
| Goodwill   |                               | 10,275                        |
| Income tax receivable  | 13,170                        |                               |
| Deferred income tax  | 152,683                       | 13,949                        |
| Other assets   | 21,395                        | 32,649                        |
| Total assets   | \$ 6,927,070                  | \$ 7,020,303                  |
| <b>Liabilities</b>   |                               |                               |
| Accrued expenses and other liabilities   | \$ 308,277                    | \$ 190,900                    |
| Accrued income taxes   |                               | 23,926                        |
| Debt   | 1,588,806                     | 1,300,000                     |
| Subordinated debt securities   | 448,763                       | 540,593                       |
| Total liabilities  | 2,345,846                     | 2,055,419                     |
| <b>Commitments and contingencies Note 3</b>  |                               |                               |
| <b>Shareowner s equity</b>   |                               |                               |
| Preferred stock  |                               |                               |
| Common stock   |                               | 44,388                        |
| Additional paid-in-capital   | 5,554,059                     | 606,125                       |
| Treasury stock   |                               | (185,705)                     |
| Retained earnings, including undistributed income of subsidiaries: (2015<br>Successor - \$181,862; 2014 Predecessor - \$3,267,715) | 268,299                       | 3,082,000                     |

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Accumulated other comprehensive income (loss):

|  |                     |                     |
|--|---------------------|---------------------|
| Net unrealized gains on investments, all from subsidiaries, net of income tax:<br>(2015 Successor - \$(671,285); 2014 Predecessor - \$796,960)   | (1,246,672)         | 1,480,068           |
| Net unrealized gains (losses) relating to other-than-temporary impaired<br>investments for which a portion has been recognized in earnings, net of<br>income tax; (2015 Successor - \$(212); 2014 Predecessor - \$2,208) | (393)               | 4,101               |
| Accumulated gain (loss) derivatives, net of income tax: (2015 Successor - \$0;<br>2014 Predecessor - \$(45))   |                     | (82)                |
| Postretirement benefits liability adjustment, net of income tax: (2015<br>Successor - \$3,194; 2014 Predecessor - \$(35,545))  | 5,931               | (66,011)            |
| Total shareowner s equity  | 4,581,224           | 4,964,884           |
| <b>Total liabilities and shareowner s equity</b>   | <b>\$ 6,927,070</b> | <b>\$ 7,020,303</b> |

See Notes to Consolidated Financial Statements

\* Eliminated in Consolidation

Table of Contents**SCHEDULE II CONDENSED FINANCIAL INFORMATION****OF REGISTRANT****STATEMENTS OF CASH FLOWS****PROTECTIVE LIFE CORPORATION****(Parent Company)**

|   | Successor Company  |   | Predecessor Company  |                  |
|---|--|---|--|------------------|
|   | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In<br>Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended<br>December 31,<br>2014                      2013 |                  |
|   |  |   | (Dollars In Thousands)   |                  |
| <b>Cash flows from operating activities</b>                                       |  |   |  |                  |
| Net income  | \$ 268,299   | \$ 1,509                                  | \$ 384,875   | \$ 393,464       |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |   |  |                  |
| Realized investment (gains) losses  | (3,817)  | 15,863                                    | 2,786  | (15,040)         |
| Equity in undistributed net income of subsidiaries*                               | (181,862)  | (5,755)                                   | (62,793)   | (290,224)        |
| Depreciation expense  | 363  | 23  | 279  | 151              |
| Receivables from subsidiaries*  | (13,759)   | (4,076)                                   | 17,990   | (15,918)         |
| Income tax receivable   | (13,170)   |   |  |                  |
| Deferred income taxes   | 99,146   | (11,123)                                  | 8,798  | (16,936)         |
| Accrued income taxes  | (23,246)   | 5,875                                     | 196  | 231              |
| Accrued expenses and other liabilities  | (192,234)  | 18,329                                    | 17,648   | 5,124            |
| Other, net  | 5,419  | (2,334)                                   | 14,192   | 12,948           |
| <b>Net cash (used in) provided by operating activities</b>                        | <b>(54,861)</b>  | <b>18,311</b>                             | <b>383,971</b>   | <b>73,800</b>    |
| <b>Cash flows from investing activities</b>                                       |  |   |  |                  |
| Maturities and principal reductions of investments, available-for-sale            |  |   | 1,298  |                  |
| Sale of investments, available-for-sale   |  |   |  |                  |
| Cost of investments acquired, available-for-sale                                  |  |   | (7,011)  | (47,477)         |
| Return of and/or (additional) capital investments in subsidiaries                 | 110,793  |   | (3,654)  | (141,242)        |
| Purchase of property and equipment  |  |   | (62)   | (1,346)          |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>110,793</b>   |   | <b>(9,429)</b>   | <b>(190,065)</b> |
| <b>Cash flows from financing activities</b>                                       |  |   |  |                  |
| Borrowings under line of credit arrangements and debt                             | 330,000  |   | 500,000  | 605,000          |
| Principal payments on line of credit arrangements and debt                        | (338,093)  | (60,000)                                  | (785,000)  | (420,000)        |
| Payments to affiliates*   |  |   |  | (14,500)         |
| Dividends to shareowners  |  |   | (72,697)   | (61,186)         |

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|  |           |           |           |           |
|--|-----------|-----------|-----------|-----------|
| Withholdings of share-based payment arrangements settled in cash |           |           | (32,173)  |           |
| Excess tax benefits from share-based payment arrangements        |           |           | 20,948    |           |
| Other financing activities, net                                  |           |           |           |           |
| <b>Net cash (used in) provided by financing activities</b>       | (8,093)   | (60,000)  | (368,922) | 109,314   |
| <b>Change in cash</b>  | 47,839    | (41,689)  | 5,620     | (6,951)   |
| <b>Cash at beginning of year</b>                                 | 20,776    | 62,465    | 56,845    | 63,796    |
| <b>Cash at end of year</b>                                       | \$ 68,615 | \$ 20,776 | \$ 62,465 | \$ 56,845 |

See Notes to Consolidated Financial Statements

\*Eliminated in Consolidation



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**SCHEDULE II CONDENSED FINANCIAL INFORMATION**

**OF REGISTRANT**

**PROTECTIVE LIFE CORPORATION**

**(Parent Company)**

**NOTES TO CONDENSED FINANCIAL INFORMATION**

The Company publishes consolidated financial statements that are its primary financial statements. Therefore, this parent company condensed financial information is not intended to be the primary financial statements of the Company, and should be read in conjunction with the consolidated financial statements and notes, including the discussion of significant accounting policies, thereto of Protective Life Corporation and subsidiaries.

**1. BASIS OF PRESENTATION**

**Nature of Operations**

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 Dai-ichi Life purchased all outstanding shares of the Company's stock. Prior to February 1, 2015, and for the periods this report presents, the Company's stock was publicly traded on the New York Stock Exchange. The Company is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, credit life and disability insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company (PLICO) is the Company's largest operating subsidiary.

The Merger was accounted for by the Company under the acquisition method of accounting under Accounting Standards Codification (ASC) Topic 805 *Business Combinations*. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The Company elected to apply pushdown accounting by applying the guidance allowed by ASC Topic 805, *Business Combinations*, including the initial recognition of most of the Company's assets and liabilities at fair value as of the acquisition date, and similarly recognizing goodwill calculated based on the terms of the transaction and the fair value of the new basis of net assets of the Company. The new basis of accounting will be the basis of the accounting records in the preparation of future financial statements and related disclosures after the Merger date. Goodwill of \$735.7 million was recorded as of the acquisition date which represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. During the measurement period subsequent to February 1, 2015, the Company has 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.

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In conjunction with the Company's election to apply pushdown accounting the entire amount of goodwill and other identifiable intangible assets were allocated to PLICO. This was supported by the fact that PLICO is the primary operating subsidiary of the Company and the workforce, distribution and sales organization, current and future policy and portfolio cash flows, and other items for which the transaction was primarily based are consistent between PLICO and Company. As such, the entire balance of goodwill as of December 31, 2015 (Successor Company) of \$732.4 million is included in the new basis of net assets of PLICO. The new basis of accounting will be the basis of the accounting records in the preparation of future financial statements and related disclosures after the Merger date.

The accompanying condensed financial statements of the Company should be read in conjunction with the consolidated financial statements and notes thereto of Protective Life Corporation and subsidiaries included in this Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

For the year ended December 31, 2013 (Predecessor Company), the Company revised certain amounts in the accompanying Statements of Income (Parent Company) due to an error which resulted in an adjustment to income tax expense and an offsetting adjustment to equity in undistributed income from subsidiaries. *Total income tax expense (benefit)* decreased by \$36.6 million for the year ended December 31, 2013 (Predecessor Company). *Equity in undistributed income of subsidiaries* decreased by \$36.6 million for the year ended December 31, 2013 (Predecessor Company). *Net income* for the year ended December 31, 2013 was unaffected by the adjustment.

In addition, a revision was made to the Statement of Cash Flows (Parent Company). Within the cash flows from operating activities for the year ended December 31, 2013 (Predecessor Company), *Equity in undistributed net income of subsidiaries* increased by \$36.6 million, *Deferred income taxes* increased by \$33.9 million, *Accrued expenses and other liabilities* decreased by \$25.4 million, and *Other, net* decreased by \$33.9 million. Within the cash flows from investing activities for the year ended

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December 31, 2013, *Purchase of and/or additional investments in subsidiaries* decreased by \$11.2 million. The net change in cash and the beginning of year and end of year cash balances were unchanged as of December 31, 2013 (Predecessor Company). The Company performed a qualitative and quantitative analysis and determined that these adjustments were immaterial to the previously issued financial statements. To ensure the periods presented were comparable the Company made the decision to revise prior period amounts, as presented within the current period financial statement presentation.

The Company performed a qualitative and quantitative analysis and determined that these revisions did not have a material impact on these financial statements, however to ensure the prior years presented were comparable to the current year the adjustments described above were recorded in the financial statements included herein.

**2. DEBT AND OTHER OBLIGATIONS****Debt and Subordinated Debt Securities**

Debt and subordinated debt securities are summarized as follows:

|  | <b>Successor Company</b><br><b>As of December 31, 2015</b><br><b>(Dollars In Thousands)</b> | <b>Predecessor Company</b><br><b>As of December 31, 2014</b><br><b>(Dollars In Thousands)</b> |
|--|---|---|
| <b>Debt (year of issue):</b>                                   |   |   |
| Revolving Line Of Credit                                       | \$ 485,000  | \$ 450,000  |
| 6.40% Senior Notes (2007), due 2018                            | 162,671   | 150,000   |
| 7.375% Senior Notes (2009), due 2019                           | 473,127   | 400,000   |
| 8.45% Senior Notes (2009), due 2039                            | 468,008   | 300,000   |
|  | \$ 1,588,806  | \$ 1,300,000  |
| <b>Subordinated debt securities (year of issue):</b>           |   |   |
| 6.125% Subordinated Debentures (2004), due 2034, callable 2009 | \$  | \$ 103,093  |
| 6.25% Subordinated Debentures (2012), due 2042, callable 2017  | 295,833   | 287,500   |
| 6.00% Subordinated Debentures (2012), due 2042, callable 2017  | 152,930   | 150,000   |
|  | \$ 448,763  | \$ 540,593  |

The Company's future maturities of debt, excluding notes payable to banks and subordinated debt securities, are \$162.7 million in 2018, \$473.1 million in 2019, and \$468.0 million thereafter.

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

During 2014 (Predecessor Company), the Company announced that it had issued notice to redeem the entire \$100.0 million outstanding principal amount of the Company's 8.00% Senior Notes issued on October 9, 2009. The payment in respect of the redemption of the Senior Notes was made on October 15, 2014. In conjunction with this redemption, the Company wrote off \$2.4 million of deferred issue costs.

During 2014 (Predecessor Company), \$150.0 million of the Company's Senior Notes matured and were paid in full, along with applicable accrued interest.

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

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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, the Company amended and restated the Credit Facility (the 2015 Credit Facility). Under the 2015 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. The Company has the right in certain circumstances to request that the commitment under the 2015 Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the 2015 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The 2015 Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the 2015 Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon our subsequent ratings upgrade on February 2, 2015. The 2015 Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the 2015 Credit Facility. The maturity date of the 2015 Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of February 2, 2015 or the 2015 Credit Facility as of December 31, 2015 (Successor Company). There was an outstanding balance of \$485.0 million bearing interest at a rate of LIBOR plus 1.00% when the Credit Facility was amended and restated by the 2015 Credit Facility on February 2, 2015. As of December 31, 2015 (Successor Company), the \$55.0 million Letter of Credit by PLICO was no longer issued and outstanding.

In December 2007, the Company issued a new series of debt securities of \$150.0 million of 6.40% Senior Notes due 2018 (the Senior Notes), from which net proceeds of approximately \$148.7 million were received. Under the terms of the Senior Notes, interest on the Senior Notes is payable semi-annually in arrears on January 15 and July 15. The maturity date is January 15, 2018.

On October 9, 2009, the Company closed on offerings of \$400 million of its 7.375% Senior Notes due in 2019, \$100 million of its 8.00% Senior Notes due in 2024, and \$300 million of its 8.45% Senior Notes due in 2039, for an aggregate principal amount of \$800 million. These senior notes were offered and sold pursuant to the Company's shelf registration statement on Form S-3. The Company used the net proceeds from the offering of the Notes to purchase \$800 million in aggregate principal amount of newly-issued surplus notes of Golden Gate. Golden Gate used a portion of the proceeds from the sale of the surplus notes to the Company to repurchase, at a discount, \$800 million in aggregate principal amount of its outstanding Series A floating rate surplus notes that were held by third parties. As a result of these transactions, the Company is the sole holder of the total \$800.0 million of outstanding Golden Gate surplus notes, which is eliminated at the consolidated level.

During 2012, the Company issued \$287.5 million of its 6.25% Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company's shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call \$103.1 million of Subordinated Debentures due 2031, \$118.6 million of Subordinated Debentures due in 2032 and \$75.0 million of Capital Securities due in 2066 at par value. The transaction resulted in an expense of \$7.2 million, for the year ended December 31, 2012, related to the write off of deferred issue costs associated with the called Debentures.

During 2012, the Company issued \$150.0 million of its 6.00% Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company's shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call \$125.0 million of Capital Securities due in 2066 at par value and the remaining for general working capital purposes. The transaction resulted in an expense of \$4.0 million related to the write off of deferred issue costs associated with the called Debentures.

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During 2013, the Company's 4.30% Senior Notes issued in 2003 matured. The maturity resulted in the payment of \$250.0 million of principal to the holders of the senior notes on June 2, 2013. The Company borrowed an additional from its Credit Facility to finance the final principal payment.

### Interest Expense

Interest expense on long-term debt and subordinated debt securities totaled \$57.8 million, \$8.9 million, \$118.4 million, and \$124.5 million for the periods of February 1, 2015 to December 31, 2015 (Successor Company), January 1, 2015 to January 31, 2015 (Predecessor Company) and for the years ended December 31 2014, and 2013 (Predecessor Company), respectively.

### 3. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors that provide, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law. The

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Company has agreements with certain of its officers providing up to \$10 million in indemnification. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company's governance documents.

The Company leases a building contiguous to its home office. The lease was renewed in December 2013 and was extended to December 2018. At the end of the lease term, the Company may purchase the building for approximately \$75 million. Monthly rental payments are based on the current LIBOR rate plus a spread. The following is a schedule by year of future minimum rental payments required under this lease:

| <u>Year</u> | <u>Amount</u><br><u>(Dollars In Thousands)</u> |
|-------------|--|
| 2016        | \$ 1,385                                       |
| 2017        | 1,381  |
| 2018        | 76,356   |

In connection with the issuance of non-recourse funding obligations by Golden Gate Captive Insurance Company ( Golden Gate ), a wholly owned subsidiary of Protective Life Insurance Company ( PLICO ), PLC's largest subsidiary, the Company has agreed to indemnify Golden Gate for certain costs and obligations (which obligations do not include payment of principal and interest on the notes). In addition, the Company has entered into certain support agreements with Golden Gate obligating the Company to make capital contributions to Golden Gate or provide support related to certain of Golden Gate's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate.

#### *Golden Gate II Captive Insurance Company*

Golden Gate II Captive Insurance Company ( Golden Gate II ), a South Carolina special purpose financial captive insurance company wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of December 31, 2015 (Successor Company). These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of December 31, 2015 (Successor Company), securities related to \$144.9 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to \$430.1 million of the non-recourse funding obligations were held by the Company and our affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. In addition, at the time Golden Gate II sold surplus notes for deposits into certain Delaware Trusts (the Trusts ) which in turn issued securities (the Securities ), the Company agreed, under certain circumstances, to make certain liquidity advances to the Trusts not in excess of specified amounts of assets held in a reinsurance trust of which PLICO is the beneficiary and Golden Gate II is the grantor in the event that the Trusts do not have sufficient funds available to fully redeem the Securities at the stated maturity date. The obligation to make any such liquidity advance is subject to it having a first priority security interest in the residual interest in such reinsurance trust and in the surplus notes. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

#### *Golden Gate III Vermont Captive Insurance Company*

Golden Gate III Vermont Captive Insurance Company ( Golden Gate III ), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the Reimbursement Agreement ) with UBS AG, Stamford Branch ( UBS ), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the LOC ) in the initial amount of \$505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the First Amended and Restated Reimbursement Agreement ), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to April 1, 2022. On August 7, 2013, Golden Gate III entered into a Second Amended and Restated Reimbursement Agreement with UBS (the Second Amended and Restated Reimbursement Agreement ), which amended and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of \$710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from \$610 million to \$720 million in 2015 if certain conditions had been met. On June 25, 2014, Golden Gate III entered into a Third Amended and Restated Reimbursement Agreement with UBS (the Third Amended and Restated Reimbursement Agreement ), which amended and restated the Second Amended and Restated Reimbursement Agreement. Under the Third Amended and Restated Reimbursement Agreement, a new LOC in an initial amount of \$915 million was issued by UBS in replacement of the



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

*Golden Gate IV Vermont Captive Insurance Company*

Golden Gate IV Vermont Captive Insurance Company (Golden Gate IV), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. The LOC balance increased, in accordance with the terms of the Reimbursement Agreement, during 2015 and was \$780 million as of December 31, 2015 (Successor Company). Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$790 million in 2016. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

On October 10, 2012, Golden Gate V and Red Mountain, indirect wholly owned subsidiaries of the Company, entered into a 20-year transaction to finance up to \$945 million of AXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, WCL. Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America (Hannover Re), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is non-recourse to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of December 31, 2015 (Successor Company), the principal balance of the Red Mountain note was \$500

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million. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$134.2 million and will be paid in annual installments through 2031. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse

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changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of December 31, 2015 (Successor Company), no payments have been made under these agreements.

The Company is party to an intercompany capital support agreement with Shades Creek Captive Insurance Company (Shades Creek), a direct wholly owned insurance subsidiary. The agreement provides through a guarantee that the Company 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. As of December 31, 2015 (Successor Company), the \$55.0 million Letter of Credit executed by PLICO was no longer issued and outstanding. Also in accordance with this 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.

**4. SHAREOWNER'S EQUITY**

Activity in the Company's issued and outstanding common stock is summarized as follows:

|  | <b>Predecessor Company<br/>Issued</b> | <b>Treasury</b> | <b>Outstanding</b> |
|--|---------------------------------------|-----------------|--------------------|
|  | <b>Shares</b>                         | <b>Shares</b>   | <b>Shares</b>      |
| Balance, December 31, 2012                 | 88,776,960                            | 10,639,467      | 78,137,493         |
| (Reissuance of)/deposits to treasury stock |                                       | (439,953)       | 439,953            |
| Balance, December 31, 2013                 | 88,776,960                            | 10,199,514      | 78,577,446         |
| (Reissuance of)/deposits to treasury stock |                                       | (764,259)       | 764,259            |
| Balance, December 31, 2014                 | 88,776,960                            | 9,435,255       | 79,341,705         |

On February 1, 2015, Dai-ichi Life acquired 100% of the Company's outstanding shares of common stock through the Merger of DL Investment (Delaware), Inc., a wholly owned subsidiaries of Dai-ichi Life, with and into the Company, with the Company continuing as the surviving entity.

**5. SUPPLEMENTAL CASH FLOW INFORMATION**

Successor Company

Predecessor Company

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|  | February 1, 2015<br>to<br>December 31, 2015<br>(Dollars In Thousands) | January 1, 2015<br>to<br>January 31, 2015 | For The Year Ended December 31,<br>2014<br>2013<br>(Dollars In Thousands) |            |
|--|---|---|---|------------|
| <b>Cash paid (received) during the year for:</b>   |   |   |   |            |
| Interest paid on debt  | \$ 75,322   | \$ 5,411                                  | \$ 121,327  | \$ 125,685 |
| Income taxes (reduced by amounts received from affiliates under a tax sharing agreement) | (15,669)  | (10)                                      | (6,106)   | 33,623     |
| <b>Noncash investing and financing activities:</b>                                       |   |   |   |            |
| Stock-based compensation   |   | 1,550                                     | 13,902  | 10,739     |

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**6. DERIVATIVE FINANCIAL INSTRUMENTS**

In connection with the issuance of non-recourse funding obligations by Golden Gate II, the Company has entered into certain support agreements with Golden Gate II obligating it to provide support payments to Golden Gate II under certain adverse interest rate conditions and to the extent of any reduction in the reinsurance premiums received by Golden Gate II due to an increase in the premium rates charged to PLICO under its third party yearly renewable term reinsurance agreements. Each of these agreements expires on July 10, 2052.

For the year ended 2013, in connection with the Golden Gate V financing transaction, the Company entered into separate Portfolio Maintenance Agreements with Golden Gate V and WCL. The agreements obligate the Company to reimburse Golden Gate V and West Coast Life for other-than-temporary impairment losses on certain asset portfolios above a specified amount. Each of these agreements expires on October 10, 2032.

As of December 31, 2015 (Successor Company) and December 31, 2014 (Predecessor Company), the Company included in its balance sheets a combined liability for these agreements of \$18.2 million and \$6.1 million, respectively. During the period of February 1, 2015 to December 31, 2015 (Successor Company), January 1, 2015 to January 31, 2015 (Predecessor Company), and for the years ended December 31, 2014 and 2013, the Company included in its statements of income unrealized gains of \$3.8 million, unrealized losses of \$15.9 million, unrealized losses of \$4.1 million, and unrealized losses of \$15.1 million, respectively.

Table of Contents**SCHEDULE III SUPPLEMENTARY INSURANCE INFORMATION****PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES**

| Segment   | Deferred Policy Acquisition Costs and Value of Businesses |                                   | Stable Value Products, Annuity Contracts and Other Policyholders Funds |                      |                       |                          | Amortization of Deferred Policy Acquisitions |                              | Benefits and Settlement Expenses |                   | Costs and Other Premiums |  |
|---|---|-----------------------------------|--|----------------------|-----------------------|--------------------------|--|------------------------------|----------------------------------|-------------------|--------------------------|--|
|   | Acquired  | Future Policy Benefits and Claims | Unearned Premiums  | Policyholders Funds  | Net Premiums and Fees | Net Investment Income(1) | and Settlement Expenses                      | Value of Businesses Acquired | Operating Expenses(1)            | Written(2)        | Premiums                 |  |
| (Dollars In Thousands)                                    |   |                                   |  |                      |                       |                          |  |                              |                                  |                   |                          |  |
| Successor Company February 1, 2015 to December 31, 2015   |   |                                   |  |                      |                       |                          |  |                              |                                  |                   |                          |  |
| Life Marketing  | \$ 1,119,515  | \$ 13,869,102                     | \$ 135   | \$ 371,618           | \$ 882,171            | \$ 446,439               | \$ 1,109,840                                 | \$ 107,811                   | \$ 165,317                       | \$ 148            |                          |  |
| Acquisitions  | (178,662)   | 14,508,877                        | 3,082  | 4,254,579            | 690,741               | 639,422                  | 1,067,482                                    | 2,035                        | 89,960                           | 32,134            |                          |  |
| Annuities   | 578,742   | 1,196,131                         |  | 7,090,171            | 138,146               | 297,114                  | 226,824                                      | (41,071)                     | 125,946                          |                   |                          |  |
| Stable Value Products                                     | 2,357   |                                   |  | 2,131,822            |                       | 78,459                   | 19,348                                       | 43                           | 2,620                            |                   |                          |  |
| Asset Protection  | 36,856  | 61,291                            | 719,516  |                      | 128,338               | 17,459                   | 101,881                                      | 25,211                       | 113,974                          | 121,427           |                          |  |
| Corporate and Other                                       |   | 68,496                            | 803  | 73,066               | 13,676                | 154,055                  | 14,568                                       | 27                           | 179,011                          | 13,583            |                          |  |
| <b>Total</b>  | <b>\$ 1,558,808</b>                                       | <b>\$ 29,703,897</b>              | <b>\$ 723,536</b>  | <b>\$ 13,921,256</b> | <b>\$ 1,853,072</b>   | <b>\$ 1,632,948</b>      | <b>\$ 2,539,943</b>                          | <b>\$ 94,056</b>             | <b>\$ 676,828</b>                | <b>\$ 167,292</b> |                          |  |
| Predecessor Company For The Year Ended December 31, 2014: |   |                                   |  |                      |                       |                          |  |                              |                                  |                   |                          |  |
| Life Marketing  | \$ 1,973,156  | \$ 14,077,360                     | \$ 722,880   | \$ 349,698           | \$ 854,186            | \$ 554,004               | \$ 1,075,386                                 | \$ 175,807                   | \$ 169,373                       | \$ 151            |                          |  |
| Acquisitions  | 600,482   | 14,740,562                        | 3,473  | 4,770,181            | 772,020               | 874,653                  | 1,247,836                                    | 60,031                       | 122,349                          | 35,857            |                          |  |
| Annuities   | 684,574   | 1,015,928                         | 120,850  | 7,190,908            | 149,825               | 465,845                  | 316,449                                      | (4,651)                      | 118,632                          |                   |                          |  |
| Stable Value Products                                     | 621   |                                   |  | 1,959,488            |                       | 107,170                  | 35,559                                       | 380                          | 1,413                            |                   |                          |  |
| Asset Protection  | 35,418  | 47,376                            | 675,984  |                      | 131,678               | 22,703                   | 96,379                                       | 25,257                       | 121,895                          | 123,413           |                          |  |
| Corporate and Other                                       | 319   | 63,664                            | 890  | 70,267               | 16,462                | 173,349                  | 20,001                                       | 485                          | 237,702                          | 16,389            |                          |  |
| <b>Total</b>  | <b>\$ 3,294,570</b>                                       | <b>\$ 29,944,890</b>              | <b>\$ 1,524,077</b>  | <b>\$ 14,340,542</b> | <b>\$ 1,924,171</b>   | <b>\$ 2,197,724</b>      | <b>\$ 2,791,610</b>                          | <b>\$ 257,309</b>            | <b>\$ 771,364</b>                | <b>\$ 175,810</b> |                          |  |

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For The Year  
Ended  
December 31,  
2013:

|               |              |               |              |               |              |              |              |            |            |            |  |
|---------------|--------------|---------------|--------------|---------------|--------------|--------------|--------------|------------|------------|------------|--|
| Life          |              |               |              |               |              |              |              |            |            |            |  |
| Marketing     | \$ 2,071,470 | \$ 13,504,869 | \$ 812,929   | \$ 311,290    | \$ 796,109   | \$ 521,665   | \$ 1,143,132 | \$ 25,774  | \$ 163,174 | \$ 173     |  |
| Acquisitions  | 799,255      | 15,112,574    | 4,680        | 4,734,487     | 519,477      | 617,298      | 851,386      | 72,762     | 78,244     | 24,781     |  |
| Annuities     | 647,485      | 1,037,348     | 102,734      | 7,228,119     | 132,317      | 468,322      | 319,420      | 62,834     | 112,620    |            |  |
| Stable Value  |              |               |              |               |              |              |              |            |            |            |  |
| Products      | 1,001        |               |              | 2,559,552     |              | 123,798      | 41,793       | 398        | 1,805      |            |  |
| Asset         |              |               |              |               |              |              |              |            |            |            |  |
| Protection    | 50,358       | 49,729        | 628,176      | 1,556         | 138,404      | 23,179       | 101,696      | 30,505     | 119,321    | 130,225    |  |
| Corporate and |              |               |              |               |              |              |              |            |            |            |  |
| Other         | 646          | 67,805        | 1,296        | 64,181        | 18,149       | 163,819      | 22,330       | 625        | 220,807    | 18,141     |  |
| Total         | \$ 3,570,215 | \$ 29,772,325 | \$ 1,549,815 | \$ 14,899,185 | \$ 1,604,456 | \$ 1,918,081 | \$ 2,479,757 | \$ 192,898 | \$ 695,971 | \$ 173,320 |  |

(1) Allocations of Net Investment Income and Other Operating Expenses are based on a number of assumptions and estimates and results would change if different methods were applied.

(2) Excludes Life Insurance

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(continued)

| <u>Segment</u>  | Net                            |                                | Benefits                      |          | Amortization of<br>Deferred Policy<br>Acquisitions<br>Costs and Value<br>of Businesses<br>Acquired | Other                    |  | Premiums<br>Written(2) |
|---|--------------------------------|--------------------------------|-------------------------------|----------|--|--------------------------|--|------------------------|
|   | Premiums<br>and Policy<br>Fees | Net<br>Investment<br>Income(1) | and<br>Settlement<br>Expenses |          |  | Operating<br>Expenses(1) |  |                        |
| (Dollars In Thousands)  |                                |                                |                               |          |  |                          |  |                        |
| Predecessor Company<br>January 1, 2015 to<br>January 31, 2015 |                                |                                |                               |          |  |                          |  |                        |
| Life Marketing  | \$ 84,926                      | \$ 47,460                      | \$ 123,179                    | \$ 4,813 | \$ 18,705  | \$ 12                    |  |                        |
| Acquisitions  | 62,343                         | 71,088                         | 101,926                       | 5,033    | 9,041  | 2,133                    |  |                        |
| Annuities   | 12,473                         | 37,189                         | 30,613                        | (7,706)  | 9,926  |                          |  |                        |
| Stable Value Products   |                                | 6,888                          | 2,255                         | 25       | 79   |                          |  |                        |
| Asset Protection  | 10,825                         | 1,878                          | 7,592                         | 1,820    | 10,121   | 10,172                   |  |                        |
| Corporate and Other   | 1,343                          | 10,677                         | 1,722                         | 87       | 20,496   | 1,346                    |  |                        |
| Total   | \$ 171,910                     | \$ 175,180                     | \$ 267,287                    | \$ 4,072 | \$ 68,368  | \$ 13,663                |  |                        |

(1) Allocations of Net Investment Income and Other Operating Expenses are based on a number of assumptions and estimates and results would change if different methods were applied.

(2) Excludes Life Insurance



Table of Contents**SCHEDULE IV REINSURANCE****PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES**

|  | Successor Company |                  |               | Assumed        | Net        | Percentage of |
|--|-------------------|------------------|---------------|----------------|------------|---------------|
|  | Gross             | Ceded to         | Other         |                |            |               |
| Amount                                   | Other             | Other            | Other         | Net            | Assumed to |               |
|  | Companies         | Companies        | Companies     | Amount         | Net        |               |
| (Dollars In Thousands)                   |                   |                  |               |                |            |               |
| February 1, 2015 to<br>December 31, 2015 |                   |                  |               |                |            |               |
| Life insurance in-force                  | \$ 727,705,256    | \$ (368,142,294) | \$ 39,546,742 | \$ 399,109,704 |            | 9.9 %         |
| Premiums and policy fees:                |                   |                  |               |                |            |               |
| Life insurance                           | 2,360,643         | (983,143)        | 308,280       | 1,685,780      | (1)        | 18.3%         |
| Accident/health insurance                | 70,243            | (36,871)         | 18,252        | 51,624         |            | 35.4          |
| Property and liability insurance         | 243,728           | (134,964)        | 6,904         | 115,668        |            | 6.0           |
| Total                                    | \$ 2,674,614      | \$ (1,154,978)   | \$ 333,436    | \$ 1,853,072   |            |               |

|   | Predecessor Company |                  |               | Assumed        | Net        | Percentage of |
|---|---------------------|------------------|---------------|----------------|------------|---------------|
|   | Gross               | Ceded to         | Other         |                |            |               |
| Amount                                    | Other               | Other            | Other         | Net            | Assumed to |               |
|   | Companies           | Companies        | Companies     | Amount         | Net        |               |
| (Dollars In Thousands)                    |                     |                  |               |                |            |               |
| January 1, 2015 to January 31,<br>2015(2) |                     |                  |               |                |            |               |
| Premiums and policy fees:                 |                     |                  |               |                |            |               |
| Life insurance                            | 204,185             | (74,539)         | 28,601        | 158,247        | (1)        | 18.1 %        |
| Accident/health insurance                 | 6,846               | (4,621)          | 1,809         | 4,034          |            | 44.8          |
| Property and liability insurance          | 19,759              | (10,796)         | 666           | 9,629          |            | 6.9           |
| Total                                     | \$ 230,790          | \$ (89,956)      | \$ 31,076     | \$ 171,910     |            |               |
| For The Year Ended<br>December 31, 2014:  |                     |                  |               |                |            |               |
| Life insurance in-force                   | \$ 721,036,332      | \$ (388,890,060) | \$ 43,237,358 | \$ 375,383,630 |            | 11.5 %        |
| Premiums and policy fees:                 |                     |                  |               |                |            |               |
| Life insurance                            | 2,603,956           | (1,205,528)      | 349,934       | 1,748,362      | (1)        | 20.0 %        |
| Accident/health insurance                 | 81,037              | (42,741)         | 20,804        | 59,100         |            | 35.2          |
| Property and liability insurance          | 233,362             | (125,328)        | 8,675         | 116,709        |            | 7.4           |
| Total                                     | \$ 2,918,355        | \$ (1,373,597)   | \$ 379,413    | \$ 1,924,171   |            |               |
| For The Year Ended<br>December 31, 2013:  |                     |                  |               |                |            |               |

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|                                  |                |                  |               |                |      |        |
|----------------------------------|----------------|------------------|---------------|----------------|------|--------|
| Life insurance in-force          | \$ 726,697,151 | \$ (416,809,287) | \$ 46,752,176 | \$ 356,640,040 | 13.1 | %      |
| Premiums and policy fees:        |                |                  |               |                |      |        |
| Life insurance                   | 2,371,872      | (1,247,657)      | 306,920       | 1,431,135      | (1)  | 21.5 % |
| Accident/health insurance        | 45,263         | (20,011)         | 24,291        | 49,543         |      | 49.0   |
| Property and liability insurance | 225,327        | (109,527)        | 7,978         | 123,778        |      | 6.5    |
| Total                            | \$ 2,642,462   | \$ (1,377,195)   | \$ 339,189    | \$ 1,604,456   |      |        |

(1) Includes annuity policy fees of \$152.8 million, \$13.9 million \$167.1 million, and \$140.7 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) January 31, 2015 (Predecessor Company) balance sheet information is not presented in our consolidated financial statements, therefore January 31, 2015 Life Insurance In-Force has been omitted from this schedule.

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## SCHEDULE V VALUATION AND QUALIFYING ACCOUNTS

## PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES

| <u>Description</u>                                | Successor Company                    |                                     |  |         | Deductions | Balance<br>at end of<br>period |
|---|--------------------------------------|-------------------------------------|--|---------|------------|--------------------------------|
|   | Balance<br>at beginning<br>of period | Charged to<br>costs and<br>expenses | Additions<br>Charged<br>to other<br>accounts | Charges |            |                                |
| (Dollars In Thousands)                            |                                      |                                     |  |         |            |                                |
| <b>As of December 31, 2015</b>                    |                                      |                                     |  |         |            |                                |
| Allowance for losses on commercial mortgage loans | \$                                   | \$ 2,561                            | \$   | \$      | (2,561)    | \$                             |
| <u>Description</u>                                | Predecessor Company                  |                                     |  |         | Deductions | Balance<br>at end of<br>period |
|   | Balance<br>at beginning<br>of period | Charged to<br>costs and<br>expenses | Additions<br>Charged<br>to other<br>accounts | Charges |            |                                |
| (Dollars In Thousands)                            |                                      |                                     |  |         |            |                                |
| <b>As of January 31, 2015</b>                     |                                      |                                     |  |         |            |                                |
| Allowance for losses on commercial mortgage loans | \$ 5,720                             | \$ (2,359)                          | \$   | \$      | (861)      | \$ 2,500                       |
| <b>As of December 31, 2014</b>                    |                                      |                                     |  |         |            |                                |
| Allowance for losses on commercial mortgage loans | \$ 3,130                             | \$ 3,265                            | \$   | \$      | (675)      | \$ 5,720                       |

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**EXHIBIT INDEX**

**Exhibit**

**Number**

- \*2(a) Master Agreement by and among AXA Equitable Financial Services, LLC, AXA Financial, Inc. and Protective Life Insurance Company, dated as of April 10, 2013, filed as Exhibit 2(b) to the Company's Quarterly Report on Form 10-Q filed August 2, 2013 (No. 001-11339).
- \*2(b) Agreement and Plan of Merger, dated as of June 3, 2014, by and among The Dai-ichi Life Insurance Company, Limited, DL Investment (Delaware), Inc. and Protective Life Corporation, filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed February 3, 2015 (No. 001-11339).
- \*3(a) Certificate of Incorporation of the Company effective as of February 1, 2015, filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K filed February 26, 2015 (No. 001-11339).
- 3(b) Amended and Restated Bylaws of the Company effective as of January 4, 2016, filed herewith.
- \*4(a) Reference is made to Exhibit 3(a) above (No. 001-12332).
- \*4(b) Reference is made to Exhibit 3(b) above (No. 001-11339).
- \*4(c) Senior Indenture, dated as of June 1, 1994, between the Company and The Bank of New York, as Trustee, filed as Exhibit 4(g) to the Company's Current Report on Form 8-K filed July 1, 1994 (No. 33-52831).
- \*4(c)(1) Supplemental Indenture No. 11, dated as of December 11, 2007, between the Company and The Bank of New York Trust Company, N.A., as Trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 7, 2007 (No. 001-11339).
- \*4(c)(2) Supplemental Indenture No. 12, dated as of October 9, 2009, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed October 9, 2009 (No. 001-11339).
- \*4(c)(3) Supplemental Indenture No. 13, dated as of October 9, 2009, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed October 9, 2009 (No. 001-11339).
- \*4(d) Subordinated Indenture, dated as of June 1, 1994, between the Company and AmSouth Bank, as Trustee, filed as Exhibit 4(h) to the Company's Current Report on Form 8-K filed June 17, 1994 (No. 001-12332).
- \*4(d)(1) Supplemental Indenture No. 7, dated as of January 27, 2004, to the Subordinated Indenture between the Company and The Bank of New York, as successor trustee, filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed January 28, 2004 (No. 001-11339).
- \*4(d)(2) Supplemental Indenture No. 9, dated as of May 18, 2012, to the Subordinated Indenture between the Company and the Bank of New York Mellon Trust Company, N.A., as successor to AmSouth Bank, as Trustee, filed as Exhibit 4.2 to The Company's Current Report on Form 8-K/A filed May 21, 2012 (No. 001-11339).
- \*4(d)(3) Supplemental Indenture No. 10, dated as of August 20, 2012, to the Subordinated Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as successor to AmSouth Bank, as Trustee, filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed August 20, 2012 (No. 001-11339).
- \*10(a)

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The Company's Long-Term Incentive Plan, Amended and Restated as of May 14, 2012, filed as Appendix B to the Company's 2012 Proxy Statement on Schedule 14A filed April 16, 2012 (No. 001-11339).

- \*10(a)(1) Form of Performance Share Award Letter under the Company's Long-Term Incentive Plan, filed as Exhibit 10(a)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 2011 filed February 28, 2012 (No. 001-11339).
- \*10(a)(2) Form of Stock Appreciation Rights Award Letter under the Company's Long-Term Incentive Plan, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed November 9, 2004 (No. 001-11339).
- \*10(a)(3) Form of Restricted Stock Units Award Letter under the Company's Long-Term Incentive Plan, filed as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed February 28, 2013 (No. 001-11339).

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| <b>Exhibit</b> |   |
|----------------|---|
| <b>Number</b>  |   |
| *10(b)         | 2015 Parent Stock-Based Award Provisions of the Company, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).  |
| *10(c)         | The Company's Excess Benefit Plan, Amended and Restated as of December 31, 2008 and Reflecting the Terms of the December 31, 2010 Amendment, filed as Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed February 28, 2013 (No. 001-11339).           |
| *10(c)(1)      | Amendment to the Company's Excess Benefit Plan dated April 17, 2014, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed May 8, 2014 (No. 001-11339).   |
| *10(d)         | 2015 Annual Incentive Plan, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).   |
| *10(e)         | 2015 Performance Units Provision of the Company, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).  |
| *10(e)(1)      | 2015 Performance Units Provision (for key officers) of the Company, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).   |
| *10(f)         | Amended 2015 Restricted Units Provisions of the Company, filed as Exhibit 10(e) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).  |
| 10(g)          | The Company's 401(K) Plan, as amended and restated as of January 1, 2015, filed herewith.   |
| *10(h)         | Form of Indemnity Agreement for Officers filed as Exhibit 10(d)(1) to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, filed March 27, 1997 (No. 001-12332).  |
| *10(h)(1)      | Form of the Company's Director Indemnity Agreement, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 5, 2010 (No. 001-11339).   |
| *10(i)         | Employment Agreement, dated June 3, 2014, between the Company and John D. Johns, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).  |
| *10(i)(1)      | Form of Employment Agreement between the Company and Executive Vice President, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).  |
| *10(i)(2)      | Form of Employment Agreement between the Company and Senior Vice President, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).   |
| *10(i)(3)      | Form of the Company's Amended and Restated Employment Continuation Agreement with Executive Officer, filed as Exhibit 10(e)(3) to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 filed February 27, 2009 (No. 001-11339).  |
| *10(j)         | The Company's Deferred Compensation Plan for Directors Who Are Not Employees of the Company, as Amended and Restated as of December 31, 2008, filed as Exhibit 10(f)(2) to the Company's Annual Report on Form 10-K for the year ended December 31, 2008, filed February 27, 2009 (No. 001-11339).      |
| *10(k)         | The Company's Deferred Compensation Plan for Officers, as Amended and Restated as of January 1, 2009, and reflecting the December 31, 2010 Amendment, filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed February 28, 2013 (No. 001-11339). |
| *10(k)(1)      | Amendment to the Company's Deferred Compensation Plan for Officers dated April 17, 2014, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed May 8, 2014 (No. 001-11339).   |

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- \*10(l) Amended and Restated Credit Agreement dated as of February 2, 2015, among Protective Life Corporation and Protective Life Insurance Company, as borrowers, the several lenders from time to time a party thereto, Regions Bank, as Administrative Agent, and Wells Fargo Bank, National Association, as Syndication Agent, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 3, 2015 (No. 001-11339).
- \*10(m) Second Amended and Restated Lease Agreement dated as of December 19, 2013, between Protective Life Insurance Company and Wachovia Development Corporation, filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (No. 001-11339).

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#### **Exhibit**

#### **Number**

- \*10(n) Second Amended and Restated Investment and Participation Agreement dated as of December 19, 2013, between Protective Life Insurance Company and Wachovia Development Corporation, filed as Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (001-11339).
- \*10(o) Second Amended and Restated Guaranty dated December 19, 2013 by the Company in favor of Wachovia Development Corporation, filed as Exhibit 10(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (001-11339).
- \*10(p) Amended and Clarification of the Tax Allocation Agreement dated January 1, 1988 by and among Protective Life Corporation and its subsidiaries, filed as Exhibit 10(h) to Protective Life Insurance Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed March 31, 2005 (No. 001-131901).
- \*10(q) Third Amended and Restated Reimbursement Agreement dated as of June 25, 2014 between Golden Gate III Vermont Captive Insurance Company and USB AG, Stamford Branch, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).±
- \*10(r) Amended and Restated Guarantee Agreement dated as of August 7, 2013 between the Company and UBS AG, Stamford Branch, filed as Exhibit 10(q) to the Company's Quarterly Report on Form 10-Q filed November 4, 2013 (No. 001-11339).
- \*10(s) Stock Purchase Agreement by and among RBC Insurance Holdings (USA) Inc., Athene Holding Ltd., Protective Life Insurance Company and RBC USA Holdco Corporation (solely for purposes of Sections 5.14-5.17 and Articles 7.8 and 10), dated as of October 22, 2010, filed as Exhibit 10.01 to the Company's Current Report on Form 8-K filed October 28, 2010 (No. 001-11339).
- \*10(t) Reimbursement Agreement dated as of December 10, 2010 between Golden Gate IV Vermont Captive Insurance Company and UBS AG, Stamford Branch filed as Exhibit 10(u) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed February 28, 2011 (No. 001-11339).±
- \*10(u) Letter of Guaranty, dated as of December 10, 2010, between Protective Life Corporation and UBS AG, Stamford Branch, filed as Exhibit 10(v) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed February 28, 2011 (No.001-11339).±
- \*10(v) Coinsurance Agreement by and between Liberty Life Insurance Company and Protective Life Insurance Company, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed August 5, 2011 (No. 001-11339).
- \*10(w) Master Agreement by and among Protective Life Insurance Company and Genworth Life and Annuity Insurance Company, dated as of September 30, 2015, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed November 6, 2015 (No. 001-11339).
- 14 Code of Business Conduct for Protective Life Corporation and all of its subsidiaries, revised June 8, 2015, filed herewith.
- \*14(a) Supplemental Policy on Conflict of Interest for the Company and all of its subsidiaries, revised August 30, 2010, filed as Exhibit 14(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (001-11339).
- 21 Principal Subsidiaries of the Registrant.
- 24 Powers of Attorney.



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- 31(a) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31(b) Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32(a) Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32(b) Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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| 101 | Financial statements from the annual report on Form 10-K of Protective Life Corporation for the year ended December 31, 2015, filed on February 25, 2016, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii), the Consolidated Balance Sheets, (iv) Consolidated Statements of Shareowner s Equity, (v) the Consolidated Statement of Cash Flows, and (vi) the Notes to Consolidated Financial Statements. |
|-----|--|

\* Incorporated by Reference

Management contract or compensatory plan or arrangement

± Certain portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended

The Company hereby agrees to furnish a copy of any instrument that defines the rights of holders of long-term debt to the Securities and Exchange Commission, upon request.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTIVE LIFE CORPORATION

By:

/s/ STEVEN G. WALKER  
Steven G. Walker

Executive Vice President,

Chief Financial Officer and Controller

February 25, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

| <u>Signature</u>                           | <u>Capacity in Which Signed</u>   | <u>Date</u>       |
|--|---|-------------------|
| /s/ JOHN D. JOHNS<br>JOHN D. JOHNS         | Chairman of the Board, Chief Executive Officer<br>(Principal Executive Officer) and Director  | February 25, 2016 |
| /s/ RICHARD J. BIELEN<br>RICHARD J. BIELEN | President, Chief Operating Officer and Director   | February 25, 2016 |
| /s/ STEVEN G. WALKER<br>STEVEN G. WALKER   | Executive Vice President, Chief Financial<br>Officer and Controller (Principal Financial<br>Officer and Principal Accounting Officer) | February 25, 2016 |
| *<br>SHINICHI AIZAWA                       | Director  | February 25, 2016 |
| *<br>VANESSA LEONARD                       | Director  | February 25, 2016 |
| *<br>JOHN J. MCMAHON, JR.                  | Director  | February 25, 2016 |

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|                        |          |                   |
|------------------------|----------|-------------------|
| *                      | Director | February 25, 2016 |
| UNGYONG SHU            |          |                   |
| *                      | Director | February 25, 2016 |
| JESSE J. SPIKES        |          |                   |
| *                      | Director | February 25, 2016 |
| WILLIAM A. TERRY       |          |                   |
| *                      | Director | February 25, 2016 |
| SHIGEO TSUYUKI         |          |                   |
| *                      | Director | February 25, 2016 |
| W. MICHAEL WARREN, JR. |          |                   |

\*John D. Johns, by signing his name hereto, does sign this document on behalf of each of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

By:

/s/ JOHN D. JOHNS  
JOHN D. JOHNS

Attorney-in-fact