UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number 001-11339

Protective Life Corporation

(Exact name of registrant as specified in its charter)

Delaware	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

2801 Highway 280 South

Birmingham, Alabama 35223

(Address of principal executive offices and zip code)

(205) 268-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of October 23, 2012: 79,139,531

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011(2)	2012	2011(2)
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 684,939	$ 696,978	$ 2,092,673	$ 2,079,907
Reinsurance ceded	(321,059)	(326,967)	(970,290)	(1,023,023)
Net of reinsurance ceded	363,880	370,011	1,122,383	1,056,884
Net investment income	467,944	462,926	1,386,287	1,355,924
Realized investment gains (losses):				
Derivative financial instruments	(134,222)	(97,816)	(212,399)	(145,495)
All other investments	122,555	138,230	223,874	201,619
Other-than-temporary impairment losses	(1,676)	(6,259)	(49,766)	(37,912)
Portion recognized in other comprehensive income (before taxes)	(6,880)	(3,570)	8,838	12,933
Net impairment losses recognized in earnings	(8,556)	(9,829)	(40,928)	(24,979)
Other income	81,190	75,859	273,930	235,292
Total revenues	892,791	939,381	2,753,147	2,679,245
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2012 - $307,866; 2011 - $208,720; nine months: 2012 - $895,845; 2011 - $878,991)	629,945	592,792	1,788,096	1,680,714
Amortization of deferred policy acquisition costs and value of business acquired	14,011	71,740	138,035	202,684
Other operating expenses, net of reinsurance ceded: (three months: 2012 - $46,679; 2011 - $48,924; nine months: 2012 - $139,288; 2011 - $142,994)	157,849	152,563	477,764	448,008
Total benefits and expenses	801,805	817,095	2,403,895	2,331,406
Income before income tax	90,986	122,286	349,252	347,839
Income tax expense	30,506	39,429	113,596	118,236
Net income	60,480	82,857	235,656	229,603
Less: Net income attributable to noncontrolling interests				245
Net income available to PLC s common shareowners(1)	$ 60,480	$ 82,857	$ 235,656	$ 229,358
Net income available to PLC s common shareowners - basic	$ 0.75	$ 0.98	$ 2.89	$ 2.67
Net income available to PLC s common shareowners - diluted	$ 0.73	$ 0.96	$ 2.83	$ 2.63
Cash dividends paid per share	$ 0.18	$ 0.16	$ 0.52	$ 0.46
Average shares outstanding - basic	80,662,745	84,722,232	81,541,462	85,883,669
Average shares outstanding - diluted	82,406,103	86,004,571	83,187,854	87,152,812

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(1) Protective Life Corporation (PLC)

(2) Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011(1)	2012	2011(1)
	(Dollars In Thousands)			
Net income	$ 60,480	$ 82,857	$ 235,656	$ 229,603
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2012 - $205,978; 2011 - $240,855; nine months: 2012 - $384,084; 2011 - $346,225)	382,536	447,306	713,305	643,004
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2012 - $(4,931); 2011 - $(3,814); nine months: 2012 - $(6,266); 2011 - $(14,139))	(9,162)	(7,087)	(11,642)	(26,273)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2012 - $12,808; 2011 - $(509); nine months: 2012 - $15,770; 2011 - $(9,561))	23,784	(944)	29,284	(17,755)
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2012 - $1,828; 2011 - $(420); nine months: 2012 - $2,739; 2011 - $1,424)	3,395	(780)	5,088	2,645
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2012 - $(415); 2011 - $(355); nine months: 2012 - $(354); 2011 - $(478))	(771)	(659)	(658)	(887)
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2012 - $(728); 2011 - $(451); nine months: 2012 - $(2,183); 2011 - $(1,354))	(1,352)	(839)	(4,055)	(2,515)
Total other comprehensive income	398,430	436,997	731,322	598,219
Comprehensive income	458,910	519,854	966,978	827,822
Comprehensive income attributable to noncontrolling interests				(245)
Total comprehensive income attributable to Protective Life Corporation	$ 458,910	$ 519,854	$ 966,978	$ 827,577

(1)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	September 30, 2012	**December 31, 2011**
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2012 - $26,535,113; 2011 - $26,137,960)	$ 29,607,238	$ 27,983,446
Equity securities, at fair value (cost: 2012 - $371,539; 2011 - $345,874)	373,552	335,232
Mortgage loans (includes amounts related to securitizations of: 2012 - $789,624; 2011 - $858,139)	5,096,080	5,353,481
Investment real estate, net of accumulated depreciation (2012 - $1,321; 2011 - $1,547)	19,858	29,899
Policy loans	869,607	879,819
Other long-term investments	347,065	257,714
Short-term investments	110,684	101,489
Total investments	36,424,084	34,941,080
Cash	206,012	267,298
Accrued investment income	360,024	350,580
Accounts and premiums receivable, net of allowance for uncollectible amounts (2012 - $4,096; 2011 - $3,899)	104,037	84,754
Reinsurance receivables	5,753,980	5,645,471
Deferred policy acquisition costs and value of business acquired	3,208,227	3,248,041
Goodwill	109,335	111,659
Property and equipment, net of accumulated depreciation (2012 - $139,943; 2011 - $134,924)	48,321	48,578
Other assets	189,086	150,549
Income tax receivable	55,518	50,783
Assets related to separate accounts		
Variable annuity	8,895,947	6,741,959
Variable universal life	557,529	502,617
Total assets	$ 55,912,100	$ 52,143,369

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS (Continued)

(Unaudited)

	As of	
	September 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Liabilities		
Policy liabilities and accruals	$ 22,767,592	$ 22,126,774
Stable value product account balances	2,328,237	2,769,510
Annuity account balances	10,751,652	10,946,848
Other policyholders funds	553,262	546,516
Other liabilities	1,306,298	1,065,451
Mortgage loan backed certificates		19,755
Deferred income taxes	1,668,885	1,260,629
Non-recourse funding obligations	297,000	407,800
Repurchase program borrowings	280,000	
Debt	1,400,000	1,520,000
Subordinated debt securities	540,593	524,743
Liabilities related to separate accounts		
Variable annuity	8,895,947	6,741,959
Variable universal life	557,529	502,617
Total liabilities	51,346,995	48,432,602
Commitments and contingencies - Note 9		
Shareowners equity		
Common Stock, $.50 par value, shares authorized: 2012 and 2011 - 160,000,000; shares issued: 2012 and 2011 - 88,776,960	44,388	44,388
Additional paid-in-capital	603,083	598,106
Treasury stock, at cost (2012 - 9,640,102 shares; 2011 - 7,107,765 shares)	(183,330)	(107,740)
Retained earnings	2,384,948	2,191,319
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2012 -$966,950; 2011 - $589,132)	1,795,766	1,094,103
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2012 - $(2,658); 2011 - $(18,428))	(4,940)	(34,224)
Accumulated loss - derivatives, net of income tax: (2012 - $(1,726); 2011 - $(4,111))	(3,204)	(7,634)
Postretirement benefits liability adjustment, net of income tax: (2012 -$(38,153); 2011 - $(35,970))	(70,856)	(66,801)
Total Protective Life Corporation s shareowners equity	4,565,855	3,711,517
Noncontrolling interest	(750)	(750)
Total equity	4,565,105	3,710,767
Total liabilities and shareowners equity	$ 55,912,100	$ 52,143,369

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Protective Life Corporation s shareowners equity	Non controlling Interest	Total Equity
				(Dollars In Thousands)				
Balance, December 31, 2011	$ 44,388	$ 598,106	$ (107,740)	$ 2,191,319	$ 985,444	$ 3,711,517	$ (750)	$ 3,710,767
Net income for the three months ended March 31, 2012				99,021		99,021		99,021
Other comprehensive income					16,359	16,359		16,359
Comprehensive income for the three months ended March 31, 2012						115,380		115,380
Cash dividends ($0.16 per share)				(13,073)		(13,073)		(13,073)
Repurchase of common stock			(25,977)			(25,977)		(25,977)
Stock-based compensation		(4,176)	2,139			(2,037)		(2,037)
Balance, March 31, 2012	$ 44,388	$ 593,930	$ (131,578)	$ 2,277,267	$ 1,001,803	$ 3,785,810	$ (750)	$ 3,785,060
Net income for the three months ended June 30, 2012				76,155		76,155		76,155
Other comprehensive income					316,533	316,533		316,533
Comprehensive income for the three months ended June 30, 2012						392,688		392,688
Cash dividends ($0.18 per share)				(14,545)		(14,545)		(14,545)
Repurchase of common stock			(26,775)			(26,775)		(26,775)
Stock-based compensation		9,115	941			10,056		10,056
Balance, June 30, 2012	$ 44,388	$ 603,045	$ (157,412)	$ 2,338,877	$ 1,318,336	$ 4,147,234	$ (750)	$ 4,146,484
Net income for the three months ended September 30, 2012				60,480		60,480		60,480
Other comprehensive income					398,430	398,430		398,430
Comprehensive income for the three months ended September 30, 2012						458,910		458,910
Cash dividends ($0.18 per share)				(14,409)		(14,409)		(14,409)
Repurchase of common stock			(25,934)			(25,934)		(25,934)
		38	16			54		54

Stock-based compensation								
Balance, September 30, 2012	$ 44,388	$ 603,083	$ (183,330)	$ 2,384,948	$ 1,716,766	$ 4,565,855	$ (750)	$ 4,565,105

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30,	
	2012	2011(1)
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 235,656	$ 229,603
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	29,453	(31,145)
Amortization of deferred policy acquisition costs and value of business acquired	138,035	202,684
Capitalization of deferred policy acquisition costs	(217,319)	(306,564)
Depreciation expense	6,741	6,777
Deferred income tax	(45,366)	23,040
Accrued income tax	(4,735)	34,440
Interest credited to universal life and investment products	731,934	740,328
Policy fees assessed on universal life and investment products	(579,812)	(528,739)
Change in reinsurance receivables	(108,509)	(27,540)
Change in accrued investment income and other receivables	(6,734)	(31,583)
Change in policy liabilities and other policyholders funds of traditional life and health products	219,900	7,227
Trading securities:		
Maturities and principal reductions of investments	212,048	228,405
Sale of investments	365,809	655,607
Cost of investments acquired	(528,753)	(736,587)
Other net change in trading securities	13,758	31,307
Change in other liabilities	(49,200)	47,114
Other income - surplus note repurchase	(35,456)	(36,962)
Other, net	5,525	2,014
Net cash provided by operating activities	382,975	509,426
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	905,085	1,144,228
Sale of investments, available-for-sale	1,960,993	2,251,034
Cost of investments acquired, available-for sale	(3,084,807)	(4,184,350)
Mortgage loans:		
New lendings	(256,227)	(408,602)
Repayments	499,524	344,921
Change in investment real estate, net	9,687	521
Change in policy loans, net	10,212	13,806
Change in other long-term investments, net	(96,015)	36,367
Change in short-term investments, net	(39,118)	129,129
Net unsettled security transactions	69,845	127,621
Purchase of property and equipment	(5,474)	(12,896)
Payments for business acquisitions		(209,609)
Net cash used in investing activities	(26,295)	(767,830)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	492,500	20,000
Principal payments on line of credit arrangement and debt	(596,650)	(26,852)
Issuance (repayment) of non-recourse funding obligations	(110,800)	(117,600)

Repurchase program borrowings		280,000		157,103
Dividends to shareowners		(42,027)		(39,264)
Repurchase of common stock		(78,686)		(58,480)
Investment product deposits and change in universal life deposits		2,641,899		3,413,567
Investment product withdrawals		(3,002,824)		(2,998,684)
Other financing activities, net		(1,378)		(23,324)
Net cash (used in) provided by financing activities		(417,966)		326,466
Change in cash		(61,286)		68,062
Cash at beginning of period		267,298		264,425
Cash at end of period	$	206,012	$	332,487

(1)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The year-end consolidated condensed financial data was derived from audited financial statements, after the retrospective application of the matter discussed in Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and the Form 8-K filed on May 14, 2012.

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

In January of 2012, the Company adopted Accounting Standard Update (ASU or Update) No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts which changed how the Company accounts for its deferred acquisition costs. See Note 2, *Summary of Significant Policies* and Note 5, *Deferred Acquisition Costs and Value of Business Acquired*.

Reclassifications and Accounting Changes

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income or shareowners equity. Current and prior period operating income results within the Annuities segment have been updated to reflect the revised definition of operating income (loss) as it relates to embedded derivatives on our variable annuity contracts and the related hedging activities. This change did not impact its comparable GAAP measure income before income tax. See Note 16, *Operating Segments* and Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations* Results of Operations for additional information.

In January of 2012, the Company adopted ASU No. 2010-26 which changed certain previously reported items within the Company s financial statements and accompanying notes. The changes affected previously reported amounts in the financial statements, Note 3, *Significant Acquisitions*, Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, Note 12, *Earnings Per Share*, Note 13, *Income Taxes*, and Note 16, *Operating Segments*.

Entities Included

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Polices

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 and the Form 8-K filed on May 14, 2012. There were no significant changes to the Company s accounting policies during the nine months ended September 30, 2012, except as noted below. See Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired* for additional information on the accounting policies.

Deferred Policy Acquisition Costs

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts.

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

Based on the Accounting Standards Codification (ASC or Codification) Financial Services-Insurance Topic, the Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates the Company expects to experience in future periods. These assumptions are to be best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, using guidance from ASC Investments-Debt and Equity Securities Topic, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

Accounting Pronouncements Recently Adopted

ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. For additional information on the effect this Update had on the Company, see Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired*.

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ASU No. 2011-03 Transfers and Servicing - Reconsideration of Effective Control for Repurchase Agreements This Update amends the assessment of effective control for repurchase agreements to remove 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and 2) the collateral maintenance implementation guidance related to the criterion. The Board determined that these criterion should not be a determining factor of effective control. This Update was effective for the first interim or annual period beginning on or after December 15, 2011. For the Company, the Update was applied to all repurchase agreements beginning January 1, 2012. The Company has modified its policies and procedures to ensure compliance with the updated guidance. There was no impact to the Company s results of operations or financial position as a result of this adoption.

ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRSs). The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update expanded requirements for disclosing information about fair value measurements. These changes were effective for interim and annual periods beginning after December 15, 2011. The Company has included the required additional disclosures in Note 14, *Fair Value of Financial Instruments*, and has modified its policies and processes to ensure compliance with the updated guidance.

ASU No. 2011-05 Comprehensive Income Presentation of Comprehensive Income. In this Update, a company has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in 1) a single continuous statement of comprehensive income, or 2) in two separate but consecutive statements. In both choices, a company is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The Company has implemented the two-statement report format outlined in ASU No. 2011-05 beginning in the first quarter of 2012. The amendments in this Update do not change the items that must be reported in other comprehensive income, or the timing of its subsequent reclassification to net income. This Update was effective January 1, 2012.

Commensurate with the effective date of ASU No. 2011-05, the requirement to present reclassifications from other comprehensive income on the face of the income statement, was deferred indefinitely by ASU No. 2011-12 Comprehensive Income Deferral of the Effective for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05.

ASU No. 2012-04 Technical Corrections and Improvements. This Update contains changes intended to clarify the Codification or to correct unintended application of guidance, and which are not expected to have a significant effect on current accounting practice. In addition, this Update includes more substantive, limited-scope improvements to the Codification. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections. This Update was effective upon issuance on October 1, 2012, and will not have an impact on the Company s results of operations or financial position.

Accounting Pronouncements Not Yet Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity s rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRSs.

Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. This Update is effective January 1, 2013. This Update will not have an impact on the Company s results of operations or financial position.

ASU No. 2012-02 Intangibles-Goodwill and Other Testing Indefinite-Lived Intangible Assets for Impairment. This Update is intended to reduce the complexity and cost of performing an impairment test for indefinite-lived intangible assets by allowing an entity the option to make a qualitative evaluation about the likelihood of impairment prior to the quantitative calculation required by current guidance. Under the amendments to Topic 350, an entity has the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If an entity determines it is not more likely than not that impairment exists, quantitative impairment testing is not required. However, if an entity concludes otherwise, the impairment test outlined in current guidance is required to be completed. The Update does not change the current requirement that indefinite-lived intangible assets be reviewed for impairment at least annually.

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This Update is effective January 1, 2013. The Update will not have an impact on the Company s results of operations or financial position.

3. SIGNIFICANT ACQUISITIONS

On April 29, 2011, Protective Life Insurance Company (PLICO) closed a previously announced reinsurance transaction with Liberty Life Insurance Company (Liberty Life) under the terms of which PLICO reinsured substantially all of the life and health business of Liberty Life. The transaction closed in conjunction with Athene Holding Ltd s acquisition of Liberty Life from an affiliate of Royal Bank of Canada. The capital invested by PLICO in the transaction at closing was $321 million, including a $225 million ceding commission. In conjunction with the closing, PLICO invested $40 million in a surplus note issued by Athene Life Re. The Company accounted for this transaction under the ASC Financial Services-Insurance topic in a manner similar to the acquisition method of accounting as required by the Financial Accounting Standards Board (FASB) guidance under ASC Business Combinations topic.

The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned transaction with Liberty Life was completed as of January 1, 2010:

	For The Three Months Ended September 30, 2011		For The Nine Months Ended September 30, 2011	
	(Dollars In Thousands)			
Revenue	$	939,381	$	2,762,074
Net income	$	82,857	$	230,395
EPS - basic	$	0.98	$	2.66
EPS - diluted	$	0.96	$	2.63

4. INVESTMENT OPERATIONS

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

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2012		2011		2012		2011	
	(Dollars In Thousands)							
Fixed maturities	$	22,889	$	20,721	$	58,929	$	56,212
Equity securities		(241)		9		(93)		9,179
Impairments on fixed maturity securities		(8,556)		(9,829)		(40,928)		(24,979)
Modco trading portfolio		104,865		123,760		179,027		151,714

Other investments		(4,958)		(6,260)		(13,989)		(15,486)
Total realized gains (losses) - investments	$	113,999	$	128,401	$	182,946	$	176,640

For the three and nine months ended September 30, 2012, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.6 million and $63.0 million and gross realized losses, including impairments were $9.3 million and $44.8 million, respectively.

For the three and nine months ended September 30, 2011, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.2 million and $69.7 million and gross realized losses, including impairments, were $12.4 million and $29.0 million, respectively.

For the three and nine months ended September 30, 2012, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $424.6 million and $1.3 billion, respectively. The gain realized on the sale of these securities was $23.6 million and $63.0 million, respectively. For the three and nine months ended

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September 30, 2011, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $350.7 million and $1.8 billion, respectively. The gain realized on the sale of these securities was $23.2 million and $69.7 million, respectively.

For the three and nine months ended September 30, 2012, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $14.3 million and $31.7 million, respectively. The losses realized on the sale of these securities were $0.9 million and $4.1 million, respectively. For the three and nine months ended September 30, 2011, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $48.5 million and $211.5 million, respectively. The losses realized on the sale of these securities were $2.5 million and $4.3 million, respectively.

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

The chart shown below includes the Company s non-sovereign fair value exposures in these countries as of September 30, 2012. As of September 30, 2012, the Company had no unfunded exposure and had no direct sovereign fair value exposure.

	Non-sovereign Debt		Total Gross Funded
Financial Instrument and Country	**Financial**	**Non-financial**	**Exposure**
		(Dollars In Millions)	
Securities:			
United Kingdom	$ 343.8	$ 403.7	$ 747.5
Switzerland	150.4	202.9	353.3
France	85.2	98.2	183.4
Sweden	165.8	5.0	170.8
Netherlands	140.6	90.2	230.8
Spain	37.7	96.4	134.1
Belgium		92.1	92.1
Germany	26.6	59.5	86.1
Ireland	5.9	85.7	91.6
Luxembourg		51.7	51.7
Italy		46.5	46.5
Norway		14.6	14.6
Total securities	956.0	1,246.5	2,202.5
Derivatives:			
Germany	25.8		25.8
Switzerland	1.1		1.1
Total derivatives	26.9		26.9
	$ 982.9	$ 1,246.5	$ 2,229.4

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The amortized cost and fair value of the Company s investments classified as available-for-sale as of September 30, 2012 and December 31, 2011, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
			(Dollars In Thousands)		
2012					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,927,585	$ 103,462	$ (24,030)	$ 2,007,017	$ (4,612)
Commercial mortgage-backed securities	772,726	66,261	(329)	838,658	
Other asset-backed securities	999,155	11,855	(74,947)	936,063	(1,118)
U.S. government-related securities	1,272,338	78,539	(173)	1,350,704	
Other government-related securities	93,490	7,645	(19)	101,116	
States, municipals, and political subdivisions	1,168,546	252,731	(215)	1,421,062	
Corporate bonds	17,205,436	2,714,452	(63,107)	19,856,781	(1,868)
	23,439,276	3,234,945	(162,820)	26,511,401	(7,598)
Equity securities	352,194	12,255	(10,242)	354,207	
Short-term investments	54,709			54,709	
	$ 23,846,179	$ 3,247,200	$ (173,062)	$ 26,920,317	$ (7,598)
2011					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 2,345,578	$ 82,594	$ (86,042)	$ 2,342,130	$ (47,806)
Commercial mortgage-backed securities	531,322	24,466	(4,229)	551,559	
Other asset-backed securities	997,398	6,529	(90,898)	913,029	(6,559)
U.S. government-related securities	1,150,525	65,212	(58)	1,215,679	
Other government-related securities	88,058	4,959		93,017	
States, municipals, and political subdivisions	1,154,374	173,408		1,327,782	
Corporate bonds	16,910,738	1,920,142	(250,595)	18,580,285	1,787
	23,177,993	2,277,310	(431,822)	25,023,481	(52,578)
Equity securities	328,833	5,993	(16,635)	318,191	(74)
Short-term investments	15,649			15,649	
	$ 23,522,475	$ 2,283,303	$ (448,457)	$ 25,357,321	$ (52,652)

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

As of September 30, 2012 and December 31, 2011, respectively, the Company had an additional $3.1 billion and $3.0 billion of fixed maturities, $19.3 million and $17.0 million of equity securities, and $56.0 million and $85.8 million of short-term investments classified as trading securities.

The amortized cost and fair value of available-for-sale fixed maturities as of September 30, 2012, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from

actual rates of prepayment.

	Amortized Cost	Fair Value
	(Dollars In Thousands)	
Due in one year or less	$ 449,143	$ 455,409
Due after one year through five years	4,753,893	5,187,237
Due after five years through ten years	5,981,112	6,643,874
Due after ten years	12,255,128	14,224,881
	$ 23,439,276	$ 26,511,401

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of the Company s intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the

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security s amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, and in some cases, an analysis regarding the Company s expectations for recovery of the security s entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security s basis is adjusted and an other-than-temporary impairment is recognized. Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security s amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income (loss) as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS), the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the three and nine months ended September 30, 2012, the Company recorded pre-tax other-than-temporary impairments of investments of $1.6 million and $49.7 million, respectively. Credit impairments recorded in earnings during the period were $8.5 million. During the period, $7.0 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses. Additional non-credit losses during the period were $0.1 million. Of the $49.7 million of impairments for the nine months ended September 30, 2012, $40.9 million was recorded in earnings and $8.8 million was recorded in other comprehensive income (loss).

For the three and nine months ended September 30, 2012, there was $1.6 million and $49.7 million of pre-tax other-than-temporary impairments related to debt securities, respectively. There were no impairments related to equity securities. For the three and nine months ended September 30, 2012, there were $0.1 million of other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

During the three and nine months ended September 30, 2011, the Company recorded other-than-temporary impairments on investments of $6.2 million and $37.9 million, respectively, related to debt securities. Of the $6.2 million of impairments for the three months ended September 30, 2011, $9.8 million was recorded in earnings and $3.6 million was recorded in other comprehensive income (loss). The $3.6 million of non-credit gains includes $1.3 million of losses related to newly impaired securities and a net gain of $4.9 million related to previously impaired securities that are now in a gain position. Of the $37.9 million of impairments for the nine months ended September 30, 2011, $25.0 million was recorded in earnings and $12.9 million was recorded in other comprehensive income (loss). During this period, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intends to sell or expects to be required to sell.

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

	For The Three Months Ended September 30, 2012	For The Three Months Ended September 30, 2011	For The Nine Months Ended September 30, 2012	For The Nine Months Ended September 30, 2011
	(Dollars In Thousands)			
Beginning balance	$ 101,470	$ 49,847	$ 69,719	$ 39,427
Additions for newly impaired securities		744	19,473	10,150
Additions for previously impaired securities	6,923	6,647	19,201	10,750
Reductions for previously impaired securities due to a change in expected cash flows				
Reductions for previously impaired securities that were sold in the current period				(3,089)
Ending balance	$ 108,393	$ 57,238	$ 108,393	$ 57,238

The following table includes the gross unrealized losses and fair value of the Company s investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$ 66,428	$ (5,743)	$ 229,183	$ (18,287)	$ 295,611	$ (24,030)
Commercial mortgage-backed securities	17,625	(329)			17,625	(329)
Other asset-backed securities	511,822	(36,646)	202,059	(38,301)	713,881	(74,947)
U.S. government-related securities	51,377	(173)			51,377	(173)
Other government-related securities	34,994	(19)			34,994	(19)
States, municipals, and political subdivisions	10,302	(215)			10,302	(215)
Corporate bonds	571,959	(23,279)	537,676	(39,828)	1,109,635	(63,107)
Equities	15,171	(4,940)	21,585	(5,302)	36,756	(10,242)
	$ 1,279,678	$ (71,344)	$ 990,503	$ (101,718)	$ 2,270,181	$ (173,062)

The RMBS have a gross unrealized loss greater than twelve months of $18.3 million as of September 30, 2012. These losses are a result of continued weakness in the residential housing market which has reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $38.3 million as of September 30, 2012. This category predominately includes student-loan backed auction rate securities, the underlying collateral of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company s auction rate securities (ARS)

portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The corporate bonds category has gross unrealized losses greater than twelve months of $39.8 million as of September 30, 2012. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

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The equities category has a gross unrealized loss greater than twelve months of $5.3 million as of September 30, 2012. These losses primarily relate to fluctuations in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The following table includes the gross unrealized losses and fair value of the Company s investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(Dollars In Thousands)			
Residential mortgage-backed securities	$ 277,858	$ (15,447)	$ 527,120	$ (70,595)	$ 804,978	$ (86,042)
Commercial mortgage-backed securities	78,892	(4,229)			78,892	(4,229)
Other asset-backed securities	531,653	(32,074)	190,639	(58,824)	722,292	(90,898)
U.S. government-related securities	21,311	(58)			21,311	(58)
Other government-related securities						
States, municipals, and political subdivisions						
Corporate bonds	1,880,931	(132,297)	526,333	(118,298)	2,407,264	(250,595)
Equities	50,638	(8,436)	22,295	(8,199)	72,933	(16,635)
	$ 2,841,283	$ (192,541)	$ 1,266,387	$ (255,916)	$ 4,107,670	$ (448,457)

The RMBS have a gross unrealized loss greater than twelve months of $70.6 million as of December 31, 2011. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $58.8 million as of December 31, 2011. This category predominately includes student-loan backed auction rate securities, the underlying collateral of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company s ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The corporate bonds category has gross unrealized losses greater than twelve months of $118.3 million as of December 31, 2011. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

The equities category has a gross unrealized loss greater than twelve months of $8.2 million as of December 31, 2011. These losses primarily relate to a widening in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information. In addition, the Company does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these securities.

As of September 30, 2012, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.7 billion and had an amortized cost of $1.7 billion. In addition, included in the Company s trading portfolio, the Company held $379.9 million of securities which were rated below investment grade. Approximately $457.1 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Fixed maturities	$ 437,087	$ 479,954	$ 797,314	$ 677,262
Equity securities	4,531	(8,385)	8,226	(12,173)

Securities Lending

In prior periods, the Company participated in securities lending, primarily as an enhancement to its investment yield. Securities that the Company held as investments were loaned to third parties for short periods of time. The Company required initial collateral, in the form of short-term investments, which equaled 102% of the market value of the loaned securities.

During the second quarter of 2011, the Company discontinued this program. Certain collateral assets, which the Company previously intended to ultimately dispose of and on which it recorded an other-than-temporary impairment of $1.3 million, were instead retained by the Company and are included in its fixed maturities as of September 30, 2012. The Company currently does not have any intent to sell these securities, and does not anticipate being required to sell them.

Mortgage Loans

Refer to Note 8, *Mortgage Loans* for information on the Company s mortgage loan portfolio.

5. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers.

As of January 1, 2011, the beginning of the earliest period presented, the cumulative effect adjustment recorded to reflect this guidance resulted in a decrease of $504.5 million in retained earnings, an increase of $14.6 million in accumulated other comprehensive income and a decrease of $489.9 million in total shareowners equity.

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The chart shown below summarizes the effect of these adjustments on the Company s balance sheet (only balances impacted by the Update are presented).

	As of December 31, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Assets:			
Deferred policy acquisition costs and value of business acquired	$ 4,036,757	$ 3,248,041	$ (788,716)
Total Assets	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**
Liabilities:			
Deferred income taxes	$ 1,540,397	$ 1,260,629	$ (279,768)
Total liabilities	**$ 48,712,370**	**$ 48,432,602**	**$ (279,768)**
Equity:			
Retained earnings	$ 2,719,492	$ 2,191,319	$ (528,173)
Accumulated other comprehensive income (loss):			
Net unrealized gain (losses) on investments, net of income tax	1,074,878	1,094,103	19,225
Total Equity	**$ 4,219,715**	**$ 3,710,767**	**$ (508,948)**
Total liabilities and shareowners equity	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**

The chart shown below summarizes the effect of the adjustments on the Company s income statement (only balances impacted by the Update are presented).

	For The Three Months Ended September 30, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Expenses:			
Amortization of deferred policy acquisition costs and value of business acquired	$ 83,782	$ 71,740	$ (12,042)
Other operating expenses	131,604	152,563	20,959
Total benefits and expenses	808,178	817,095	8,917
Income before income tax	131,203	122,286	(8,917)
Income tax (benefit) expense	42,589	39,429	(3,160)
Net income	**$ 88,614**	**$ 82,857**	**$ (5,757)**
Less: Net loss attributable to noncontrolling interests			
Net Income available to PLC s common shareowners	**$ 88,614**	**$ 82,857**	**$ (5,757)**
Net income available to PLC s common shareowners - basic	$ 1.05	$ 0.98	$ (0.07)
Net income available to PLC s common shareowners - diluted	$ 1.03	$ 0.96	$ (0.07)

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	For The Nine Months Ended September 30, 2011		
	As originally reported	As adjusted	Effect of Change
		(Dollars In Thousands)	
Expenses:			
Amortization of deferred policy acquisition costs and value of business acquired	$ 237,833	$ 202,684	$ (35,149)
Other operating expenses	382,127	448,008	65,881
Total benefits and expenses	2,300,674	2,331,406	30,732
Income before income tax	378,571	347,839	(30,732)
Income tax (benefit) expense	129,127	118,236	(10,891)
Net income	**$ 249,444**	**$ 229,603**	**$ (19,841)**
Less: Net loss attributable to noncontrolling interests	245	245	
Net Income available to PLC s common shareowners	**$ 249,199**	**$ 229,358**	**$ (19,841)**
Net income available to PLC s common shareowners - basic	$ 2.90	$ 2.67	$ (0.23)
Net income available to PLC s common shareowners - diluted	$ 2.86	$ 2.63	$ (0.23)

The chart shown below summarizes the effect of the adjustments on the Company s cash flow statement (only balances impacted by the Update are presented).

	For The Nine Months Ended September 30, 2011		
	As originally reported	As adjusted	Effect of Change
		(Dollars In Thousands)	
Cash flows from operating activities			
Net income	$ 249,444	$ 229,603	$ (19,841)
Amortization of deferred policy acquisition costs and value of business acquired	237,833	202,684	(35,149)
Capitalization of deferred policy acquisition costs	(361,644)	(306,564)	55,080
Deferred income tax	30,148	23,040	(7,108)
Other, net	(5,004)	2,014	7,018
Change to net cash (used in) provided by operating activities	$ 150,777	$ 150,777	$

Deferred policy acquisition costs

The balances and changes in DAC are as follows:

	As of	
	September 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 2,219,901	$ 2,124,329
Capitalization of commissions, sales, and issue expenses	224,518	370,830
Amortization	(101,080)	(215,600)

Change in unrealized investment gains and losses		(103,072)		(59,658)
Balance, end of period	$	2,240,267	$	2,219,901

Value of business acquired

The balances and changes in VOBA are as follows:

	As of			
	September 30, 2012		December 31, 2011	
	(Dollars In Thousands)			
Balance, beginning of period	$	1,028,140	$	968,253
Acquisitions				137,418
Amortization		(44,175)		(66,163)
Change in unrealized gains and losses		(16,005)		(21,907)
Other				10,539
Balance, end of period	$	967,960	$	1,028,140

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6. GOODWILL

During the nine months ended September 30, 2012, the Company decreased its goodwill balance by approximately $2.3 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2012 on the portion of tax goodwill in excess of GAAP basis goodwill. As of September 30, 2012, the Company had an aggregate goodwill balance of $109.3 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company s material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company s reporting units are dependent on a number of significant assumptions. The Company s estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company s judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2011, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the nine months ended September 30, 2012, no events occurred which indicate an impairment was required or which would invalidate the previous results of the Company s impairment assessment.

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7. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

		As of		
		September 30, 2012		December 31, 2011
		(Dollars In Thousands)		
Debt (year of issue):				
Revolving Line Of Credit	$	50,000	$	170,000
4.30% Senior Notes (2003), due 2013		250,000		250,000
4.875% Senior Notes (2004), due 2014		150,000		150,000
6.40% Senior Notes (2007), due 2018		150,000		150,000
7.375% Senior Notes (2009), due 2019		400,000		400,000
8.00% Senior Notes (2009), due 2024, callable 2014		100,000		100,000
8.45% Senior Notes (2009), due 2039		300,000		300,000
Total Debt	$	1,400,000	$	1,520,000
Subordinated debt securities (year of issue):				
7.50% Subordinated Debentures (2001), due 2031, callable 2006	$		$	103,093
7.25% Subordinated Debentures (2002), due 2032, callable 2007				118,557
6.125% Subordinated Debentures (2004), due 2034, callable 2009		103,093		103,093
6.25% Subordinated Debentures (2012) due 2042, callable 2017		287,500		
6.00% Subordinated Debentures (2012) due 2042, callable 2017		150,000		
7.25% Capital Securities (2006), due 2066, callable 2011				200,000
Total subordinated debt securities	$	540,593	$	524,743

Under a revolving line of credit arrangement that was in effect until July 17, 2012 (the Credit Facility), the Company had the ability to borrow on an unsecured basis up to an aggregate principal amount of $500 million. The Company had the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $600 million. Balances outstanding under the Credit Facility accrued interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that the Company was liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date on the Credit Facility was April 16, 2013. There was an outstanding balance of $160.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of July 17, 2012.

On July 17, 2012 the Company replaced the Credit Facility with a new credit facility (2012 Credit Facility). Under the 2012 Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $750 million. The Company has the right in certain circumstances to request that the commitment under the 2012 Credit Facility be increased up to a maximum principal amount of $1.0 billion. Balances outstanding under the 2012 Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company s senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent s prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company s Senior Debt. The 2012 Credit Facility also provides for a facility fee at a rate, currently 0.175%, that varies with the ratings of the Company s Senior Debt and that is calculated on the aggregate amount of commitments under the 2012 Credit Facility, whether used or unused. The maturity date on the 2012 Credit Facility is July 17, 2017. The Company is not aware of any non-compliance with the financial debt covenants of the 2012 Credit Facility as of September 30, 2012. There was an outstanding balance of

$50.0 million at an interest rate of LIBOR plus 1.20% under the 2012 Credit Facility as of September 30, 2012.

The Company has a repurchase program in which it may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities. As of September 30,

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2012, the fair value of securities pledged under the repurchase program was $300.3 million and the repurchase obligation of $280.0 million was included in the Company s consolidated condensed balance sheets. As of December 31, 2011, the Company did not have a balance for its repurchase program.

During the three month period ending June 30, 2012, the Company issued $287.5 million of its Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company s shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call $103.1 million of Subordinated Debentures due 2031, $118.6 million of Subordinated Debentures due in 2032 and $75.0 million of Capital Securities due in 2066 at par value. The transaction resulted in an expense of $7.2 million related to the write off of deferred issue costs associated with the called Debentures.

During the three month period ending September 30, 2012, the Company issued $150 million of its Subordinated Debentures due in 2042. These Subordinated Debentures were offered and sold pursuant to the Company s shelf registration statement on Form S-3. The Company used the net proceeds from the offering to call $125.0 million of Capital Securities due in 2066 at par value and the remaining for general working capital purposes. The transaction resulted in an expense of $4.0 million related to the write off of deferred issue costs associated with the called Debentures.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had $575.0 million of outstanding non-recourse funding obligations as of September 30, 2012. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of the Company s affiliates own a portion of these securities. As of September 30, 2012, securities related to $297.0 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $278.0 million of the non-recourse funding obligations were held by affiliates.

Non-recourse funding obligations outstanding as of September 30, 2012, on a consolidated basis, are shown in the following table:

Issuer		Balance	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
		(Dollars In Thousands)		
Golden Gate II Captive Insurance Company	$	297,000	2052	1.15%

During the nine months ended September 30, 2012, the Company repurchased $110.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $35.5 million pre-tax gain for the Company. During the nine months ended September 30, 2011, the Company repurchased $117.6 million of its outstanding non-recourse funding obligations, at a discount, which resulted in a $37.0 million pre-tax gain.

8. MORTGAGE LOANS

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2012, the Company s mortgage loan holdings were approximately $5.1 billion. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are based, in the Company s view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

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

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Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately $24.6 million would become due for the remainder of 2012, $1.1 billion in 2013 through 2017, $716.1 million in 2018 through 2022, and $223.0 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of September 30, 2012 and December 31, 2011, approximately $832.7 million and $876.8 million, respectively, of the Company s mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income.

As of September 30, 2012, approximately $25.8 million, or 0.07%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. The Company s mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement.

As of September 30, 2012, $16.4 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the nine month period ended September 30, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $2.2 million of real estate properties during the nine months ended September 30, 2012.

As of September 30, 2012, $7.0 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the nine months ending September 30, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $0.2 million of real estate properties during the nine months ended September 30, 2012.

As of September 30, 2012 and December 31, 2011, the Company had an allowance for mortgage loan credit losses of $1.9 million and $6.5 million, respectively. Due to the Company s loss experience, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan s original effective interest rate, or the current estimated fair value of the loan s underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

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

	As of	
	September 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Beginning balance	$ 6,475	$ 11,650
Charge offs	(9,840)	(16,278)
Recoveries	(122)	(2,471)
Provision	5,387	13,574
Ending balance	$ 1,900	$ 6,475

It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of September 30, 2012:

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$ 6,786	$ 1,575	$ 21,791	$ 30,152
Number of delinquent commercial mortgage loans	3	1	8	12

The Company s commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of September 30, 2012 and December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
2012						
Commercial mortgage loans:						
With no related allowance recorded	$ 16,638	$ 18,963	$	$ 2,080	$ 33	$ 107
With an allowance recorded	6,481	6,482	1,900	3,241		
2011						
Commercial mortgage loans:						
With no related allowance recorded	$ 7,917	$ 10,926	$	$ 1,979	$ 34	$ 34
With an allowance recorded	15,521	15,521	6,475	5,174	117	181

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9. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

In the IRS audit that concluded during the prior quarter, the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. Although it cannot be certain, the Company believes that the appeals process may conclude within the next 12 months. If the IRS prevails on every issue that it identified in this audit, and the Company does not litigate these issues, then the Company will make an income tax payment of approximately $26.6 million. However, this payment, if it were to occur, would not materially impact the Company or its effective tax rate.

The Company has received notice from two third party auditors that certain of the Company s insurance subsidiaries, as well as certain other insurance companies for which the Company has co-insured blocks of life insurance and annuity policies, will be audited for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company has recorded a reserve with respect to life insurance policies issued by the Company s subsidiaries and certain co-insured blocks of life insurance policies issued by

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other companies in connection with these pending audits. The Company does not consider the amount of this reserve to be material to the Company s financial condition or results of operations. With respect to one block of life insurance policies that is co-insured by a subsidiary of the Company, the Company is presently unable to estimate the reasonably possible loss or range of loss due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies, the distinct characteristics of this co-insured block of policies which differentiate it from the blocks of life insurance policies for which the Company has recorded a reserve, and the early stages of the audits being conducted. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with this block of co-insured policies probable or reasonably estimable.

10. STOCK-BASED COMPENSATION

During the nine months ended September 30, 2012, 306,100 performance shares with an estimated fair value of $8.6 million were awarded. The criteria for payment of the 2012 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 10.0%, no award is earned. If the Company s ROE is at or above 11.2%, the award maximum is earned. Awards are paid in shares of the Company s common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 180,950 restricted stock units for the nine months ended September 30, 2012. These awards had a total fair value at grant date of $5.1 million. Approximately half of these restricted stock units vest in 2015, and the remainder vest in 2016. These awards have been recorded as equity-classified awards for the period ended September 30, 2012.

During the first quarter of 2012, the Company changed its intention to pay certain of its previously issued restricted stock units and performance share awards in cash. For that period, those portions of the awards were recorded as liability-classified awards and resulted in a reclassification of $3.6 million from additional paid-in-capital to other liabilities. During the second quarter of 2012, upon approval by the Company s shareholders to pay the aforementioned restricted stock units and performance share awards in the form of stock, the Company reclassified these awards to equity-classified awards. As of September 30, 2012, the $3.6 million was transferred back to additional paid-in-capital. These changes had an immaterial impact to current year net income.

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

		Weighted-Average Base Price per share	**No. of SARs**
Balance as of December 31, 2011	$	22.27	2,274,229
SARs granted			
SARs exercised / forfeited / expired		24.47	(550,770)
Balance as of September 30, 2012	$	21.57	1,723,459

There were no SARs issued for the nine months ended September 30, 2012. The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR.

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11. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars In Thousands)			
Service cost benefits earned during the period	$ 2,561	$ 2,194	$ 7,683	$ 6,582
Interest cost on projected benefit obligation	2,604	2,508	7,812	7,524
Expected return on plan assets	(2,673)	(2,512)	(8,019)	(7,536)
Amortization of prior service cost	(95)	(98)	(285)	(294)
Amortization of actuarial losses	2,175	1,388	6,525	4,164
Total benefit cost	$ 4,572	$ 3,480	$ 13,716	$ 10,440

During the nine months ended September 30, 2012, the Company contributed $11.6 million to its defined benefit pension plan for the 2011 plan year and $6.7 million for the 2012 plan year. In addition, during October of 2012, the Company contributed $2.9 million to the defined benefit pension plan for the 2012 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In July of 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the segment rates used to determine funding requirements from the effects of interest rate volatility. The funding stabilization provisions of MAP-21 will reduce the Company s minimum required defined benefit plan contributions for the 2012 plan year. The Company is evaluating the impact this change will have on funding requirements in future years. Since the funding stabilization provisions of MAP-21 do not apply for Pension Benefit Guaranty Corporation (PBGC) reporting purposes, the Company may also make additional contributions in future periods to maintain an 80% funded status for PBGC reporting purposes.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the nine months ended September 30, 2012, was immaterial to the Company s financial statements.

12. EARNINGS PER SHARE

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

various stock-based compensation plans and stock purchase contracts.

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A reconciliation of the numerators and denominators of the basic and diluted earnings per share is presented below:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income available to PLC s common shareowners	$ 60,480	$ 82,857	$ 235,656	$ 229,358
Average shares issued and outstanding	79,725,407	83,844,567	80,632,108	84,979,539
Issuable under various deferred compensation plans	937,338	877,665	909,354	904,130
Weighted shares outstanding - basic	80,662,745	84,722,232	81,541,462	85,883,669
Per share:				
Net income available to PLC s common shareowners - basic	$ 0.75	$ 0.98	$ 2.89	$ 2.67
Calculation of diluted earnings per share:				
Net income available to PLC s common shareowners	$ 60,480	$ 82,857	$ 235,656	$ 229,358
Weighted shares outstanding - basic	80,662,745	84,722,232	81,541,462	85,883,669
Stock appreciation rights (SARs)(1)	464,504	438,172	460,104	477,383
Issuable under various other stock-based compensation plans	677,218	114,881	568,587	117,453
Restricted stock units	601,636	729,286	617,701	674,307
Weighted shares outstanding - diluted	82,406,103	86,004,571	83,187,854	87,152,812
Per share:				
Net income available to PLC s common shareowners - diluted	$ 0.73	$ 0.96	$ 2.83	$ 2.63

(1) Excludes 665,320 and 1,434,180 SARs as of September 30, 2012 and 2011, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding for applicable periods.

13. INCOME TAXES

There was a $1.4 million increase in the balance of unrecognized tax benefits, where such benefits impacted earnings, for the nine months ended September 30, 2012. The total amount of unrecognized tax benefits at September 30, 2012 and December 31, 2011 that would, if recognized, affect the effective tax rate were $4.3 million and $2.9 million, respectively. Additionally, during the nine months ended September 30, 2012, there was a $67.8 million increase in total unrecognized tax benefits, of which $40.7 million occurred in the three months ended September 30, 2012. This increase related to items for which the ultimate deductibility is highly certain but for which there is uncertainty about the year in which such items should be deducted. Other than interest or penalties, a disallowance of the shorter deductibility period would not affect the effective tax rate. However, such disallowance would accelerate the payment date of cash to the taxing authority.

In the IRS audit that concluded during the prior quarter, the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. Although it cannot be certain, the Company believes that the Appeals process may conclude within the next 12 months. If the IRS prevails at Appeals, and the Company does not litigate these issues, then an acceleration of tax payments will occur. However, if these payments were to occur, they would not materially impact the Company or its effective tax rate.

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

	As of	
	September 30, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 4,840	$ 13,181
Additions for tax positions of the current year	9,191	
Additions for tax positions of prior years	62,077	106
Reductions of tax positions of prior years:		
Changes in judgment	(3,498)	(8,447)
Settlements during the period		
Lapses of applicable statute of limitations		
Balance, end of period	$ 72,610	$ 4,840

The Company believes that it is possible that in the next 12 months approximately $17.1 million of these unrecognized tax benefits will be reduced due to the expected closure of the Appeals process. This reduction could occur because of the Company s successful negotiation of certain issues at Appeals, coupled with its unsuccessful negotiations on other issues. This possible scenario includes an assumption that the Company would pay the IRS-asserted deficiencies on issues that it loses at Appeals, rather than litigating such issues.

During 2011, there was an $8.4 million reduction in the amount of unrecognized tax benefits due to a change in the Company s judgment regarding the probability of realizing such unrecognized tax benefits. This was caused by new technical guidance and other developments which caused the Company to conclude that the full amount of the associated tax benefits was more than 50 percent likely to be realized. These issues were almost entirely related to timing issues. Therefore, aside from the cost of interest, this reduction did not cause a decrease in the Company s effective tax rate.

In general, the Company is not subject to adjustments to its current tax expense by any taxing authority for any tax year prior to 2003.

The Company used its estimate of its annual 2012 and 2011 income in computing its effective income tax rates for the three and nine months ended September 30, 2012 and 2011. The effective tax rate for the three and nine months ended September 30, 2012 was 33.5% and 32.5%, respectively, and 32.2% and 34.0% for the three and nine months ended September 30, 2011, respectively. During the prior quarter, as a result of the IRS audit, the Company changed its estimate regarding an issue whose tax effect has affected, and will continue to affect, the Company s effective tax rate. This change in estimate contributed $3.0 million to a $4.6 million benefit that was part of the Company s prior quarter 2012 income tax provision in its Statements of Income. The remainder of this benefit related to a change in estimate regarding accrued interest on uncertain tax benefits. Without this benefit, this quarter s effective tax rate would have remained the same at 33.5% and this year s nine-month period s effective tax rate would have been 33.8%.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of September 30, 2012.

In the first quarter of 2012, the Company retrospectively adopted ASU No. 2010-26. The Company s retrospective adoption of this Update resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. The retrospective adoption of this Update reduced the opening balance of the Company s shareowners equity, the deferred acquisition costs asset balance, and the deferred income tax liability balance as of the adoption date. The Company had an adjustment of approximately $279.8 million to its deferred income tax liability balance as of December 31, 2011 and a $10.9 million adjustment to the Company s income tax expense for the nine months ended September 30, 2011.

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14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

In the first quarter of 2012, the Company adopted ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update resulted in modification of certain disclosures regarding fair value measurements, but did not result in a material change to the Company s fair value methodology or measurements and had no impact to the Company s financial position or results of operations.

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

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

- **Level 1:** Unadjusted quoted prices for identical assets or liabilities in an active market.

- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets

b) Quoted prices for identical or similar assets or liabilities in non-active markets

c) Inputs other than quoted market prices that are observable

d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

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

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2012:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,007,013	$ 4	$ 2,007,017
Commercial mortgage-backed securities		838,658		838,658
Other asset-backed securities		346,425	589,638	936,063
U.S. government-related securities	894,031	456,673		1,350,704
States, municipals, and political subdivisions		1,416,722	4,340	1,421,062
Other government-related securities		81,111	20,005	101,116
Corporate bonds	205	19,708,037	148,539	19,856,781
Total fixed maturity securities - available-for-sale	894,236	24,854,639	762,526	26,511,401
Fixed maturity securities - trading				
Residential mortgage-backed securities		386,861		386,861
Commercial mortgage-backed securities		184,932		184,932
Other asset-backed securities		81,627	74,062	155,689
U.S. government-related securities	308,928	247		309,175
States, municipals, and political subdivisions		276,449		276,449
Other government-related securities		59,077		59,077
Corporate bonds		1,723,539	115	1,723,654
Total fixed maturity securities - trading	308,928	2,712,732	74,177	3,095,837
Total fixed maturity securities	1,203,164	27,567,371	836,703	29,607,238
Equity securities	281,565	22,770	69,217	373,552
Other long-term investments (1)	21,645	66,817	21,100	109,562
Short-term investments	110,684			110,684
Total investments	1,617,058	27,656,958	927,020	30,201,036
Cash	206,012			206,012
Other assets	8,135			8,135
Assets related to separate accounts				
Variable annuity	8,895,947			8,895,947
Variable universal life	557,529			557,529
Total assets measured at fair value on a recurring basis	$ 11,284,681	$ 27,656,958	$ 927,020	$ 39,868,659
Liabilities:				
Annuity account balances (2)	$	$	$ 134,569	$ 134,569
Other liabilities (1)	4,447	17,630	618,349	640,426
Total liabilities measured at fair value on a recurring basis	$ 4,447	$ 17,630	$ 752,918	$ 774,995

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,342,123	$ 7	$ 2,342,130
Commercial mortgage-backed securities		551,559		551,559
Other asset-backed securities		298,216	614,813	913,029
U.S. government-related securities	664,506	536,173	15,000	1,215,679
States, municipals, and political subdivisions		1,327,713	69	1,327,782
Other government-related securities		93,017		93,017
Corporate bonds	204	18,460,480	119,601	18,580,285
Total fixed maturity securities - available-for-sale	664,710	23,609,281	749,490	25,023,481
Fixed maturity securities - trading				
Residential mortgage-backed securities		313,963		313,963
Commercial mortgage-backed securities		190,247		190,247
Other asset-backed securities		29,585	28,343	57,928
U.S. government-related securities	555,601	255		555,856
States, municipals, and political subdivisions		229,032		229,032
Other government-related securities		44,845		44,845
Corporate bonds		1,568,094		1,568,094
Total fixed maturity securities - trading	555,601	2,376,021	28,343	2,959,965
Total fixed maturity securities	1,220,311	25,985,302	777,833	27,983,446
Equity securities	243,336	11,310	80,586	335,232
Other long-term investments (1)	27,757	7,785	12,703	48,245
Short-term investments	101,489			101,489
Total investments	1,592,893	26,004,397	871,122	28,468,412
Cash	267,298			267,298
Other assets	6,960			6,960
Assets related to separate accounts				
Variable annuity	6,741,959			6,741,959
Variable universal life	502,617			502,617
Total assets measured at fair value on a recurring basis	$ 9,111,727	$ 26,004,397	$ 871,122	$ 35,987,246
Liabilities:				
Annuity account balances (2)	$	$	$ 136,462	$ 136,462
Other liabilities (1)	2,727	15,370	437,613	455,710
Total liabilities measured at fair value on a recurring basis	$ 2,727	$ 15,370	$ 574,075	$ 592,172

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Determination of fair values

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

counterparty credit quality, the Company s credit standing, liquidity, and where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the nine months ended September 30, 2012.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of September 30, 2012, the Company held $3.8 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

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After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin.

As of September 30, 2012, the Company held $663.7 million of Level 3 ABS, which included $74.1 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

The fair value calculation of available-for-sale ABSs classified as Level 3 had, but were not limited to, the following inputs:

Investment grade credit rating	100%
Weighted-average yield	1.6%
Par value	$638.6 million
Weighted-average life	10.4 years

Corporate bonds, U.S. Government-related securities, States, municipals, and political subdivisions, and Other government related securities

As of September 30, 2012, the Company classified approximately $23.7 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of September 30, 2012, the Company classified approximately $173.0 million of bonds and securities as Level 3 valuations. The fair value of the Level 3 bonds and securities are derived from an internal pricing model that utilizes a hybrid market/income approach to valuation. The Company reviews the following characteristics of the bonds and securities to determine the relevant inputs to use in the pricing model: 1) coupon rate, 2) years to maturity, 3) seniority, 4) embedded options, 5) trading volume, and 6) credit ratings.

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

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The fair value calculation of bonds and securities classified as Level 3 had, but were not limited to, the following weighted-average inputs:

Investment grade credit rating	61.7%
Weighted-average yield	4.3%
Weighted-average coupon	5.4%
Par value	$238.4 million
Weighted-average stated maturity	6.4 years

Equities

As of September 30, 2012, the Company held approximately $92.0 million of equity securities classified as Level 2 and Level 3. Of this total, $64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 15, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of September 30, 2012, 96.7% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Derivative instruments classified as Level 1 generally include futures, credit default swaps, and puts, which are traded on active exchange markets.

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

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

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

The guaranteed minimum withdrawal benefits (GMWB) embedded derivative is carried at fair value in other long-term investments and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments . Refer to Note 15, *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality that is consistent with 57% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit

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spread (to represent the Company s non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the policy liabilities (net of policy loans) of $2.7 billion and the fair value of the trading securities of $3.1 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity account balances

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

The discount rate for the equity indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for September 30, 2012, ranged from a one month rate of 0.52%, a 5 year rate of 2.15%, and a 30 year rate of 4.21%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Separate Accounts

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

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Valuation of Level 3 Financial Instruments

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

		Fair Value As of September 30, 2012 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Other asset-backed securities	$	589,638	Discounted cash flow	Liquidity premium	0.56% - 1.66% (1.16%)
				Paydown rate	8.48% - 15.81% (10.36%)
Other government-related securities		20,005	Discounted cash flow	Spread over treasury	0.05%
Corporate bonds		148,613	Discounted cash flow	Spread over treasury	0.20% - 4.02% (0.77%)
Liabilities:					
Embedded derivatives - GMWB(1)	$	179,273	Actuarial cash flow model	Mortality	57% of 1994 GMDB table
				Lapse	0% - 24%, depending on product/duration/funded status of guarantee
				Utilization	93% - 100%
				Nonperformance risk	0.31% - 1.60%
Annuity account balances(2)		134,569	Actuarial cash flow model	Asset earned rate	5.81%
				Expenses	$88 - $108 per policy
				Withdrawal rate	2.20%
				Mortality	64% of 1994 GMDB table
				Lapse	2.2% - 45.0%, depending on duration/surrender charge period
				Return on assets	1.50% - 1.85% depending on surrender charge period
				Nonperformance risk	0.31% - 1.60%

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

(2) Represents liabilities related to equity indexed annuities.

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

The valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company which resulted in $74.7 million of financial instruments being classified as Level 3 as of September 30, 2012. Of the $74.7 million, $74.1 million are other asset backed securities and $0.6 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of September 30, 2012, the Company held $73.0 million of financial instruments where book value approximates fair value. Of the $73.0 million, $68.7 million represents equity

securities, which are predominantly FHLB stock, and $4.3 million of other fixed maturity securities.

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

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

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

The fair value of the EIA account balance liability is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the EIA account balance liability is sensitive to the asset earned rate and required return on assets. The value of the liability increases with an increase in required return on assets and decreases with an increase in the asset earned rate and conversely, the value of the liability decreases with a decrease in required return on assets and an increase in the asset earned rate.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2012, for which the Company has used significant unobservable inputs (Level 3):

Assets:													
Residential mortgage-backed securities	$ 4	$	$	$	$	$	$	$	$	$	$	$ 4	$
Other asset-backed securities	584,641	45	11,462		(1,157)		(5,200)				(153)	589,638	
States, municipals, and political subdivisions	4,340											4,340	
Corporate bonds	172,181		5,349		(221)		(2,090)			(26,802)	122	148,539	
Fixed maturity securities - trading													
Commercial mortgage-backed securities													
U.S. government-related securities													
Other government-related securities													
Total fixed maturity securities - trading	65,173	2,973		(148)		7,208	(1,442)				413	74,177	2,825

Equity securities	73,651	8			(147)		(4,295)					69,217	
Short-term investments													
Total assets measured at fair value on a recurring basis	$ 938,425	$ 5,745	$ 16,811	$ (182)	$ (1,536)	$ 7,208	$ (13,027)	$	$	$ (26,802)	$ 378	$ 927,020	$ 5,510
Liabilities:													
Other liabilities (1)	516,587	11,016		112,779								618,350	(101,763)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the three months ended September 30, 2012, there were no securities transferred into Level 3.

For the three months ended September 30, 2012, $26.8 million of securities were transferred out of Level 3. This amount was transferred into Level 2. These transfers resulted from securities priced by independent pricing services or brokers as of September 30, 2012 that were previously priced internally using significant unobservable inputs where market observable inputs were not available.

For the three months ended September 30, 2012, there were no transfers from Level 2 to Level 1.

For the three months ended September 30, 2012, there were no transfers out of Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2011, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses									
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (Losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	$ 7	$	$	$	$	$	$	$	$	$	$	$ 7	$
Commercial mortgage-backed securities										9,434		9,434	
Other asset-backed securities	637,746		1,478		(40,295)						(88)	598,841	
U.S. government-related securities	15,000												