

PROTECTIVE LIFE CORP
Form 10-K
February 27, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

or

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

**For the transition period from _____ to _____
Commission File Number 001-11339**

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-2492236
(IRS Employer
Identification Number)

**2801 HIGHWAY 280 SOUTH
BIRMINGHAM, ALABAMA 35223**
(Address of principal executive offices and zip code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, \$0.50 Par Value	New York Stock Exchange
PLC Capital Trust III 7.5% Trust Originated Preferred Securities, including the Guarantee of Protective Life Corporation	New York Stock Exchange
PLC Capital Trust IV 7.25% Trust Originated Preferred Securities, including the Guarantee of Protective Life Corporation	New York Stock Exchange
PLC Capital Trust V 6.125% Trust Originated Preferred Securities, including the Guarantee of Protective Life Corporation	New York Stock Exchange
7.25% Capital Securities	New York Stock Exchange

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

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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 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.

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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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, 2008: \$2,607,036,159

Number of shares of Common Stock, \$0.50 Par Value, outstanding as of February 25, 2009: 69,983,241

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement prepared for the 2009 annual meeting of shareowners, pursuant to Regulation 14A, are incorporated by reference into Part III of this Report.

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**PROTECTIVE LIFE CORPORATION
ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2008**

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PART I

In this Annual Report on Form 10-K, unless the context otherwise requires, "The Company," "we," "us," and "our" refer to Protective Life Corporation and its subsidiaries.

Item 1. Business

Protective Life Corporation is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company ("Protective Life") is the Company's largest operating subsidiary. Unless the context otherwise requires, the Company refers to the consolidated group of Protective Life Corporation and its subsidiaries.

Copies of the Company's Proxy Statement and 2008 Annual Report to Shareowners will be furnished to anyone who requests such documents from the Company. Requests for copies should be directed to: Shareowner Relations, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3573, FAX (205) 268-5547. Copies may also be requested through the Internet from the Company's website (www.protective.com). The Company makes periodic and current reports available free of charge on its website as soon as reasonably practicable after such material is electronically filed with or furnished to the United States Securities and Exchange Commission (the "SEC"). The information incorporated herein by reference is also electronically accessible through the Internet from the "EDGAR Database of Corporate Information" on the SEC worldwide website (www.sec.gov).

The Company operates several business segments each having a strategic focus. An operating segment is distinguished by products, distribution channels, 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 on unallocated capital, interest on debt, earnings from various investment-related transactions, and the operations of several non-strategic lines of business. The Company periodically evaluates operating segments in light of the segment reporting requirements prescribed by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and makes adjustments to our segment reporting as needed.

Additional information concerning the Company's business segments may be found in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 20, *Operating Segments* to Consolidated Financial Statements included herein.

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 operating income. Sales data for traditional life insurance are 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 deposits received. Stable value contract sales are measured at the time that the funding commitment is made based on the amount of deposit to be received. Sales within the Asset Protection segment are based on the amount of single premium 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 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 level premium term insurance ("traditional"), universal life ("UL"), variable universal life, and bank-owned life insurance ("BOLI") products on a national basis through a variety of distribution channels. The largest distribution system is comprised of brokerage general agencies who recruit a network of independent life agents. The segment also distributes insurance products through a network of experienced independent personal producing general agents who are recruited by regional sales managers and through stockbrokers and banks. The Company markets its BOLI products through independent marketing organizations that specialize in the BOLI market.

The following table shows the Life Marketing segment's sales measured by new premium:

For The Year Ended December 31,	Sales (Dollars In Millions)
2004	\$ 262
2005	295
2006	228
2007	229
2008	158

Acquisitions

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 sold to individuals. These acquisitions may be accomplished through acquisitions of companies or through the reinsurance of blocks of policies from other insurers. Forty-four transactions have been closed by the segment since 1970. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, and market dynamics. The Company expects acquisition opportunities to continue to be available as the life insurance industry continues to consolidate; however, the Company believes it may face increased competition and evolving capital requirements that may affect the environment for future acquisitions.

Most acquisitions closed by the Acquisitions segment do not include the acquisition of an active sales force, thus policies acquired through the segment are "closed" blocks of business (no new policies are being marketed). Therefore, the amount of insurance in-force for a particular acquisition is expected to decline with time due to lapses, deaths, and other terminations of coverage. In transactions where some marketing activity was included, the Company generally either ceased future marketing efforts or redirected those efforts to another segment of the Company. However, in the case of the acquisition of West Coast Life Insurance Company ("West Coast") which was closed by the Acquisitions segment in 1997, the Company elected to continue marketing new policies and to operate West Coast as a component of its Life Marketing segment. Additionally, the Company has continued marketing new annuity products associated with its 2006 acquisition of the Chase Insurance Group (see below). New annuity product sales resulting from this acquisition are reported as a component of the Annuities segment.

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 over other companies that attempt to make similar acquisitions.

Since most acquisitions consist of closed blocks of business, earnings and account values from the Acquisitions segment are expected to decline with time unless new acquisitions are made. Therefore, the segment's revenues and earnings may fluctuate from year to year depending upon the level of acquisition activity.

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On July 3, 2006, the Company completed its acquisition of the Chase Insurance Group, which consisted of five insurance companies that manufactured and administered traditional life insurance and annuity products and four related non-insurance companies (which collectively are referred to as the "Chase Insurance Group"). The Chase Insurance Group historically was headquartered in Elgin, Illinois, and primarily offered level premium term and other traditional life products, as well as fixed and variable annuity products. While the Company has ceased marketing level premium term and other traditional life products previously offered by the Chase Insurance Group, as noted above, the Company has continued marketing fixed annuity products and single premium life products through certain of its insurance subsidiaries. The results of continuing sales are included in the Life Marketing and Annuities segments.

From time to time the Company's other business segments have acquired companies and blocks of policies which are included in their respective results.

Annuities

The Annuities segment manufactures, sells, and supports fixed and variable annuity products. These products are primarily sold through broker-dealers, but are also sold through 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. Because 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 equity indexed annuities. The Company's variable annuities offer the policyholder the opportunity to invest in various investment accounts.

The following table shows fixed and variable annuity sales. The demand for annuity products is related to the general level of interest rates and performance of the equity markets. Additionally, the Company has continued the marketing of new annuity products associated with its 2006 acquisition of the Chase Insurance Group and include these sales as a component of the Annuities segment. During 2008, 2007, and 2006, fixed annuity sales generated through the former Chase Insurance Group distribution channels were \$574.3 million, \$379.5 million and \$276.1 million, respectively.

For The Year Ended December 31,	Fixed	Variable	Total
	Annuities	Annuities	Annuities
(Dollars In Millions)			
2004	\$ 443	\$ 283	\$ 726
2005	275	312	587
2006	878	323	1,201
2007	1,194	472	1,666
2008	2,160	452	2,612

Stable Value Products

The Stable Value Products segment sells guaranteed funding agreements ("GFAs") to special purpose entities that in turn issue notes or certificates in smaller, transferable denominations. The segment also markets fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. During 2003, the Company registered a funding agreement-backed notes program with the SEC. Through this program, the Company is able to offer notes to both institutional and retail investors. The amount available under this program was increased by \$4 billion in 2005 through a second registration. In February 2009, the Company updated the second registration in accordance with applicable SEC rules

and such updated registration provides for the sale of the unsold portion of notes previously registered under the program. The segment's funding agreement-backed notes complement the Company's overall asset/liability management in that the terms of the funding agreements may be tailored to the needs of Protective Life as the seller of the funding agreements, as opposed to solely meeting the needs of the buyer.

Additionally, the segment 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. 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 available to plan participants.

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 GIC contracts and funding agreements written by the Company have maturities of one to ten years.

The following table shows Stable Value Products sales:

For The Year Ended December 31,	Funding		Total
	GICs	Agreements	
(Dollars In Millions)			
2004	\$ 59	\$ 1,524	\$ 1,583
2005	96	1,316	1,412
2006	294	140	434
2007	133	794	927
2008	166	1,803	1,969

In 2007, the Company chose to reenter the institutional funding agreement-backed note market and continued in the market through October of 2008. In contrast, during 2006, the Company did not participate in this market. The rate of growth in account balances is affected by the amount of maturing contracts relative to the amount of new sales.

Asset Protection

The Asset Protection segment primarily markets extended service contracts, a guaranteed asset protection product and credit life and disability insurance to protect consumers' investments in automobiles, watercraft, and recreational vehicles ("RV"). The segment's products are primarily marketed through a national network of 4,000 automobile, marine, and RV dealers. A network of direct employee sales representatives and general agents distribute these products to the dealer market.

On July 14, 2006, the Company completed an acquisition of the vehicle extended service contract business of Western General. Western General is headquartered in Calabasas, California, and is a provider of vehicle service contracts nationally, focusing primarily on the West Coast market. In addition, Western General currently provides extended service contract administration for several automobile manufacturers and provides used car service contracts for a publicly-traded national dealership group.

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

For The Year Ended December 31,	Sales (Dollars In Millions)
2004	\$ 460
2005	489
2006	536
2007	552
2008	411

In 2008, approximately 94.2% of the segment's sales were through the automobile dealer distribution channel, and approximately 68.1% of the segment's sales were extended service contracts. Approximately 44% of the Company's service contract business covers vehicles produced by domestic car makers. A portion of the sales and resulting premium are reinsured with producer-affiliated reinsurers.

Corporate and Other

The Company has an additional segment referred to as Corporate and Other. The Corporate and Other segment primarily consists of net investment income and expenses not attributable to the other business segments described above (including net investment income on capital and interest on debt) and a trading portfolio that was previously part of a variable interest entity. This segment also includes earnings from several non-strategic lines of business (primarily cancer insurance, residual value insurance, surety insurance, and group annuities), various investment-related transactions, and the operations of several small subsidiaries. The earnings of this segment may fluctuate from year to year.

Investments

As of December 31, 2008, the Company's investment portfolio was approximately \$26.6 billion. The types of assets in which the Company may invest are influenced by various state 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. 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* and Note 4, *Investment Operations* to Consolidated Financial Statements, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

The following table shows the reported values of the Company's invested assets:

	As of December 31,			
	2008		2007	
	(Dollars In Thousands)			
Publicly-issued bonds (amortized cost: 2008 \$18,880,847; 2007 \$19,608,446)	\$ 16,554,695	62.3%	\$ 19,588,486	67.5%
Privately issued bonds (amortized cost: 2008 \$4,210,825; 2007 \$3,840,252)	3,544,285	13.3	3,800,505	13.1
Redeemable preferred stock (amortized cost: 2008 \$36; 2007 \$86)	0.0		78	0.0
Fixed maturities	20,098,980	75.6	23,389,069	80.6
Equity securities (cost: 2008 \$358,159; 2007 \$112,406)	302,132	1.1	117,037	0.4
Mortgage loans	3,848,288	14.5	3,284,326	11.3
Investment real estate	14,810	0.1	8,026	0.0
Policy loans	810,933	3.1	818,280	2.8
Other long-term investments	432,137	1.6	185,892	0.6
Short-term investments	1,059,506	4.0	1,236,443	4.3
Total investments	\$ 26,566,786	100.0%	\$ 29,039,073	100.0%

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Included in the preceding table are \$3.2 billion and \$4.0 billion of fixed maturities and \$80.4 million and \$67.0 million of short-term investments classified as trading securities as of December 31, 2008 and 2007, respectively. The trading portfolio includes invested assets of \$2.9 billion and \$3.6 billion as of December 31, 2008 and 2007, respectively, held pursuant to modified coinsurance ("Modco") arrangements under which the economic risks and benefits of the investments are passed to third-party reinsurers.

As of December 31, 2008, the Company's fixed maturity investment holdings were approximately \$20.1 billion. The approximate percentage distribution of the Company's fixed maturity investments by quality rating as of December 31, 2008 is as follows:

Rating	As of December 31,	
	2008	2007
AAA	35.2%	43.4%
AA	6.6	8.8
A	19.8	18.5
BBB	33.0	25.7
Below investment grade	5.4	3.6
	100.0%	100.0%

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

Type	As of December 31,	
	2008	2007
	(Dollars In Millions)	
Corporate Bonds	\$10,441.8	\$11,778.6
Residential Mortgage-Backed Securities	4,960.2	7,040.4
Commercial Mortgage-Backed Securities	1,184.9	1,481.3
Asset-Backed Securities	1,132.7	842.2
US Govt Bonds	484.9	321.8
Public Utilities	1,864.5	1,836.1
States, Municipals and Political Subdivisions	30.0	88.4
Preferred Securities		0.1
Convertibles and Bonds with Warrants		0.2
Total Fixed Income Portfolio	\$20,099.0	\$23,389.1

The Company's portfolio consists primarily of fixed maturity securities (bonds and redeemable preferred stocks) and commercial mortgage loans. Within the Company's fixed maturity securities, it maintains portfolios classified as "available-for-sale" and "trading". The Company generally purchases its investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, the Company may sell any of its investments to maintain proper matching of assets and liabilities. Accordingly, the Company classified \$16.9 billion or 83.9% of its fixed maturities as "available-for-sale" as of December 31, 2008. These securities are carried at fair value on the Company's Consolidated Balance Sheets.

A portion of the Company's bond portfolio is invested in residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. These holdings as of December 31, 2008 were approximately \$7.3 billion. Mortgage-backed securities 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. Prepayments of principal on the underlying loans

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can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates. In addition, the Company has entered into derivative contracts at times to partially offset the volatility in the market value of these securities.

The Company obtained ratings of its fixed maturities from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") and Fitch Ratings ("Fitch"). If a bond is not rated by Moody's, S&P, or Fitch, the Company uses ratings from the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC"), or the Company rates the bond 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, 2008, over 99.0% of the Company's bonds were rated by Moody's, S&P, Fitch, and/or the NAIC.

At December 31, 2008, approximately \$19.0 billion of the Company's \$20.1 billion fixed maturities portfolio was invested in U.S. Government or agency-backed securities or investment grade bonds and approximately \$1.1 billion of the Company's fixed maturities portfolio was rated below investment grade, of which \$30.0 million were securities issued in Company-sponsored commercial mortgage loan securitizations.

Risks associated with investments below investment grade debt obligations may be significantly higher than risks associated with investments in debt securities rated investment grade. Risk of loss upon default by the borrower is significantly greater with respect to such debt obligations than with other debt securities because these obligations may be unsecured or subordinated to other creditors. Additionally, there is often a thinly traded market for such securities and current market quotations are frequently not available for some of these securities. Issuers of below investment grade debt obligations usually have higher levels of indebtedness and are more sensitive to adverse economic conditions, such as recession or increasing interest rates, than investment-grade issuers.

During 2008, the Company reported a net loss of \$13.2 million related to credit default swaps for the year ended December 31, 2008. The net loss for the year ended December 31, 2008 was primarily the result of \$19.7 million of mark-to-market losses, partially offset by gains of \$4.2 million related to closed positions and \$2.3 million in premium income. The Company entered into these credit default swaps to enhance the return on its investment portfolio. The Company has sold credit default protection on liquid traded indices to enhance the return on its investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments. The credit default swaps relate to the High Yield Series 8 Index and the Investment Grade Series 9 Index and have terms to June 2014 and December 2017, respectively. Defaults within the High Yield Series 8 Index that exceeded the 25% attachment point would require the Company to perform under the credit default swaps, up to the 35% exhaustion point. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require the Company to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is \$65.0 million. As of December 31, 2008, the fair value of the credit derivatives was a liability of \$19.4 million.

As a result of the ongoing disruption in the credit markets, the fair value of these derivatives is expected to fluctuate in response to changing market conditions. The Company believes that the unrealized loss recorded on the \$65.0 million notional of credit default swaps is not indicative of the economic value of the investment. The Company expects the unrealized loss to reverse over the remaining life of the credit default swap portfolio.

The Company also invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2008, the Company's mortgage loan holdings were approximately \$3.8 billion. The Company does not lend on what it considers to be speculative properties and has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and

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apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based on a conservative, disciplined approach. The Company concentrates its underwriting expertise on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which the Company 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 following table shows a breakdown of the Company's commercial mortgage loan portfolio by property type as of December 31, 2008:

Type	Percentage of Mortgage Loans on Real Estate
Retail	65.2%
Office Buildings	14.3
Apartments	10.1
Warehouses	7.9
Other	2.5
	100.0%

The Company specializes in originating mortgage loans on either credit-oriented or credit-anchored commercial properties. No single tenant's leased space represents more than 2.4% of mortgage loans. Approximately 75% of the mortgage loans are on properties located in the following states:

State	Percentage of Mortgage Loans on Real Estate
Texas	12.5%
Georgia	10.6
Tennessee	8.1
Alabama	7.6
Florida	5.8
South Carolina	5.5
Ohio	4.6
Utah	4.4
North Carolina	4.2
Indiana	3.6
Michigan	2.8
Virginia	2.5
California	2.3
	74.5%

As of December 31, 2008, the average size of loans originated during 2008 was \$4.1 million, the average size mortgage loan in the Company's portfolio was approximately \$2.4 million, and the weighted average interest rate was 6.4%. The largest single mortgage loan amount was \$34.7 million.

Retail loans are predominantly on strip shopping centers anchored by one or more regional or national retail stores. The anchor tenants enter into long-term leases with the Company's borrowers. These centers provide the basic necessities of life, such as food, pharmaceuticals, and clothing. The

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following were the largest anchor tenants (measured by the Company's level of exposure) as of December 31, 2008:

Type	Percentage of Mortgage Loans on Real Estate
Food Lion, Inc.	2.4%
Wal-Mart Stores, Inc.	2.1
Walgreen Corporation	1.9
United States Government	1.3
CVS Drugs, Inc.	1.1
	8.8%

The Company's mortgage lending criteria targets that the loan-to-value ratio on each mortgage be at or less than 75% at the time of origination. Projected rental payments from credit anchors (i.e., excluding rental payments from smaller local tenants) exceed 70% of the property's projected operating expenses and debt service. The Company also offers a commercial loan product 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. Approximately \$746.2 million of the Company's mortgage loans have this participation feature as of December 31, 2008. Exceptions to these loan-to-value measures may be made if the Company believes the mortgage has an acceptable risk profile.

Many of the Company's mortgage loans have call or interest rate reset provisions between 3 and 10 years. However, if interest rates were to significantly increase, the Company may be unable to call the loans or increase the interest rates on its existing mortgage loans commensurate with the significantly increased market rates.

As of December 31, 2008, delinquent mortgage loans and foreclosed properties were less than 0.1% of invested assets. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. As of December 31, 2008, \$15.2 million, or 0.4%, of the mortgage loan portfolio was nonperforming. Unless other factors exist that would cause the Company to reach a different conclusion regarding interest collection, 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.

Between 1996 and 1999, the Company securitized \$1.4 billion of its mortgage loans. The Company sold the senior tranches while retaining the subordinate tranches. The Company continues to service the securitized mortgage loans. During 2007, the Company securitized an additional \$1.0 billion of its mortgage loans. The Company sold the highest rated tranche for approximately \$218.3 million, while retaining the remaining tranches. The Company continues to service the securitized mortgage loans. As of December 31, 2008, the Company had investments related to retained beneficial interests of mortgage loan securitizations of \$855.8 million. See Note 10, *Commercial Mortgage Securitizations*, for additional information on the mortgage loan securitizations.

The Company does not actively invest directly in real estate. The investment real estate held by the Company consists largely of properties obtained through foreclosures or the acquisition of other insurance companies. Foreclosed properties often generate a positive cash flow enabling the Company to hold and manage the property until the property can be profitably sold.

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

For The Year Ended December 31,	Cash, Accrued Investment Income, and Investments at December 31,	Net Investment Income	Percentage Earned on Average of Cash and Investments	Realized Investment Gains (Losses)	
				Derivative Financial Instruments	All Other Investments
(Dollars In Thousands)					
2004	\$ 19,712,244	\$ 1,084,217	6.1	\$ 19,591	\$ 28,305
2005	20,741,423	1,180,502	5.8	(30,881)	49,393
2006	28,299,749	1,419,778	6.0	(21,516)	104,084
2007	29,476,959	1,675,934	5.9	8,469	8,602
2008	27,003,687	1,675,164	5.8	116,657	(584,492)

Ratings

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. These ratings are important to maintaining public confidence in an insurer's products, its ability to market its products and its competitive position. 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 certain types of liquidity. Ratings are not recommendations to buy the Company's securities. The following table summarizes the ratings of the Company and its significant member companies' from the major independent rating organizations as of February 26, 2009:

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance companies financial strength ratings:				
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-			
Other ratings:				
Issuer Credit/Default Rating Protective Life Corporation	a-	A-	A-	
Senior Debt Rating Protective Life Corporation		BBB+		Baa2
Issuer Credit/Default Rating Protective Life Ins. Co.	aa-		AA-	

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. A downgrade or other negative action by a ratings organization with respect to the Company's credit rating could limit its 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.

During September of 2008, Fitch revised its outlook for the U.S. life insurance sector to negative from stable. Fitch stated that this revision reflected the significant deterioration in the credit and equity markets, and the expected impact of realized and unrealized investment losses on life insurers' capital levels and profitability. In addition, during October of 2008, S&P and Moody's each revised their

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outlook for the U.S. Life Insurance sector to negative. S&P stated that it expected to revise the ratings or outlooks on several life insurers in the next few months because of the impact of challenging macroeconomic conditions. Moody's said it expected to take negative rating actions on life insurers that are "weakly positioned at their rating levels" and are most exposed and vulnerable to current negative trends, including rising investment losses and weakening economic conditions.

On November 5, 2008, Moody's announced a one-step downgrade of the insurance financial strength ("IFS") ratings of Protective Life Insurance Company and West Coast Life Insurance Company to A1 from Aa3, and a one-step downgrade of the Company's senior debt rating to Baa1 from A3. Moody's stated that the outlook on the ratings was stable and that this rating action concludes its review of the Company that was begun on October 14, 2008. Also, on November 5, 2008, Fitch announced a one-step downgrade of its IFS ratings of Protective Life Insurance Company, West Coast Life Insurance Company and Protective Life and Annuity Insurance Company to A+ from AA-, and a one-step downgrade of the Company's issuer default rating to A- from A and a one-step downgrade of the Company's senior debt ratings from A- to BBB+. Fitch stated that the rating outlook is negative. The ratings downgrades announced by Moody's and Fitch did not trigger any requirements for the Company to post collateral or otherwise negatively impact current obligations of the Company.

On February 11, 2009 A.M. Best Co. affirmed the financial strength ratings of our primary life/health subsidiaries at A+, and announced a one-step downgrade of the debt ratings of Protective Life Corporation to a- from a, and a one-step downgrade of the issuer credit ratings ("ICR") to aa- from aa of our primary life/health subsidiaries. A.M. Best stated that the outlook for all ratings has been revised to negative from stable. On February 12, 2009, Moody's Investors Service downgraded the senior debt rating of Protective Life Corporation to Baa2 from Baa1. The IFS ratings of the Company's life insurance subsidiaries, including Protective Life Insurance Company, were downgraded to A2 from A1. The outlook for the ratings has been changed to negative. On February 26, 2009, Standard & Poor's Rating Services lowered both the IFS ratings and the ICR of the Company's life insurance subsidiaries, including Protective Life Insurance Company, to AA- from AA. In addition, Standard & Poor's downgraded the ICR for Protective Life Corporation to A- from A. The outlook for the ratings was affirmed as stable.

Life Insurance In-Force

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

	For The Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars In Thousands)				
New Business Written					
Life Marketing	\$ 57,534,379	\$ 89,463,255	\$ 81,389,241	\$ 60,435,133	\$ 77,917,553
Asset Protection	2,077,540	2,786,447	3,095,205	3,770,783	5,702,146
Total	\$ 59,611,919	\$ 92,249,702	\$ 84,484,446	\$ 64,205,916	\$ 83,619,699
Business Acquired					
Acquisitions	\$	\$	\$224,498,169	\$	\$
Insurance In-Force at End of Year⁽¹⁾					
Life Marketing	\$544,248,010	\$517,797,133	\$453,937,534	\$435,430,943	\$372,395,267
Acquisitions	227,708,203	243,050,966	265,837,876	26,861,772	29,135,715
Asset Protection	3,651,779	4,333,952	4,718,018	5,496,543	6,807,494
Total	\$775,607,992	\$765,182,051	\$724,493,428	\$467,789,258	\$408,338,476

(1) Reinsurance assumed has been included, reinsurance ceded (2008 \$540,561,213; 2007 \$531,984,866; 2006 \$576,790,608; 2005 \$393,605,152; 2004 \$354,015,938) 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 was:

As of December 31,	Ratio of Voluntary Termination
2004	4.6%
2005	4.2
2006	3.9
2007	4.5
2008	4.7

Investment Products In-Force

The amount of investment products in-force is measured by account balances. The following table shows stable value product, acquisitions segment, and annuity segment account balances. Most of the variable annuity account balances are reported in the Company's financial statements as liabilities related to separate accounts.

As of December 31,	Stable Value Products	Modified Guaranteed Annuities	Fixed Annuities	Variable Annuities
	(Dollars In Thousands)			
2004	\$5,562,997	\$ 2,406,426	\$ 753,832	\$2,612,077
2005	6,057,721	2,348,037	777,422	2,639,670
2006	5,513,464	2,424,218	4,981,587	4,302,413
2007	5,046,463	2,745,123	5,932,336	4,128,666
2008	4,960,405	3,497,482	6,087,419	3,220,519

Below are the fixed annuity account balances by segment as of December 31, 2008 and 2007:

As of December 31,	Annuities	Acquisitions	Total
	(Dollars In Thousands)		
2008	\$3,102,602	\$2,872,014	\$5,974,616*
2007	2,152,009	3,655,646	5,807,655*

*

Note that this amount does not agree to the total in the Fixed Annuities column in the table above as a result of immaterial amounts included within other segments.

Below are the variable annuity account balances by segment as of December 31, 2008 and 2007:

As of December 31,	Annuities	Acquisitions	Total
	(Dollars In Thousands)		
2008	\$1,895,808	\$1,324,711	\$3,220,519
2007	2,706,239	1,422,427	4,128,666

Note that certain reclassifications have been made to previously reported amounts in the tables above to make the prior year comparable to the current year. Such reclassifications had no effect on total account balances.

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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 and, in some cases, inspection reports, attending physician statements, or medical examinations to determine whether a policy should be issued as applied for, other than applied for, or rejected. Medical examinations of applicants are required for individual life insurance in excess of certain prescribed amounts (which vary based on the type of insurance) and for most individual insurance applied for by applicants over age 50. In the case of "simplified issue" policies, which are issued primarily through the Asset Protection segment, coverage is rejected if the responses to certain health questions contained in the application indicate adverse health of the applicant. For other than "simplified issue" policies, medical examinations are requested of any applicant, regardless of age and amount of requested coverage, if an examination is deemed necessary to underwrite the risk. Substandard risks may be referred to reinsurers for evaluation of the substandard risk.

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, except in the worksite and BOLI markets where limited blood testing is required. Blood samples are tested for a wide range of chemical values and are screened for antibodies to the HIV virus. Applications also contain questions permitted by law regarding the HIV virus which must be answered by the proposed insureds.

During the third quarter of 2006, the Company introduced an advanced underwriting system, TeleLife®, through the brokerage agent distribution channel for traditional insurance. 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 TeleLife® program was expanded to include the stock brokerage channel in 2008.

During 2008, the Company increased its retention limit to \$2,000,000 on certain of its traditional life products.

Reinsurance Ceded

The Company's insurance subsidiaries cede 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 used reinsurance to reinsure guaranteed minimum death benefit ("GMDB") claims relative to our variable annuity contracts.

For approximately 10 years prior to mid-2005, the Company entered into reinsurance contracts in which the Company ceded a significant percentage, generally 90% of its newly written business on a first dollar quota share basis. The Company's traditional life insurance was ceded under coinsurance contracts and universal life insurance was ceded under yearly renewable term ("YRT") contracts. In mid-2005, the Company substantially discontinued coinsuring its newly written traditional life insurance and moved to YRT reinsurance as discussed below. The Company continues to reinsure 90% of the mortality risk, but not the account values, on its newly written universal life insurance.

The Company currently enters into reinsurance contracts with reinsurers under YRT contracts to provide coverage for insurance issued in excess of the amount it retains on any one life. The amount of insurance retained on any one life was \$500,000 in years prior to mid-2005. In 2005, this retention was increased to amounts up to \$1,000,000 for certain policies, and during 2008, was increased to \$2,000,000 for certain policies.

During recent years, the life reinsurance market continued the process of consolidation and tightening, resulting in a higher net cost of reinsurance for much of our life insurance business. The Company has also been challenged by changes in the reinsurance market which have impacted

management of capital, particularly in the Company's term life business which is required to hold reserves pursuant to the Valuation of Life Insurance Policies Model Regulation ("Regulation XXX"). In response to these challenges, in 2005, the Company reduced its overall reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance arrangements for certain newly issued traditional life products. Additionally in 2005, for certain newly issued traditional life products, the Company increased, from \$500,000 to \$1,000,000, the amount of insurance it will retain on any one life. During 2008, the Company has increased its retention limit to \$2,000,000 on certain of its traditional life products. These YRT arrangements are utilized to limit the Company's exposure to large claims, and are not a significant factor in capital management or the overall profitability of the business.

In order to fund the additional statutory reserves required as a result of these changes in the Company's reinsurance arrangements, the Company established a surplus notes facility under which it issued an aggregate of \$930.0 million of non-recourse funding obligations through December 2008. As of December 31, 2008, the aggregate amount of \$930.0 million consisted of \$130.0 million in aggregate principal amount of Series B Notes and \$800.0 million in aggregate principal amount of floating rate surplus notes previously issued under the Facility (the "Series A Notes" and together with the Series B Notes, the "Notes"). Of this amount, \$130.0 million is eliminated at the consolidated level. In addition, during 2007, the Company established a surplus notes facility relative to its universal life products. Under this facility, the Company issued \$575 million of non-recourse funding obligations that will be used to fund statutory reserves required by Regulation XXX, as clarified by Actuarial Guideline 38 ("AG38") (commonly known as "AXXX"). The Company has received regulatory approval to issue additional series of its floating rate surplus notes up to an aggregate of \$675 million principal amount. The Company's maximum retention for certain newly issued universal life products is \$2,000,000.

During 2006, immediately after the closing of the Company's acquisition of the Chase Insurance Group, the Company entered into agreements with Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC") and Wilton Reassurance Company and Wilton Reinsurance Bermuda Limited (collectively, the "Wilton Re Group"), whereby CALIC reinsured 100% of the variable annuity business of the Chase Insurance Group and the Wilton Re Group reinsured approximately 42% of the other insurance business of the Chase Insurance Group.

At December 31, 2008, the Company had insurance in-force of \$775.6 billion of which approximately \$535.6 billion was ceded to reinsurers. See Note 8, *Reinsurance* to Consolidated Financial Statements for additional information related to the Company's use of reinsurance.

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 the amounts which, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated in accordance with applicable law 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 ("U.S. 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; from the introduction of lapse assumptions into the calculation; and from the use of the net level premium method on all business. 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, with certain exceptions as permitted by actuarial guidelines.

Federal Income Tax Consequences

Existing federal laws and regulations affect the taxation of the Company's products. Income tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company's products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products, or to increase the tax-deferred status of competing products, all life insurance companies, including the Company and its subsidiaries, will be adversely affected with respect to their ability to sell such products. Also, depending upon grandfathering provisions, the Company will be affected by the surrenders of existing annuity contracts and life insurance policies.

Additionally, if enacted, proposed changes in the federal tax law would establish new tax-advantaged retirement and life savings plans that will reduce the tax advantage of investing in life insurance or annuity products. Such proposals include changes that create new non-life-insurance vehicles for tax-exempt savings, and such proposals sometimes include provisions for more generous annual limits on contributions, etc.

In addition, life insurance products are often used to fund estate tax obligations. Legislation has been enacted that reduces and eventually eliminates the federal estate tax. Under the legislation that has been enacted, the estate tax will be reinstated, in its entirety, in 2011 and thereafter. Members of Congress have expressed a desire to modify the existing legislation, which modification could result in faster or more complete reduction or repeal of the estate tax. If the estate tax is significantly reduced or eliminated, the demand for certain life insurance products could be adversely affected.

Additionally, the Company is subject to corporate income tax. 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.

The Company's insurance subsidiaries are taxed by the federal government in a manner similar to companies in other industries. However, certain restrictions apply regarding the consolidation of recently-acquired life insurance companies into the Company's consolidated U.S. income tax return. Additionally, restrictions apply to the combining, in a consolidated U.S. income tax return, of life-insurance-company taxable income or losses with non-life-insurance-company taxable losses, or income respectively. For 2008, the Company will consolidate all of its subsidiaries into its consolidated U.S. income tax return except for Protective Life Insurance Company of New York. The former Chase life insurance companies that were merged into Protective Life Insurance Company will be consolidated as of the date at which each was merged. The Company will file short-period returns for those merged companies representing activity during the pre-merger timeframe.

Competition

Life and health insurance is a mature and highly competitive industry. In recent years, the industry has experienced little growth 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 move away from reliance on reinsurance for newly written traditional life products results in a net reduction of current taxes (but an increase in deferred taxes). The Company allocates the benefits of reduced current taxes to the life marketing segment and the profitability and competitive position of certain products is dependent on the continuation of existing tax rules and interpretations and its ability to generate taxable income.

The insurance industry is consolidating, with larger, potentially more efficient organizations emerging from consolidation. Participants in certain of the Company's independent distribution channels are also consolidating into larger organizations. Some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of the Company's products by substantially increasing the number and financial strength of potential competitors.

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 strong 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.

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. Risk management includes the assessment of risk, a decision process to determine which risks are acceptable and the ongoing monitoring and management of those risks. The primary objective of these risk management processes is to determine the acceptable level of variations the Company experiences from its expected results.

Regulation

The Company and its subsidiaries are subject to government regulation in each of the states in which it conducts business. 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, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. At any given time, a number of financial and/or market conditions examinations of the Company's subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of the Company's subsidiaries that could, if determined adversely, have a material impact on the Company. The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products, and the Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

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The purchase of life insurance products is limited by state insurable interest laws, which generally 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.

The Company cannot predict whether or when regulatory actions may be taken that could adversely affect the Company or its operations. Interpretations of regulations by regulators may change and statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting or reserve requirements. Although the Company and its subsidiaries are subject to state regulation, in many instances the state regulatory models emanate from NAIC. Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Although with respect to some financial 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 the action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. As an example of both retroactive and prospective impacts, in late 2005, the NAIC approved an amendment to AG38, commonly known as AXXX, which interprets the reserve requirements for universal life insurance with secondary guarantees. This amendment retroactively increased the reserve requirements for universal life insurance with secondary guarantee products issued after July 1, 2005. This change to AG38 also affected the profitability of universal life products sold after the adoption date. The NAIC is continuing to study reserving methodology and has issued additional changes to AXXX and Regulation XXX, which have had the effect of modestly decreasing the reserves required for certain traditional and universal life policies that were issued on January 1, 2007 and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

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, pre-empting state law in certain respects to the regulation of reinsurance, and other matters. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company or whether any effects will be material.

The Company's insurance subsidiaries are required to file detailed annual reports with the supervisory 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 supervisory 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. 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. 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. The Company's insurance subsidiaries were assessed immaterial amounts in 2008, which will be partially offset by credits against future state premium taxes.

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 Protective Life 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.

The states in which the Company's insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay dividends to Protective Life Corporation. 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 Protective Life Corporation by its insurance subsidiaries in 2009 is estimated to be \$176.8 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.

The Company's insurance subsidiaries may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by the Employee Retirement Income Security Act ("ERISA"). Severe penalties are imposed for breach of duties under ERISA.

Certain 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.

On January 15, 2009, the Federal Reserve Board of Governors announced its approval of the Company's application to become a bank holding company by acquiring the Bonifay Holding Company ("BHC") and its subsidiary, The Bank of Bonifay (the "Bank"). The Company's acquisition of BHC and the Bank are contingent on, among other things, the receipt of all required regulatory and third-party approvals, the Company's completion of satisfactory due diligence, the approval of the transaction by the stockholders of BHC, and the Company's participation in the U.S. Treasury Department's Capital Purchase Program ("CPP") under the Troubled Asset Relief Program authorized by the Emergency Economic Stabilization Act. If the Company completes the acquisition of BHC and the Bank, the Company will be subject to regulation by the Federal Reserve as a bank holding company. The Company could also be subject to other restrictions, such as limits on executive compensation, under the CPP.

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

Employees

At December 31, 2008, the Company had approximately 2,372 employees, including approximately 1,287 employees in Birmingham, Alabama. 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 2008 was approximately \$10.3 million. In addition, substantially all of the employees are covered by a defined benefit pension plan. In 2008 and 2007, the Company also matched employee contributions to its 401(k) Plan and in 2007 made discretionary profit sharing contributions for employees not otherwise covered by a bonus or sales incentive plan. See Note 12, *Shareowners' Equity and Stock-Based Compensation* and Note 13, *Employee Benefit Plans* to Consolidated Financial Statements for additional information.

Executive Officers

As of February 27, 2009, the Company's executive officers were as follows:

Name	Age	Position
John D. Johns	57	Chairman of the Board, President, Chief Executive Officer, and a Director
Richard J. Bielen	48	Vice Chairman and Chief Financial Officer
Carolyn M. Johnson	48	Executive Vice President, Chief Operating Officer
Deborah J. Long	55	Executive Vice President, Secretary, and General Counsel
Carl S. Thigpen	52	Executive Vice President and Chief Investment Officer
D. Scott Adams	44	Senior Vice President and Chief Human Resources Officer
Brent E. Griggs	53	Senior Vice President, Asset Protection
Carolyn King	59	Senior Vice President, Acquisitions
Steven G. Walker	49	Senior Vice President, Controller, and Chief Accounting Officer
Judy Wilson	50	Senior Vice President, Stable Value Products

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 since June 2007. From August 2006 to June 2007, Mr. Bielen served as Executive Vice President of the Company and as Chief Investment Officer and Treasurer from January 2002 to June 2007. From January 2002 to September 2006, he was Senior Vice President, Chief Investment Officer and Treasurer. Mr. Bielen has been employed by the Company and its subsidiaries since 1991.

Ms. Johnson has been Executive Vice President and Chief Operating Officer of the Company since June 2007. From November 2006 to June 2007, she served as Senior Vice President and Chief Operations and Technology Officer of the Company. Ms. Johnson served as Senior Vice President, Chief Operating Officer, Life and Annuity of the Company from May 2006 to November 2006. From August 2004 to May 2006, she served as Senior Vice President and Chief Operating Officer, Life and Annuity of Protective Life Insurance Company. From 2003 to 2004, Ms. Johnson served as Senior Vice President, Bankers Life and Casualty.

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

Mr. Thigpen has been Executive Vice President and Chief Investments 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. From May 2005 to March 2006, he served as an Executive Search Consultant for the wealth and investment management business sector with Anderson & Associates in Charlotte, NC. From 1996 to 2004, Mr. Adams was Senior Vice President and Human Resource Executive for the Wealth and Investment Management Division of Bank of America.

Mr. Griggs has been Senior Vice President, Asset Protection, of the Company since February 2003. Mr. Griggs has been employed by the Company and its subsidiaries since 1997.

Ms. King has been Senior Vice President, Acquisitions of the Company since May 2008. From June 2007 to May 2008, Ms. King served as Senior Vice President, Acquisitions and Corporate Development. From December 2003 to June 2007, she served as Senior Vice President, Acquisitions of the Company. Ms. King served as Senior Vice President, Life and Annuity of the Company from January 2003 until December 2003. Ms. King has been employed by the Company and its subsidiaries since April 1995.

Mr. Walker has been Senior Vice President, Controller, and Chief Accounting Officer of the Company since March 2004. From September 2003 through March 2004, he served as Vice President, Controller, and Chief Accounting Officer of the Company. From August 2002 to September 2003, he served as Vice President and Chief Financial Officer of the Asset Protection Division of the Company.

Ms. Wilson has been Senior Vice President, Stable Value Products of the Company since January 1995. Ms. Wilson has been employed by the Company and its subsidiaries since 1989.

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

Item 1A. Risk Factors and Cautionary Factors that may Affect Future Results

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 the known trends and uncertainties which are discussed more fully below.

The Company is exposed to the risks of natural disasters, pandemics, malicious and terrorist acts that could adversely affect the Company's operations.

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 disaster or pandemic could adversely affect the mortality or morbidity experience of the Company or its reinsurers. A severe pandemic could result in a substantial increase in mortality experience and have a significant negative impact on the Company's surplus capital. A pandemic could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. In addition, a pandemic could result in large areas being subject to quarantine, with the result that economic activity slows or ceases, adversely affecting the marketing or administration of the

Company's business within such area and/or the general economic climate, which in turn could have an adverse affect on the Company. The possible macroeconomic effects of a pandemic could also adversely affect the Company's asset portfolio, as well as many other variables.

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 little 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.

The insurance industry is consolidating, with larger, potentially more efficient organizations emerging from consolidation. Participants in certain of the Company's independent distribution channels are also consolidating into larger organizations. Some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of the Company's products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies and other financial service companies with which the Company does business could also have an adverse affect on its financial condition and results of operations if they require more favorable terms than the Company previously offered or if they 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 strong 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.

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. These ratings are important to maintaining public confidence in the Company's 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 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 funding and swap agreements.

Rating organizations also publish credit ratings for 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 certain types of liquidity. Downgrades of the Company's credit ratings, or an announced potential downgrade, could have a material adverse affect on the Company's financial conditions and results of operations in many ways. These include 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 growth at its insurance subsidiaries, 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.

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 and circumstances outside the rated company's control. 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. 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, which could adversely affect the Company.

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 policy claims received by the Company. Certain of the Company's businesses may experience higher claims if the economy is growing slowly or in recession, or equity markets decline. Additionally, beginning in the third quarter of 2005, the Company increased its retained amounts on newly written traditional life products. This change will cause greater variability in financial results due to fluctuations in mortality results.

The Company's results 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 the mortality, persistency, expenses and interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance or other factors appropriate to the type of business it expects to experience in future periods. These 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 operations 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 experiences, as well as changes in estimates, are used to prepare the Company's statements of income. To the extent the Company's actual experience and changes in estimates differ from original estimates, the Company's financial condition is 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 will differ from expectations if actual results differ from those assumptions. 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 and it from time to time will develop and implement 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's valuation of its investments, financial condition or results of operations could be adversely impacted by results that differ from its expectations or assumptions.

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. 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 its investments in corporate securities will perform worse than current expectations. Such events may lead the Company to recognize potential future write-downs within its portfolio of corporate securities. It is also possible that such unanticipated events would lead the Company to dispose of those certain holdings and recognize the effects of any market movements in its financial statements.

As a result of illiquid markets, 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.

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 may differ 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 results.

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

Many of the products offered by the Company and its insurance subsidiaries allow policyholders and contract holders to withdraw their funds under defined circumstances. The Company and its insurance subsidiaries manage their liabilities and configure their investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. While the Company and its life insurance subsidiaries own a significant amount of liquid assets, a certain portion of their assets are relatively illiquid. If the Company or its subsidiaries

experience unexpected withdrawal or surrender activity, the Company or its subsidiaries could exhaust their liquid assets and be forced to liquidate other assets, perhaps at a loss or on other unfavorable terms. If the Company or its subsidiaries are 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.

Interest rate fluctuations could negatively affect the Company's spread income or otherwise impact its business.

Significant changes in interest rates expose insurance companies to the risk of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect the Company's spread income. While the Company develops and maintains asset/liability management programs and procedures designed to mitigate the effect on spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not affect such spreads.

From time to time, the Company has participated in securities repurchase transactions that have contributed to the Company's investment income. No assurance can be given that such transactions will continue to be entered into and contribute to the Company's investment income in the future.

Changes in interest rates may also impact its business in other ways. Lower interest rates may result in lower sales of certain of the Company's insurance and investment products. Certain of the Company's insurance and investment products guarantee a minimum credited interest rate, and the Company could become unable to earn its spread income should interest rates decrease significantly. The Company's expectation for future spreads is an important component in the amortization of DAC and VOBA and significantly lower spreads may cause it to accelerate amortization, thereby reducing net income in the affected reporting period. Additionally, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible 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 carry lower returns.

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 may also increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of variable 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 contractholders 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.

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 are improved 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.

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

Volatility in equity markets may discourage 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.

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 and guaranteed minimum withdrawal benefits incorporate various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates 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.

The amortization of deferred policy acquisition costs relating to variable products and the estimated cost of providing guaranteed minimum death benefits and guaranteed minimum withdrawal benefits incorporate various assumptions about the overall performance of equity markets over certain time periods. The rate of amortization of deferred policy acquisition costs and the cost of providing guaranteed minimum death benefits and guaranteed minimum withdrawal benefits could increase if equity market performance is worse than assumed.

Insurance companies are highly regulated and subject to numerous legal restrictions and regulations.

The Company and its subsidiaries are subject to government regulation in each of the states in which they conduct business. 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, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. 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 of the Company's subsidiaries that could, if determined adversely, have a material impact on the Company. The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products, and the Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

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. 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.

The Company cannot predict whether or when regulatory actions may be taken that could adversely affect the Company or its operations. Interpretations of regulations by regulators may change

and statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting or reserve requirements.

Although the Company and its subsidiaries are subject to state regulation, in many instances the state regulatory models emanate from the National Association of Insurance Commissioners ("NAIC"). 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 at the expense of the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal issue may not result in 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 issue may change over time to the Company's detriment, or that changes to the overall legal environment, even absent any change of interpretation by a particular regulator, may cause the Company to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to the Company's practices that may, in some cases, limit its ability to grow and improve profitability.

Some of the 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 impact on currently sold products. As an example of both retroactive and prospective impacts, in late 2005, the NAIC approved an amendment to Actuarial Guideline 38, commonly known as AXXX, which interprets the reserve requirements for universal life insurance with secondary guarantees. This amendment retroactively increased the reserve requirements for universal life insurance with secondary guarantee products issued after July 1, 2005. This change to Actuarial Guideline 38 ("AG38") also affected the profitability of universal life products sold after the adoption date. The NAIC is continuing to study reserving methodology and has issued additional changes to AXXX and Regulation XXX, which have had the effect of modestly decreasing the reserves required for certain traditional and universal life policies that were issued on January 1, 2007 and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

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, pre-empting state law in certain respects to the regulation of reinsurance, and other matters. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company or whether any effects will be material. Additionally, completion of the Company's proposed conversion into a Bank Holding Company would subject it to additional regulation by federal and state banking regulators and could impose additional capital requirements, restrictions on the Company's business operations, or both.

The Company's subsidiaries may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by the Employee Retirement Income Security Act ("ERISA"). Severe penalties are imposed for breach of duties under ERISA.

Certain policies, contracts, and annuities offered by the Company's subsidiaries are subject to regulation under the federal securities laws administered by the Securities and Exchange Commission.

The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting practices, anti-trust laws, minimum solvency requirements, state securities laws, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws, and because the Company owns and operates real property, state, federal, and local environmental laws. The Company cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on the Company if enacted into law.

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 tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company's products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products, or to increase the tax-deferred status of competing products, all life insurance companies, including the Company and its subsidiaries, would be adversely affected with respect to their ability to sell such products, and, depending upon grandfathering provisions, would be affected by the surrenders of existing annuity contracts and life insurance policies. For example, changes in laws or regulations could restrict or eliminate the advantages of certain corporate or bank-owned life insurance products. Changes in tax law, which have reduced the federal income tax rates on corporate dividends in certain circumstances, could make the tax advantages of investing in certain life insurance or annuity products less attractive. Additionally, changes in tax law based on proposals to establish new tax advantaged retirement and life savings plans, if enacted, could reduce the tax advantage of investing in certain life insurance or annuity products. In addition, life insurance products are often used to fund estate tax obligations. Legislation has been enacted that reduces and eventually eliminates the federal estate tax. Under the legislation that has been enacted, the estate tax will be reinstated, in its entirety, in 2011 and thereafter. Members of Congress have expressed a desire to modify the existing legislation, which modification could result in faster or more complete reduction or repeal of the estate tax. If the estate tax is significantly reduced or eliminated, the demand for certain life insurance products could be adversely affected. Additionally, the Company is subject to the federal corporation income tax. 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 could adversely affect the Company.

The Company's move away from relying on reinsurance for newly written traditional life products results in a net reduction of current taxes (but an increase in 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.

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.

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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. 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.

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

A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales, underwriting practices, product design, product disclosure, 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 insurer does business, payment of sales or other contingent commissions, 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 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 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.

Group health coverage issued through associations and credit insurance coverages have received some negative coverage 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 purported class action lawsuit is currently pending against the Company in connection with this business.

In connection with the Company's discontinued Lender's Indemnity product, it has discovered facts and circumstances that support allegations against third parties (including policyholders and the administrator of the associated loan program), and it has instituted litigation to establish the rights and liabilities of various parties. A counterclaim in the litigation and separate related lawsuits have been filed by various parties (including the Chapter 11 Plan trustee) seeking to assert liability against the Company for various matters. Claims that have been asserted against the Company in this litigation include alleged contractual claims, bad faith, claims with respect to policies for which premiums were not received by the Company, and recoupment based on a fraudulent transfer theory. The Company is vigorously defending these claims. Although the Company cannot predict the outcome of any litigation, it does not believe that the outcome of these matters will have a material impact on the Company's financial condition or results of operations.

The Company, like other financial services companies, in the ordinary course of business is involved in litigation and arbitration. Although the Company cannot predict the outcome of any litigation or arbitration, the Company does not believe that any such outcome will have a material impact on the financial condition or results of operations of the Company.

Publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

Publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations relating to the numerous laws that govern publicly held companies and the financial services and insurance business. The Company cannot predict the impact of any such investigations on the Company or the industry.

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The financial services industry has become the focus of increased scrutiny by regulatory and law enforcement authorities relating to allegations of improper special payments, price-fixing, bid-rigging and other alleged misconduct, including payments made by insurers and other financial services providers to brokers and the practices surrounding the placement of insurance business and sales of other financial products as well as practices related to finite reinsurance. Some publicly held companies have been the subject of enforcement or other actions relating to corporate governance and the integrity of financial statements, most recently relating to the issuance of stock options. Such publicity may generate inquiries to or litigation against publicly held companies and/or financial service providers, even those who do not engage in the business lines or practices currently at issue. It is impossible to predict the outcome of these investigations or proceedings, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of this increased regulatory and law enforcement scrutiny of the financial services industry on the Company. As some inquiries appear to encompass a large segment of the financial services industry, it would not be unusual for large numbers of companies in the financial services industry to receive subpoenas, requests for information from regulatory authorities or other inquiries relating to these and similar matters. From time to time, the Company receives subpoenas, requests or other inquiries and responds to them in the ordinary course of business.

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 (continuation or renewal) 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 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 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's investments are subject to market, credit, legal and regulatory 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 customary 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. 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. 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, and general economic conditions as well as particular circumstances affecting the businesses of individual borrowers and tenants.

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Significant continued financial and credit market volatility, changes in interest rates, 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, 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. 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.

In addition, there are currently several proposals being considered by Congress and various agencies that would facilitate or require servicers of residential mortgage-backed securities ("RMBSs ") to modify the principal amount of, and/or restructure the amounts payable pursuant to, the residential mortgage loans underlying such securities. Similarly, there are currently several proposals being considered by Congress, including Senate Bill 61, that would grant a bankruptcy court the ability to modify or restructure the payments owing on mortgage loans, which loan modifications could result in a discharge of underlying principal amounts. To the extent a principal loss is imposed by a bankruptcy court (a so-called "cramdown"), under some RMBS structures, the loss would be allocated among the various tranches differently than would a loss resulting from foreclosure, and thus under some RMBS structures could have a disproportionate effect on the higher rated tranches. The Company is unable to predict whether such proposals will be approved and, if so, what specific impact such proposals would have on its fixed income investment portfolio. However, a reduction in the principal amount of the mortgage loans securing a RMBS in our portfolio could result in, among other things, a ratings downgrade of the individual RMBS, a reduction in the market value of the RMBS, and/or accelerated loss of principal on the RMBS. The occurrence of these events could have a material adverse impact on the Company's capital position for regulatory and other purposes, its business and its results of operations.

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

The Company's acquisitions have increased its earnings in part by allowing the Company to enter new markets and to position itself to realize certain operating efficiencies. There can be no assurance, however, that suitable acquisitions presenting opportunities for continued growth and operating efficiencies, or capital to fund acquisitions, will continue to be available to the Company, or that the Company will realize the anticipated financial results from its acquisitions.

The Company may be unable to complete an acquisition, or completion of an acquisition may be more costly or take longer than expected or may have a different financing structure than initially contemplated. The Company may be unable to obtain regulatory approvals that may be required to complete an acquisition. There may be unforeseen liabilities that arise in connection with businesses that the Company acquires.

Additionally, in connection with its acquisitions, 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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The Company may not be able to achieve the expected results from its recent acquisition.

On July 3, 2006, the Company completed its acquisition from JP Morgan Chase & Co. of the stock of five life insurance companies and the stock of four related non-insurance companies. The Company may not achieve the returns projected from its analysis of the acquisition opportunity, and the effects of the purchase generally accepted in the United States of America ("U.S. GAAP") accounting on the Company's financial statements may be different than originally contemplated.

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, and variable annuity deposits are invested in funds managed by third parties. Also, a substantial portion of the Chase Insurance Group acquisition business is being administered by third-party administrators. 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, its 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 reinsurers could fail to meet assumed obligations, increase rates 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. The Company may enter into third-party reinsurance arrangements under which the Company will rely on the third party to collect premiums, pay claims, and/or perform customer service functions. 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 obligations assumed. 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 ability to compete is dependent on the availability of reinsurance or other substitute financing solutions. 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, the reinsurer may increase the rate it charges the Company for the reinsurance. Therefore, if the cost of reinsurance were to increase or if reinsurance were to become unavailable or 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.

Recently, access to reinsurance has become more costly for the Company as well as the insurance industry in general. This could have a negative effect on the Company's ability to compete. 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 the Company 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. If such events cause a reinsurer to fail to meet its obligations, the Company would be adversely impacted.

The Company has implemented, and plans to continue to expand, 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 reflects a liability consisting of the full reserve amount attributable to the reinsured business. The success of the Company's captive reinsurance program and related marketing efforts 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 ability to continue to offer its products on terms favorable to the Company would be adversely impacted.

The occurrence of computer viruses, network security breaches, disasters or other unanticipated events could affect the data processing systems of the Company or its business partners and could damage the Company's business and adversely affect its financial condition and results of operations.

A computer virus could affect the data processing systems of the Company or its business partners, destroying valuable data or making it difficult to conduct business. In addition, despite the Company's implementation of network security measures, its servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with its computer systems.

The Company retains confidential information in its computer systems, and relies on sophisticated commercial technologies to maintain the security of those systems. Anyone who is able to circumvent the Company's security measures and penetrate the Company's computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. In addition, an increasing number of states require that customers be notified of unauthorized access, use or disclosure of their information. Any compromise of the security of the Company's computer systems that result in inappropriate access, use or disclosure of personally identifiable customer information could damage the Company's reputation in the marketplace, deter people from purchasing the Company's products, subject the Company to significant civil and criminal liability and require the Company to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, or a terrorist attack or war, the Company's computer systems may be inaccessible to its employees, customers or business partners for an extended period of time. Even if the Company's employees are able to report to work, they may be unable to perform their duties for an extended period of time if the Company's data or systems are disabled or destroyed.

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

The Company has recently deployed significant amounts of capital to support its sales and acquisitions efforts. An amendment to Actuarial Guideline 38 increased the reserve requirements for universal life insurance with secondary guarantees for products issued after July 1, 2005. This amendment, along with the continued reserve requirements of Regulation XXX for traditional life insurance products, has caused the sale of these products to consume additional capital. The

Company's future marketing plans are dependent on its ability to access financing solutions. Continuing disruption of the credit markets, or the Company's inability to access capital could have a negative impact on the Company's ability to grow. 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 neither predictable nor foreseeable, nor within the Company's control. A lack of sufficient capital could impair the Company's ability to grow.

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

Like all publicly traded companies, the Company is required to comply with U.S. GAAP. A number of organizations are instrumental in the development and interpretation of U.S. GAAP such as the SEC, the Financial Accounting Standards Board ("FASB"), and the American Institute of Certified Public Accountants ("AICPA"). U.S. GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. The Company can give no assurance that future changes to U.S. GAAP will not have a negative impact on the Company. U.S. GAAP includes the requirement to carry certain investments and insurance 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.

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals either are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect the Company, including one that relates to certain reinsurance credits, and some of which could positively impact the Company. The NAIC is also currently working to reform state 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 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. Moreover, although in general with respect to regulations and guidelines, states 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.

The Company's risk management policies and procedures could leave it exposed to unidentified or unanticipated risk, which could negatively affect our 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.

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

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

Significant volatility or disruption in credit markets 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, such as those the Company is now experiencing, 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. 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 reductions in statutory surplus. This has resulted and may continue to result in the need to devote significant additional capital to support the product.

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 or 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 market and other factors. The Company cannot predict the continued availability of such solutions to the Company or the form that the market may dictate. To the extent that such financing solutions 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 expectations.

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, as well as raising capital by issuing a variety of equity securities.

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, as has been the case recently, the Company may not be able to borrow or raise equity capital, 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 or raise capital, 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, shareholders, 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 conditions in the economy generally could adversely affect the Company's business and results from operations.

A general economic slowdown could adversely affect the Company in the form of consumer behavior and pressure on the Company's investment portfolios. Consumer behavior could include decreased demand for the Company's products and elevated levels of policy lapses, policy loans, withdrawals and surrenders. The Company's investment and mortgage loan portfolios could be adversely affected as a result of deteriorating financial and business conditions affecting the issuers of the securities in the Company's investment portfolio and the Company's commercial mortgage loan borrowers and their tenants.

Continued deterioration of general economic conditions could result in a severe and extended economic recession, which could materially adversely affect the Company's business and results of operations.

On December 1, 2008 the National Bureau of Economic Research officially declared that the United States economy has been in a recession since December of 2007. In addition, historical indicators of economic growth have continued to decline and currently show little or no sign of impending improvement. The U.S. Department of Labor announced in February of 2009 that the number of unemployed persons increased by 4.1 million, or 2.7%, since the recession began. Gross domestic product ("GDP") fell by 3.8% in the fourth quarter of 2008. This decline represented the biggest drop since 1982. Concerns over a weakened labor market, inflation, the availability and cost of credit and continued declines in the housing market drove the consumer confidence index to a new all-time low in December. Economic conditions have continued to deteriorate in early 2009.

The Company has been adversely affected, to a significant extent, by these conditions. Among other effects, the Company incurred significant realized losses and impairments in its investment portfolio, with charges incurred as a result of mark-to-market and fair value accounting principles. These charges resulted in a net loss for the third and fourth quarters and the year. These conditions also led to severe downward pressure on the Company's stock price during 2008.

The negative economic trends of 2008 may worsen in 2009, thus contributing to increased volatility and diminished expectations for the economy and markets going forward. This could result in a severe and extended economic recession characterized by protracted declines in business activity and consumer confidence. The Company cannot predict the duration of such a recession or, when the global economy improves, how long it will take to return to historically normal levels. The occurrence of a severe and extended economic recession could have a material adverse effect on the Company's business and results of operations.

There can be no assurance that the actions of the U.S. Government or other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve their intended effect.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was signed into law. Pursuant to EESA, the U.S. Treasury has the authority to, among other things, purchase up to \$700 billion of securities from financial institutions for the purpose of stabilizing financial markets. Under EESA and the Troubled Asset Relief Program ("TARP") Capital Purchase Plan ("CPP"), the U.S. Treasury has begun making equity investments in U.S. banks. Treasury has the authority to expand its investments to include insurers under the program, and there are reports that the Treasury is considering such action. The Company has received approval from the Federal Reserve Board of Governors to become a bank holding company by acquiring the Bonifay Holding Company and its subsidiary, The Bank of Bonifay, in an effort to position itself to participate in the program in the event Treasury decides to include insurers. The Company cannot predict whether Treasury will include insurers in its program or, if it does, the criteria it will use in selecting participants. In addition, the Company cannot predict whether participation, or lack thereof, would be viewed positively or negatively. The Company also cannot predict what legal, regulatory or business restrictions Treasury may impose upon CPP participants. If Treasury fails to include insurers in its programs the Company could be at a competitive disadvantage as compared to other financial services companies. If Treasury fails to include the Company but includes its competitors, the Company could be at a competitive disadvantage within the business lines in which it competes. The Company cannot predict what other actions Treasury or other governmental and regulatory bodies may take, nor can there be any assurance as to the impact any governmental or regulatory actions will have on the financial markets, the economy or the Company.

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 another 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 a 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.

An inability to access our credit facility could adversely affect the Company.

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 in the current market when alternative sources of credit are either difficult to access or costly. 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 these facilities 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 facilities could restrict its ability to access this credit facility when needed and, consequently, could have a material adverse effect on our 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 is 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 RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors 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, 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, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC RBC 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 RBC 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, ratings 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 RBC ratio. Also, in environments where there is not a correlative relationship between interest rates and spreads, the Company's market value adjusted product can have a material adverse effect on the Company's statutory surplus position.

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 constructed in two phases. Building 1 was constructed in 1974 and Building 2 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 23 cities, including 21,667 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 \$6.4 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 Cautionary Factors that may Affect Future Results* included herein.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted during the fourth quarter of 2008 to a vote of the Company's security holders.

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The Company's Common Stock is listed and principally traded on the New York Stock Exchange (NYSE symbol: PL). The following table sets forth the highest and lowest closing prices of the Company's Common Stock, \$0.50 par value, as reported by the New York Stock Exchange during the periods indicated, along with the dividends paid per share of Common Stock during the same periods.

	Range		Dividends
	High	Low	
2008			
First Quarter	\$41.13	\$36.82	\$ 0.225
Second Quarter	43.69	38.05	0.235
Third Quarter	38.07	25.75	0.235
Fourth Quarter	37.10	5.73	0.120
2007			
First Quarter	\$50.35	\$43.04	\$ 0.215
Second Quarter	50.83	44.19	0.225
Third Quarter	48.35	39.80	0.225
Fourth Quarter	45.02	39.82	0.225

On February 15, 2009, there were approximately 1,435 owners of record of the Company's Common Stock.

The Company (or its predecessor) has paid cash dividends each year since 1926 and each quarter since 1934. The Company expects to continue to pay cash dividends, 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 and regulatory requirements. 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 incorporated. See Item 1, *Business*, "Regulation".

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Value of Shares that May Yet Be Purchased Under the Program ⁽¹⁾
			(Dollars in Thousands, Except Share Amounts)	(Dollars in Thousands, Except Share Amounts)
January 1, 2008 through January 31, 2008		\$		\$ 100,000
February 1, 2008 through February 29, 2008	129,900	\$ 38.56	129,900	\$ 94,988
March 1, 2008 through March 31, 2008	320,900	\$ 37.77	320,900	\$ 82,857
Total	450,800	\$ 38.00	450,800	\$ 82,857

⁽¹⁾ In May 2004, the Company announced the initiation of its \$100 million share repurchase program, which commenced execution on February 12, 2008.

On May 7, 2007, the Company's Board of Directors extended the Company's previously authorized \$100 million share repurchase program. The Company announced on February 12, 2008 that it had commenced execution of this repurchase plan. In the first quarter of 2008, the Company purchased 450,800 shares as part of the publicly announced program, at an average price of \$38.00. The current authorization extends through May 6, 2010. Future activity will be dependent upon many factors, including capital levels, rating agency expectations, and the relative attractiveness of alternative uses for

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capital. There were no shares repurchased during the remainder of the year. The approximate value of shares that may yet to be purchased under the program is \$82.9 million.

Item 6. Selected Financial Data

	For The Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars In Thousands, Except Per Share Amounts)				
INCOME STATEMENT DATA					
Premiums and policy fees	\$ 2,692,553	\$ 2,727,023	\$ 2,317,337	\$ 1,955,780	\$ 1,821,094
Reinsurance ceded	(1,582,810)	(1,600,684)	(1,371,215)	(1,226,857)	(1,125,646)
Net of reinsurance ceded	1,109,743	1,126,339	946,122	728,923	695,448
Net investment income	1,675,164	1,675,934	1,419,778	1,180,502	1,084,217
Realized investment gains (losses)					
Derivative financial instruments	116,657	8,469	(21,516)	(30,881)	19,591
All other investments	(584,492)	8,602	104,084	49,393	28,305
Other income	188,492	232,357	230,665	181,267	161,014
Total revenues	2,505,564	3,051,701	2,679,133	2,109,204	1,988,575
Benefits and expenses	2,580,695	2,615,613	2,247,225	1,732,191	1,603,374
Income tax (benefit) expense	(33,276)	146,522	150,347	130,446	134,820
Change in accounting principle ⁽¹⁾					(15,801)
Net income (loss)	\$ (41,855)	\$ 289,566	\$ 281,561	\$ 246,567	\$ 234,580
PER SHARE DATA					
Net income (loss) from continuing operations ⁽²⁾ basic	\$ (0.59)	\$ 4.07	\$ 3.98	\$ 3.49	\$ 3.56
Net income (loss) basic	\$ (0.59)	\$ 4.07	\$ 3.98	\$ 3.49	\$ 3.34
Average share outstanding basic	71,108,961	71,061,152	70,795,453	70,562,186	70,299,470
Net income (loss) from continuing operations ⁽²⁾ diluted	\$ (0.59)	\$ 4.05	\$ 3.94	\$ 3.46	\$ 3.52
Net income (loss) diluted	\$ (0.59)	\$ 4.05	\$ 3.94	\$ 3.46	\$ 3.30
Average share outstanding diluted	71,108,961	71,478,021	71,390,513	71,350,541	71,064,539
Cash dividends	\$ 0.82	\$ 0.89	\$ 0.84	\$ 0.76	\$ 0.685
Shareowners' equity	\$ 10.89	\$ 35.02	\$ 33.06	\$ 31.33	\$ 31.19

(1) Cumulative effect of change in accounting principle, net of income tax amount in 2004 relates to SOP 03-1.

(2) Net income (loss) excluding change in accounting principle for applicable periods.

	As of December 31,				
	2008	2007	2006	2005	2004
	(Dollars In Thousands)				
BALANCE SHEET DATA					
Total assets	\$39,572,449	\$41,786,041	\$39,795,294	\$28,966,993	\$27,211,378
Total stable value contracts and annuity account balances ⁽³⁾	14,498,285	13,879,021	14,330,909	9,490,007	8,342,334
Non-recourse funding obligations	1,375,000	1,375,000	425,000	125,000	
Liabilities related to variable interest entities ⁽⁴⁾		400,000	420,395	448,093	482,434
Long-term debt	714,852	559,852	479,132	482,532	451,433
Subordinated debt securities	524,743	524,743	524,743	324,743	324,743
Shareowners' equity	761,095	2,456,761	2,313,075	2,183,660	2,166,327

(3) Includes stable value contract account balances and annuity account balances which do not pose significant mortality risk.

(4)

See Note 9, *Debt and Other Obligations* for additional information related to the elimination of this variable interest entity.

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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.

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

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations including our liquidity and capital resources. Historical information is presented and discussed and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements instead of historical facts and may contain words like "believe," "expect," "estimate," "project," "budget," "forecast," "anticipate," "plan," "will," "shall," "may," and 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. For more information about the risks, uncertainties and other factors that could affect our future results, please refer to Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results* included herein.

OVERVIEW

Our business

We are a holding company headquartered in Birmingham, Alabama, with subsidiaries that provide financial services 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, "Company," "we," "us," or "our" refers to the consolidated group of Protective Life Corporation and our subsidiaries.

We operate several business 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 in light of the segment reporting requirements prescribed by the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and make adjustments to our segment reporting as needed.

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

Life Marketing We market level premium term insurance ("traditional"), universal life ("UL"), variable universal life, and bank-owned life insurance ("BOLI") products on a national basis primarily through networks of independent insurance agents and brokers, stockbrokers, and independent marketing organizations.

Acquisitions We focus on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies and annuity products sold to individuals. In the ordinary course of business, the Acquisitions segment regularly considers

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acquisitions of blocks of policies or smaller insurance companies. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, and market dynamics. Policies acquired through the Acquisition segment are "closed" blocks of business (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 manufacture, sell, and support fixed and variable annuity products. These products are primarily sold through broker-dealers, but are also sold through financial institutions and independent agents and brokers.

Stable Value Products We sell guaranteed funding agreement ("GFAs") to special purpose entities that in turn issue notes or certificates in smaller, transferable denominations. The segment also markets fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. Additionally, the segment markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans.

Asset Protection We primarily market extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection ("GAP") product and an inventory protection product ("IPP").

Corporate and Other This segment primarily consists of net investment income and expenses not attributable to the segments above (including net investment income on capital and interest on debt) and a trading portfolio that was previously part of a variable interest entity. This segment also includes earnings from several non-strategic lines of business (primarily cancer insurance, residual value insurance, surety insurance, and group annuities), various investment-related transactions, and the operations of several small subsidiaries.

Reinsurance Ceded

For approximately 10 years prior to mid-2005, we entered into reinsurance contracts in which we ceded a significant percentage, generally 90%, of our newly written business on a first dollar quota share basis. Our traditional life insurance was ceded under coinsurance contracts and universal life insurance was ceded under yearly renewable term ("YRT") contracts. During this time, we obtained coinsurance on our traditional life business at favorable rates, while reducing the amount of capital deployed and increasing overall returns. We continue to reinsure 90% of the mortality risk, but not the account values, on our newly written universal life insurance.

During recent years, the life reinsurance market continued the process of consolidation and tightening, resulting in a higher net cost of reinsurance for much of our life insurance business. We have also been challenged by changes in the reinsurance market which have impacted management of capital, particularly in our traditional life business which is required to hold reserves pursuant to the Valuation of Life Insurance Policies Model Regulation ("Regulation XXX"). In response to these challenges, in 2005 we reduced our overall reliance on reinsurance by changing from coinsurance to YRT reinsurance arrangements for newly issued traditional life products. Additionally in 2005, for newly issued traditional life products, we increased, from \$500,000 to \$1,000,000, the amount of insurance we will retain on any one life. During 2008, we increased our retention limit to \$2,000,000 on certain of our traditional and universal life products. These YRT arrangements are utilized to limit our exposure to large claims, and are not a significant factor in capital management or the overall profitability of the business.

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In order to fund the additional statutory reserves required as a result of these changes in our reinsurance arrangements, we established a surplus notes facility under which we issued an aggregate of \$930.0 million of non-recourse funding obligations through December 2008. As of December 31, 2008, the aggregate amount of \$930.0 million consisted of \$130.0 million in aggregate principal amount of Series B Notes and \$800.0 million in aggregate principal amount of floating rate surplus notes previously issued under the Facility (the "Series A Notes" and together with the Series B Notes, the "Notes"). Of this amount, \$130.0 million is eliminated at the consolidated level. In addition, during 2007, we established a surplus notes facility relative to our universal life products. Under this facility, we issued \$575 million of non-recourse funding obligations that will be used to fund statutory reserves required by Regulation XXX, as clarified by Actuarial Guideline 38 (commonly known as "AXXX"). We have received regulatory approval to issue additional series of our floating rate surplus notes up to an aggregate of \$675 million principal amount. Our maximum retention for newly issued universal life products is \$1,000,000.

During 2006, immediately after the closing of our acquisition of the Chase Insurance Group, we entered into agreements with Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC") and Wilton Reassurance Company and Wilton Reinsurance Bermuda Limited (collectively, the "Wilton Re Group"), whereby CALIC reinsured 100% of the variable annuity business of the Chase Insurance Group and the Wilton Re Group reinsured approximately 42% of the other insurance business of the Chase Insurance Group.

EXECUTIVE SUMMARY

2008 was a year of tremendous challenge in the financial services industry. A number of large financial institutions came close to failure or failed during the second half of 2008. The banking and financial services industry continues to experience deterioration and a significant amount of multiple notch downgrades, including downgrades to below investment grade status. Accordingly, mortgage-backed securities, asset-backed securities, and corporate debt securities have experienced significant loss in value.

In light of these events and uncertain capital and credit market conditions, we have strategically positioned ourselves to have ample liquidity to meet our projected outflows from currently available sources. We have increased our short-term investments; we have \$345 million available capacity on our existing credit facility; we have access to the Federal Home Loan Bank ("FHLB") for short-term borrowing; we have temporarily suspended offering new mortgage loan commitments; we have eliminated purchases of below investment grade assets; and we have discontinued the active pursuit of repurchasing shares of our common stock under our share repurchase program. Additionally, on November 3, 2008, we reduced our quarterly dividend to shareholders from \$0.235 to \$0.12 per share. As of December 31, 2008 cash and short-term investments were \$1.2 billion.

On December 1, 2008, the National Bureau of Economic Research officially declared that the United States economy has been in a recession since December of 2007. On December 16, 2008, the Federal Reserve Board of Governors (the "Fed") cut its target range for federal funds to zero to 0.25%. Treasury yield curve rates and LIBOR rates continued to decline in the fourth quarter. Gross domestic product ("GDP") fell by 3.8% in the fourth quarter of 2008. This decline represented the biggest drop since 1982. In addition, concerns over a weakened labor market, inflation, the availability and cost of credit and continued declines in the housing market drove the consumer confidence index to a new all-time low in December. As asset prices continued to decline, interest rates continued to drop, global economies continued slowing, and expectations for any short-term improvement diminished, the financial markets experienced a surge in credit-rating downgrades, placing increased demands on capital requirements.

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Given these circumstances, we have taken steps to strengthen our capital position in an effort to better position ourselves to absorb potential ratings downgrades and other-than-temporary impairments in our investment portfolio and other events that could strain our capital position. Among other things, we have limited purchases of new securities to those that have an National Association of Insurance Commissioners ("NAIC") rating designation of 1; we have entered into intercompany reinsurance agreements that provide a more balanced mix of business at various insurance entities; certain noninsurance subsidiaries have loaned securities to the holding company ("PLC"), which were then transferred to PLICO through a capital contribution; and we have changed our statutory reserve methodology on a certain block of business from a mean to a mid-terminal basis.

Additionally, on January 15, 2009, the Fed announced its approval of our application to become a bank holding company by acquiring the Bonifay Holding Company ("BHC") and its subsidiary, The Bank of Bonifay (the "Bank"). Our acquisition of BHC and the Bank are contingent on, among other things, the receipt of all required regulatory and third party approvals, our completion of satisfactory due diligence, the approval of the transaction by the stockholders of BHC, and our participation in the U.S. Treasury Department's Capital Purchase Program ("CPP") under the Troubled Asset Relief Program ("TARP") authorized by the Emergency Economic Stabilization Act (the "EESA"). We cannot predict whether the Treasury Department will make the CPP available to life insurance companies, whether the CPP will be made available to us, or whether we will participate if it is made available. Further, we cannot predict what actions the Treasury Department or other governmental or regulatory bodies may take, nor can there be any assurance as to the impact any governmental or regulatory action will have on the financial markets, the economy, or our results of operations and financial condition.

During the year ended December 31, 2008, our operating earnings decreased \$71.5 million compared to the year ended December 31, 2007, primarily as a result of \$74.1 million of mark-to-market losses recorded on our trading portfolio, a reduction in investment income during 2008 related to our securities and mortgage investment portfolios of \$37.8 million, and a non-recurring \$15.7 million gain recognized during the first quarter of 2007 resulting from the sale of a direct marketing subsidiary. These decreases were partially offset by a \$39.6 million increase in operating income in our Stable Value segment.

Our net loss for the year ended December 31, 2008 was \$41.9 million compared to net income of \$289.6 million in the prior year. The \$331.5 million decrease was primarily the result of net realized losses of \$467.8 million (including \$116.7 million of gains related to derivatives, which were offset by \$584.5 million of losses related to other investments) for the year ended December 31, 2008 compared to net realized gains of \$17.1 million (including gains of \$8.5 million related to derivatives and \$8.6 million related to other investments) for the year ended December 31, 2007, and were partially offset by the related tax effect.

Approximately \$63.6 million and \$1.0 million of the net realized losses for the years ended December 31, 2008 and 2007, respectively, related to a modified coinsurance ("Modco") arrangement, under which the economic risks and benefits of the investments are passed to a third-party reinsurer. Excluding these realized losses, we experienced net realized losses of \$404.2 million and net realized gains of \$18.1 million for the year ended December 31, 2008 and 2007, respectively. The 2008 losses were primarily the result of \$311.8 million of other-than-temporary impairment charges related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac. The decline in the estimated fair value of these securities resulted from factors including distressed credit markets, the recent failure or near failure of a number of large financial service companies, downgrades in ratings, and interest rate changes. 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.

During 2008, as a result of spread widening and fluctuations in interest rates, our unrealized loss position grew to \$3.0 billion (prior to tax and DAC offset) and \$1.6 billion after tax and DAC offsets. This has caused a significant decrease in our GAAP equity balance. While we do not believe that this level of losses will be realized, we cannot be certain when or what percentage of the positions will recover. Until a material amount of these positions recover in value, we will continue to face pressure on our GAAP equity balance.

The effective tax rate for the year ended December 31, 2008 was approximately 44.3% compared to a rate of 33.6% for the same period in the prior year. The effective tax rate in 2008 was higher than historical rates due to the relative percentage of tax permanent differences to total income in 2007 and total loss in 2008 (which was caused by realized losses on investment securities).

The interest rate and credit environment continues to present a significant challenge. Historically low interest rates and market illiquidity continued to create challenges for our fixed income investment portfolio and for our products that generate investment spread profits, such as fixed annuities and stable value contracts. However, active management of crediting rates on these products allowed us to mitigate spread compression effects and sales allowed us to take advantage of wider credit spreads on investments.

Costs of reinsurance presents challenges from both a new product pricing and capital management perspective. In response to these challenges, during 2005 we reduced our reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance and increased the maximum amount retained on any one life from \$500,000 to \$1,000,000 on certain of our newly written traditional and universal life products. During 2008, we increased our retention limit to \$2,000,000 on certain newly written traditional life products. The securitization market for funding statutory reserves shut down in 2008 due to credit market disruptions. This continued to strain our capital position as we rely on this market to support new and existing traditional life products.

Significant financial information related to each of our segments is included in "Results of Operations".

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

exposure to the risks of natural disasters, pandemics, malicious and terrorist acts that could adversely affect our operations;

computer viruses, network security breaches, disasters or other unanticipated events could affect our data processing systems or those of our business partners and could damage our business and adversely affect our financial condition and results of operations;

actual experience may differ from management's assumptions and estimates and negatively affect our results;

we may not realize our anticipated financial results from our acquisitions strategy;

we may not be able to achieve the expected results from our recent acquisitions;

we are dependent on the performance of others;

our risk management policies and procedures could leave us exposed to unidentified or unanticipated risk, which could negatively affect our business or result in losses;

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Financial environment

interest rate fluctuations could negatively affect our spread income or otherwise impact our business;

our investments are subject to market, credit, legal, and regulatory risks, which could be heightened during periods of extreme volatility or disruption in the financial and credit markets;

equity market volatility could negatively impact our business;

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;

a loss of policyholder confidence in our insurance subsidiaries could lead to higher than expected levels of policyholder surrenders and withdrawal of funds;

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 conditions in the economy generally could adversely affect our business and results from operations;

continued deterioration of general economic conditions could result in a severe and extended economic recession, which could materially adversely affect our business and results from operations;

there can be no assurance that the actions of the United States Government or other governmental and regulatory bodies for the purpose of stabilizing the financial markets will achieve their intended effect;

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;

our investments are subject to market, credit, legal and regulatory risks, which may be heightened during periods of extreme volatility or disruption in financial and credit markets;

we could be adversely affected by an inability to access our credit facility;

results that differ from expectations or assumptions could adversely impact our investment valuation, financial condition or our results of operations;

the amount of statutory capital we have and must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly and is sensitive to a number of factors.

Industry

insurance companies are highly regulated and subject to numerous legal restrictions and regulations;

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 litigation, including class action litigation, which could result in substantial judgments;

publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;

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new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;

reinsurance introduces variability in our statements of income;

our reinsurers could fail to meet assumed obligations, increase rates or be subject to adverse developments that could affect us;

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policy claims fluctuate from period to period resulting in earnings volatility;

Competition

operating in a mature, highly competitive industry 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;

a ratings downgrade could adversely affect our ability to compete; and

we may not be able to protect our intellectual property and could also be subject to infringement claims.

For more information about the risks, uncertainties, and other factors that could affect our future results, please see Exhibit 99 that is filed with this Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

Our accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, in particular expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of securities. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated financial statements. A discussion of the various critical accounting policies is presented below.

Evaluation of Other-Than-Temporary Impairments One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized investment losses equal to the difference between the fair value and cost or amortized cost basis of the security. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. 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 yields assuming that the Company has the ability and intent to hold the securities to maturity or recovery and 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 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. For example, assessing the value of certain investments requires that we perform an analysis of expected future cash flows or 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.

For certain securitized financial assets with contractual cash flows including asset-backed securities ("ABS"), Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets" ("EITF Issue No. 99-20"), 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.

Securities not subject to EITF Issue No. 99-20 that are 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. 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 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) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures that we consider. Based on our analysis, for the years ended December 31, 2008 and 2007, we concluded that approximately \$311.8 million, excluding \$18.7 million of Modco related impairments, and \$0.1 million, respectively, of pretax unrealized losses were other-than-temporarily impaired. The impairments related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac, resulting in a charge to net realized investment losses.

Our specific accounting policies related to our invested assets are discussed in Note 2, *Summary of Significant Accounting Policies*, and Note 4, *Investment Operations*, to the Consolidated Financial Statements. As of December 31, 2008, we held \$20.1 billion of available-for-sale investments, including \$14.2 billion in investments with a gross unrealized loss of \$3.2 billion.

Derivatives We utilize derivative transactions primarily in order to reduce our exposure to interest rate risk, inflation risk, equity market risk, and currency exchange risk. We have also entered into certain credit default swaps to enhance the return on our investment portfolio. Assessing the effectiveness of the hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. We employ a variety of methods for determining the fair value of our derivative instruments. The fair values of swaps, interest rate swaptions, and options are 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 estimated volatility and interest rates in the determination of fair value where quoted market values are not available. 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 (loss). 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. As of December 31, 2008, the fair value of derivatives reported on our balance sheet in "other long-term investments" and "other liabilities" was \$262.9 million and \$239.5 million, respectively.

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 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, on our Consolidated Statements of Income (Loss).

The balance of the reinsurance is due from 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, 2008 our third-party reinsurance receivables amounted to \$5.3 billion. These amounts include ceded reserve balances and ceded benefit payments.

We account for reinsurance as required by FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS No. 113"). In addition to SFAS No. 113, we rely on FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* ("SFAS No. 60") and FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* ("SFAS No. 97") as applicable. In accordance with those pronouncements, costs for reinsurance are amortized as a level percentage of premiums for SFAS No. 60 products and a level percentage of estimated gross profits for SFAS No. 97 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 products subject to SFAS No. 60, assumptions are not changed unless projected future revenues are expected to be less than future expenses. For products subject to SFAS No. 97, 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. For the year ended December 31, 2008, there were no changes to reinsurance premium and allowance rates that would require an update of assumptions and subsequent unlocking of balances under SFAS No. 97.

Deferred acquisition costs and Value of business acquired We incur significant costs in connection with acquiring new insurance business. These costs, which vary with and are primarily related to the production of new business 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, 2008, we had deferred acquisition costs ("DAC")/value of business acquired ("VOBA") of \$4.2 billion.

We had a DAC/VOBA asset of approximately \$232.4 million related to our variable annuity product line with an account balance of \$4.5 billion as of December 31, 2008. These amounts include \$54.3 million and \$2.3 billion, respectively, of DAC/VOBA asset and account balances associated with the variable annuity business of the Chase Insurance Group 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 modified coinsurance agreement. We monitor the rate of amortization of DAC/VOBA associated with our variable annuity product line. Our monitoring methodologies employ varying assumptions about how much and how quickly the stock markets will appreciate. The primary assumptions used to project future profits as part of the analysis include: a long-term equity market growth rate of 8%, reversion to the mean methodology with a reversion to the mean with no cap, reversion to the mean period of 6 years, and an amortization period of 25 years. A recovery in equity markets, or the use of methodologies and assumptions that anticipate a recovery, results in lower amounts of amortization, and a worsening of equity markets results in higher amounts of amortization. We periodically review and update as appropriate our key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as "unlocking".

Goodwill Accounting for goodwill requires an estimate of the future profitability of the associated lines of business. Goodwill is tested for impairment at least annually. We evaluate the carrying value of goodwill 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 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 discounted cash flows model to assess the fair value of the reporting units. As of December 31, 2008 and 2007, we evaluated our goodwill and determined that the fair value had not decreased below the carrying value and no adjustment to impair goodwill was necessary in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*. As of December 31, 2008, we had goodwill of \$121.0 million.

In addition, in light of the decrease in our market capitalization ("market cap") during the fourth quarter of 2008, we reviewed the underlying factors causing the market cap decrease to determine if the market cap fluctuation would be indicative of an additional factor to consider in our goodwill impairment testing, as such a decline in the market cap or market value of an entity's securities may or may not be indicative of a triggering event which could require us to perform an interim or event-driven impairment analysis.

Our material goodwill balances are attributable to our business segments. As previously noted, our operating segments' discounted cash flows support the goodwill balance as of December 31, 2008. In our view, the reduction in market cap is primarily attributable to illiquidity of credit markets and capital markets, concern related to our investment portfolio's unrealized loss positions, impairments recognized during 2008, and an overall fear of the capital levels and potential economic impacts to

financial services companies. These factors primarily impact us at a corporate level, and largely within the Corporate and Other segment. We monitor the aggregate fair value of our reporting units as a comparison to our overall market capitalization. During 2008, we believe the factors that led to the decline in market cap primarily impacted us at a corporate level, and largely within the Corporate and Other segment, which does not carry a material balance of goodwill, as opposed to impacting the prescribed and inherent fair values of our other operating segments and reporting units. As a result, in our view, the decrease in our market cap does not invalidate our discounted cash flow results.

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 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. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions 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, effective January 1, 2007, we adopted FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 140 ("SFAS No. 155"), related to our equity indexed annuity product. SFAS No. 155 requires that we fair value the liability related to this block of business 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 a result of the adoption of SFAS No. 157 at January 1, 2008, we made certain modifications to the method used to determine fair value for our liability related to equity indexed annuities to take into consideration factors such as policyholder behavior, our credit rating and other market considerations. As of December 31, 2008, we had total policy liabilities and accruals of \$18.3 billion.

Guaranteed minimum death benefits We also establish liabilities for guaranteed minimum death benefits ("GMDB") on our variable annuity products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. 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, 2008, 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, 2008, our net GMDB liability held was \$1.2 million.

Guaranteed minimum withdrawal benefits We also establish liabilities for guaranteed minimum withdrawal benefits ("GMWB") on our variable annuity products. The GMWB is valued in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133") which utilizes the valuation technique prescribed by FASB Statement No. 157, *Fair Value Measurements* ("SFAS No. 157"), which requires the liability to be marked-to-market using current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions, about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. As of December 31, 2008, our net GMWB liability held was \$33.4 million.

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Pension Benefits Determining our obligations to employees under our defined benefit pension plan requires the use of estimates. The calculation of the liability related to our defined benefit pension plan requires assumptions regarding the appropriate weighted average discount rate, estimated rate of increase in the compensation of its employees and the expected long-term rate of return on the plan's assets. See Note 12, *Shareowners' Equity and Stock-Based Compensation*, to the Consolidated Financial Statements for further information on this plan.

Stock-Based Payments Accounting for other 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 volatility, the risk-free interest rate at the date of grant, expected dividend rates, as well as expected exercise dates. See Note 12, *Shareowners' Equity and Stock-Based Compensation*, to the Consolidated Financial Statements for further information on this plan.

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 the marking to market value of investment assets, the deferral of policy acquisition costs, and the provision for future policy benefits and expenses. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. Under accounting principles generally accepted in the United States ("U.S. GAAP"), we test the value of deferred tax assets for impairment on a quarterly basis at the taxpaying component level within each tax jurisdiction, consistent with our filed tax returns. 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 portion, or all, of the deferred tax assets will not be realized. In determining the need for a valuation allowance we consider carryback capacity, reversal of existing temporary differences, future taxable income, and tax planning strategies. The determination of the allowance for our deferred tax assets requires management to make certain judgments and assumptions regarding future operations that are based on our historical experience and our expectations of future performance. FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109* ("FIN No. 48") prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken in an income tax return and provides guidance on disclosure. Additionally, this interpretation requires, in order for us to recognize a benefit in our financial statements from a given tax return position, that there must be a greater than 50 percent chance of success with the relevant taxing authority with regard to that tax position. In making this analysis, we must assume that the taxing authority is fully informed of all of the facts regarding this issue. Our judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance, which is impacted by such things as policyholder behavior, competitor pricing, new product introductions, and specific industry and market conditions.

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.

RESULTS OF OPERATIONS

In the following discussion, segment operating income (loss) is defined as income (loss) before income tax excluding net realized investment gains and losses (net of the related DAC and VOBA and participating income from real estate ventures), and the cumulative effect of change in accounting principle. Periodic settlements of derivatives associated with corporate debt and certain investments and annuity products are included in realized gains and losses but are considered part of segment operating income (loss) because the derivatives are used to mitigate risk in items affecting segment operating

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income (loss). Management believes that segment operating income (loss) provides relevant and useful information to investors, as it represents the basis on which the performance of our business is internally assessed. Although the items excluded from segment operating income (loss) may be significant components in understanding and assessing our overall financial performance, management believes that segment operating income (loss) enhances an investor's understanding of our results of operations by highlighting the income (loss) attributable to the normal, recurring operations of our business. However, segment operating income should not be viewed as a substitute for U.S. GAAP net income (loss). In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies

The following table presents a summary of results and reconciles segment operating income (loss) to consolidated net income (loss):

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Segment Operating Income (Loss)					
Life Marketing	\$ 188,535	\$ 189,186	\$ 174,189	(0.3)%	8.6%
Acquisitions	136,479	129,247	104,534	5.6	23.6
Annuities	18,707	23,051	24,645	(18.8)	(6.5)
Stable Value Products	89,811	50,231	47,073	78.8	6.7
Asset Protection	30,789	41,559	9,811	(25.9)	n/m
Corporate and Other	(105,986)	(3,416)	11,776	n/m	n/m
Total segment operating income	358,335	429,858	372,028	(16.6)	15.5
Realized investment gains (losses) investments ⁽¹⁾⁽³⁾	(585,340)	(1,485)	81,386		
Realized investment gains (losses) derivatives ⁽²⁾	151,874	7,715	(21,506)		
Income tax benefit (expense)	33,276	(146,522)	(150,347)		
Net income (loss)	\$ (41,855)	\$ 289,566	\$ 281,561	n/m	2.8
⁽¹⁾ Realized investment gains (losses) investments ⁽³⁾	\$ (584,492)	\$ 8,602	\$ 104,084		
Less: participating income from real estate ventures		6,857	13,494		
Less: related amortization of DAC	848	3,230	9,204		
	\$ (585,340)	\$ (1,485)	\$ 81,386		
⁽²⁾ Realized investment gains (losses) derivatives	\$ 116,657	\$ 8,469	\$ (21,516)		
Less: settlements on certain interest rate swaps	5,754	822	2,737		
Less: derivative activity related to certain annuities	(40,971)	(68)	(2,747)		
	\$ 151,874	\$ 7,715	\$ (21,506)		

⁽³⁾ Includes other-than-temporary impairments of \$311.8 million and \$0.1 million for the year ended December 31, 2008 and 2007, respectively.

For The Year Ended December 31, 2008 compared to The Year Ended December 31, 2007

The net loss for the year ended December 31, 2008 included a \$71.5 million, or 16.6%, decrease in segment operating income. The decrease was primarily related to a \$102.6 million decrease in operating losses in the Corporate and Other segment, a \$10.8 million decrease in the Asset Protection segment, a \$4.3 million decrease in the Annuities segment, and a \$0.7 million decrease in the Life Marketing segment. These decreases were partially offset by a \$39.6 million increase in operating earnings in the Stable Value segment and a \$7.2 million increase in the Acquisitions segment. Changes in fair value related to the Corporate and Other trading portfolio and the Annuities segment reduced operating earnings by \$93.4 million for the year ended December 31, 2008.

We experienced net realized losses of \$467.8 million for the year ended December 31, 2008, versus net realized gains of \$17.1 million for the same period of 2007. The losses realized for the year ended December 31, 2008 were primarily caused by \$311.8 million of other-than-temporary impairment charges related to debt obligations and preferred stock holdings in Lehman Brothers and Washington

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Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac. These losses were partially offset by mark-to-market gains of \$212.9 million on embedded derivatives related to reinsurance arrangements.

Life Marketing segment operating income was \$188.5 million for the year ended December 31, 2008, representing a decrease of \$0.7 million, or 0.3%, from the year ended December 31, 2007. The decrease was primarily due to a \$15.7 million gain recognized in the first quarter of 2007 on the sale of the segment's direct marketing subsidiary, offset by favorable prospective unlocking of \$8.8 million in the third quarter of 2008, higher investment income, lower operating expenses and more favorable mortality in 2008 compared to 2007.

Acquisitions segment operating income was \$136.5 million, representing an increase of \$7.2 million, or 5.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to lower operating expenses on the Chase Insurance Group block and improved mortality results, partially offset by expected runoff of the block of business.

Annuities segment operating income was \$18.7 million for the year ended December 31, 2008, representing a decrease of \$4.3 million, or 18.8%, compared to the year ended December 31, 2007, which included \$19.2 million of negative fair value changes, including \$2.5 million on the equity indexed annuity product and \$16.7 million on embedded derivatives associated with the variable annuity GMWB rider related to current market conditions. In addition, unfavorable mortality in the segment's SPIA block reduced earnings by \$4.5 million, as compared to the year ended December 31, 2007. These decreases were partially offset by wider spreads and the continued growth of the SPDA and market value adjusted ("MVA") lines, which accounted for a \$6.2 million and a \$6.3 million increase in earnings, respectively.

Stable Value Products segment operating income was \$89.8 million and increased \$39.6 million, or 78.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in operating earnings resulted from the combination of higher average balances, a higher operating spread and lower liability costs. In addition, \$9.4 million in other income was generated from the early retirement of funding agreements backing medium-term notes. Higher operating spreads and lower liability costs resulted from increased sales of attractively priced institutional funding agreements. As a result, the operating spread increased 46 basis points to 147 basis points during the year ended December 31, 2008, compared to an operating spread of 101 basis points during the year ended December 31, 2007.

Asset Protection segment operating income was \$30.8 million, representing a decrease of \$10.8 million, or 25.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Earnings from core product lines decreased \$10.8 million, or 24.7%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Within the segment's core product lines, service contract earnings declined \$8.2 million, or 22.2%, compared to the prior year. The service contract line was unfavorably impacted by weak auto and marine sales and higher loss ratios in certain product lines. Credit insurance earnings decreased \$0.1 million, or 3.2%, compared to the prior year, while earnings from other products declined \$2.5 million. The decline in other products related primarily to lower volume in the IPP line, resulting from the loss of a significant customer.

Corporate and Other segment operating loss declined \$102.6 million for the year ended December 31, 2008, compared to the year ended December 31, 2007, primarily due to negative mark-to-market adjustments of \$74.1 million on a \$341.4 million portfolio of securities designated for trading, representing a \$61.2 million less favorable impact than for the year of 2007. In addition, the segment experienced lower participating mortgage income of \$29.9 million and lower prepayment fee income of \$7.9 million compared to the prior year in the securities and mortgage investment portfolios due to the current economic environment.

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For The Year Ended December 31, 2007 compared to The Year Ended December 31, 2006

Net income (loss) for the year ended December 31, 2007 reflects a \$57.8 million, or 15.5%, increase in segment operating income compared to the year ended December 31, 2006. The increase was primarily related to a \$31.7 million increase in operating earnings in the Asset Protection segment resulting from a \$27.1 million bad debt charge that occurred during 2006, a \$24.7 million increase in the Acquisitions segment resulting primarily from the prior year acquisition of the Chase Insurance Group, and a \$15.0 million increase in the Life Marketing segment resulting primarily from a \$15.7 million gain before taxes on the sale of the direct marketing subsidiary. These favorable items were partially offset by a decline in operating earnings for the Corporate & Other segment of \$15.2 million resulting primarily from the mark-to-market on a \$422 million portfolio of securities designated for trading. This trading portfolio negatively impacted full year 2007 by \$10.2 million. Net realized investment gains were \$6.2 million for the year ended December 31, 2007 compared to \$59.9 million for the year ended December 31, 2006, a decrease of \$53.6 million, or 89.6%. Following the acquisition of the Chase Insurance Group, the investment portfolio associated with that acquisition was rebalanced to conform to our overall investment and asset/liability matching strategies, resulting in an increase in realized investment gains for the year ended December 31, 2006 compared to the year ended December 31, 2007.

Life Marketing segment operating income was \$189.2 million for the year ended December 31, 2007, representing an increase of \$15.0 million, or 8.6%, over the year ended December 31, 2006. The increase was primarily due to a gain recognized during the first quarter of 2007 on the sale of the segment's direct marketing subsidiary combined with favorable mortality results, which was offset by \$14 million of favorable unlocking that occurred in the second quarter of 2006.

Acquisitions segment operating income was \$129.2 million and increased \$24.7 million, or 23.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was due primarily to the acquisition of the Chase Insurance Group completed in the third quarter of 2006. This acquisition contributed \$58.6 million to the Acquisition segment's operating income for the year ended December 31, 2007 compared to \$29.0 million for the year ended December 31, 2006.

Annuities segment operating income was \$23.1 million for the year ended December 31, 2007, representing a decrease of \$1.6 million, or 6.5%, compared to the year ended December 31, 2006. This decline was primarily the result of unfavorable mortality results and a tightening of spreads in the immediate annuity line. Offsetting the unfavorable results were increases in operating income in the market value adjusted annuity line and the single premium deferred annuity line. The increase in the market value adjusted annuity line was due to favorable DAC unlocking, slightly offset by a decline in spread. The single premium deferred annuity line of business was added in the third quarter of 2006 and only had two quarters of results in the prior year compared to a full year in 2007. Operating income was also favorably impacted in 2007 compared to the prior year by increasing account values. Additionally, during 2007, the segment experienced unfavorable fair value changes (net of DAC amortization) in the equity indexed annuity and variable annuity product lines of \$3.3 million.

Stable Value Products segment operating income was \$50.2 million and increased \$3.2 million, or 6.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was the result of an increase in operating spreads, partially offset by a decline in average account values.

Asset Protection segment operating income was \$41.6 million, representing an increase of \$31.7 million, or 323.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was primarily the result of bad debt charges of \$27.1 million in

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2006. These charges related to the Lenders Indemnity product line we are no longer marketing. Favorable results from the service contract line are also contributing to the increase in operating earnings and are partially offset by unfavorable results from other product lines.

Corporate and Other segment operating income declined \$15.2 million, or 129.0%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 due primarily to the mark-to-market on a \$422 million portfolio of securities designated for trading. This trading portfolio negatively impacted full year 2007 by \$10.2 million. In addition, the segment experienced lower investment income resulting from lower levels of unallocated capital and higher interest expense. The overall performance of our investment portfolio continued to be strong, with no significant credit issues in either the securities or mortgage portfolio.

Life Marketing*Segment results of operations*

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
REVENUES					
Gross premiums and policy fees	\$ 1,500,566	\$ 1,453,027	\$ 1,327,865	3.3%	9.4%
Reinsurance ceded	(924,026)	(913,250)	(906,590)	1.2	0.7
Net premiums and policy fees	576,540	539,777	421,275	6.8	28.1
Net investment income	350,053	325,118	308,497	7.7	5.4
Other income	96,746	138,356	137,891	(30.1)	0.3
Total operating revenues	1,023,339	1,003,251	867,663	2.0	15.6
BENEFITS AND EXPENSES					
Benefits and settlement expenses	704,955	635,063	535,940	11.0	18.5
Amortization of deferred policy acquisition costs	94,422	106,094	60,227	(11.0)	76.2
Other operating expenses	35,427	72,908	97,307	(51.4)	(25.1)
Total benefits and expenses	834,804	814,065	693,474	2.5	17.4
OPERATING INCOME	188,535	189,186	174,189	(0.3)	8.6
INCOME BEFORE INCOME TAX	\$ 188,535	\$ 189,186	\$ 174,189	(0.3)	8.6

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

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Sales By Product					
Traditional	\$ 99,202	\$ 145,317	\$ 145,380	(31.7)%	(0.0)%
Universal life	52,832	75,763	75,715	(30.3)	0.1
Variable universal life	5,667	7,685	6,524	(26.3)	17.8
	\$ 157,701	\$ 228,765	\$ 227,619	(31.1)	0.5
Sales By Distribution Channel					
Brokerage general agents	\$ 89,295	\$ 138,258	\$ 133,995	(35.4)	3.2
Independent agents	33,101	39,261	40,762	(15.7)	(3.7)
Stockbrokers / banks	30,546	36,356	35,748	(16.0)	1.7
BOLI / other	4,759	14,890	17,114	(68.0)	(13.0)
	\$ 157,701	\$ 228,765	\$ 227,619	(31.1)	0.5
Average Life Insurance In-force⁽¹⁾					
Traditional	\$473,029,668	\$432,662,417	\$380,212,243	9.3	13.8
Universal life	52,760,473	52,607,678	50,296,333	0.3	4.6
	\$525,790,141	\$485,270,095	\$430,508,576	8.3	12.7
Average Account Values					
Universal life	\$ 5,270,175	\$ 5,001,487	\$ 4,744,606	5.4	5.4
Variable universal life	309,437	335,447	277,988	(7.8)	20.7
	\$ 5,579,612	\$ 5,336,934	\$ 5,022,594	4.5	6.3
Traditional Life Mortality Experience⁽²⁾	\$ 13,104	\$ 8,701	\$ (5,493)		
Universal Life Mortality Experience⁽²⁾	\$ 5,136	\$ 3,453	\$ 1,577		

(1) Amounts are not adjusted for reinsurance ceded.

(2) Represents the estimated pretax earnings impact resulting from mortality variances. We periodically review and update as appropriate our key assumptions in calculating mortality. Changes to these assumptions result in adjustments, which may increase or decrease previously reported mortality amounts. Excludes results related to the Chase Insurance Group, which was acquired in the third quarter of 2006 and excludes results related to the BOLI product line.

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Operating expenses detail

Certain reclassifications have been made in the previously reported amounts to make the prior period amounts comparable to those of the current period. Such reclassifications had no effect on previously reported total operating expenses. Other operating expenses for the segment were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Insurance Companies:					
First year commissions	\$ 192,773	\$ 262,054	\$ 249,484	(26.4)%	5.0%
Renewal commissions	38,465	37,768	37,308	1.8	1.2
First year ceding allowances	(19,055)	(18,804)	(38,141)	1.3	(50.7)
Renewal ceding allowances	(229,042)	(233,304)	(221,092)	(1.8)	5.5
General & administrative	159,818	180,158	168,413	(11.3)	7.0
Taxes, licenses, and fees	29,803	32,928	27,798	(9.5)	18.5
Other operating expenses incurred	172,762	260,800	223,770	(33.8)	16.5
Less: commissions, allowances & expenses capitalized	(229,671)	(304,494)	(265,533)	(24.6)	14.7
Other insurance company operating expenses	(56,909)	(43,694)	(41,763)	30.2	4.6
Marketing Companies:					
Commissions	74,494	91,377	87,387	(18.5)	4.6
Other operating expenses	17,842	25,225	51,683	(29.3)	(51.2)