

PROTECTIVE LIFE CORP
Form 10-K
March 02, 2018

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017

or

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 (IRS Employer
incorporation or organization) Identification Number)

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging Growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of June 30, 2017: None (\$0)

Number of shares of Common Stock, \$0.01 Par Value, outstanding as of February 1, 2018: 1,000

Documents Incorporated by Reference: None

Table of Contents

PROTECTIVE LIFE CORPORATION
 ANNUAL REPORT ON FORM 10-K
 FOR FISCAL YEAR ENDED DECEMBER 31, 2017
 TABLE OF CONTENTS

	Page
<u>PART I</u>	
<u>Item 1. Business</u>	<u>3</u>
<u>Item 1A. Risk Factors</u>	<u>15</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>34</u>
<u>Item 2. Properties</u>	<u>34</u>
<u>Item 3. Legal Proceedings</u>	<u>35</u>
<u>Item 4. Mine Safety Disclosure—Not Applicable</u>	<u>35</u>
<u>PART II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>36</u>
<u>Item 6. Selected Financial Data</u>	<u>37</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>100</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>100</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>196</u>
<u>Item 9A. Controls and Procedures</u>	<u>196</u>
<u>Item 9B. Other Information</u>	<u>197</u>
<u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>198</u>
<u>Item 11. Executive Compensation</u>	<u>202</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>226</u>
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	<u>226</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>227</u>
<u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	<u>228</u>
Item 16. Form 10-K Summary - None	
<u>Signatures</u>	<u>246</u>

Table of Contents

PART I

Item 1. Business

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

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

The Company operates several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company's operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, and Asset Protection. The Company has an additional segment referred to as Corporate and Other which consists of net investment income on assets supporting our equity capital, unallocated corporate overhead, and expenses not attributable to the segments above (including interest on certain corporate debt). This segment also includes earnings from several non-strategic or runoff lines of business, financing and investment related transactions, and the operations of several small subsidiaries. The Company periodically evaluates its operating segments and makes adjustments to our segment reporting as needed. Additional information concerning the Company and its operating segments may be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 22, Operating Segments to the consolidated financial statements included in this report.

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

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

Life Marketing

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

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

Successor Company

For The Year Ended December 31,	Sales (Dollars In Millions)
2017	\$ 172
2016	170
For the period of February 1, 2015 to December 31, 2015	144

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Predecessor Company For The Year Ended December 31,	Sales (Dollars In Millions)
For the period of January 1, 2015 to January 31, 2015	\$ 12
2014	130
2013	155

3

Table of Contents

Acquisitions

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

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

The Company believes that its focused and disciplined approach to the acquisition process and its experience in the assimilation, conservation, and servicing of acquired policies provides a significant competitive advantage. On occasion, the Company's other operating segments have acquired companies and/or blocks of policies, such as the December 2016 acquisition of USWC Holding Company which is included in the Asset Protection segment. These acquisitions are not included in the Acquisitions segment. The results of these acquisitions are included in the respective segment's financial results.

On January 18, 2018, and for the limited purposes set forth therein, the Company entered into a Master Transaction Agreement (the "Master Transaction Agreement") with Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, for the limited purposes set forth therein, Liberty Mutual Group Inc. ("Liberty Mutual"), The Lincoln National Life Insurance Company ("Lincoln Life"), and for the limited purposes set forth therein, Lincoln National Corporation, pursuant to which Lincoln Life will acquire Liberty Mutual's Group Benefits Business and Individual Life and Annuity Business (the "Life Business") through the acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston ("Liberty") (the "Transaction"). Pursuant to the Master Transaction Agreement, the Company, PLICO and Protective Life and Annuity Insurance Company ("PLAIC"), a wholly owned subsidiary of PLICO, agreed to enter into reinsurance agreements and related ancillary documents at the closing of the Transaction. On the terms and subject to the conditions of the reinsurance agreements, Liberty will cede to PLICO and PLAIC, effective as of the closing of the Transaction, substantially all of the insurance policies relating to the Life Business. The aggregate statutory reserves of Liberty to be ceded to PLICO and PLAIC as of the closing of the Transaction are expected to be approximately \$13.0 billion. To support its obligations under the reinsurance agreements, PLICO and PLAIC will each establish a trust account for the benefit of Lincoln Life. Entry into the reinsurance agreements represents an estimated capital investment by PLICO of approximately \$1.17 billion. The transaction is expected to be completed in the second quarter of 2018, pending regulatory approvals and other customary closing conditions.

On January 15, 2016, PLICO completed a reinsurance transaction with Genworth Life and Annuity Insurance Company ("GLAIC"). Effective January 1, 2016, PLICO entered into a reinsurance agreement under the terms of which PLICO coinsures certain term life insurance business of GLAIC. This transaction allowed the Company to invest its capital and increase the scale of its Acquisitions segment.

Annuities

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

The Company's variable annuities offer the policyholder the opportunity to invest in various investment accounts and offer optional features that guarantee the death and withdrawal benefits of the underlying annuity.

The Company's fixed annuities include indexed annuities, single premium deferred annuities, and single premium immediate annuities. The Company's fixed annuities also include modified guaranteed annuities which guarantee an

interest rate for a fixed period. Contract values for these annuities are "market-value adjusted" upon surrender prior to maturity. In certain interest rate environments, these products afford the Company with a measure of protection from the effects of changes in interest rates.

Table of Contents

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

Successor Company

For The Year Ended December 31,	Fixed Annuities	Variable Annuities	Total Annuities
	(Dollars In Millions)		
2017	\$1,131	\$ 426	\$ 1,557
2016	727	593	1,320
For the period of February 1, 2015 to December 31, 2015	566	1,096	1,662

Predecessor Company

For The Year Ended December 31,	Fixed Annuities	Variable Annuities	Total Annuities
	(Dollars In Millions)		
For the period of January 1, 2015 to January 31, 2015	\$28	\$ 59	\$ 87
2014	831	953	1,784
2013	693	1,867	2,560

Stable Value Products

The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank ("FHLB") and markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans. GICs are contracts which specify a return on funds for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan. The demand for GICs is related to the relative attractiveness of the "fixed rate" investment option in a 401(k) plan compared to the equity-based investment options which may be available to plan participants. The Company also has an unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.

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

The following table presents Stable Value Products sales:

Successor Company

For The Year Ended December 31,	GICs	Funding Agreements	Total
	(Dollars In Millions)		
2017	\$116	\$ 1,650	\$1,766
2016	190	1,667	1,857
For the period of February 1, 2015 to December 31, 2015	115	699	814

Predecessor Company

For The Year Ended December 31,	GICs	Funding Agreements	Total
	(Dollars In Millions)		
For the period of January 1, 2015 to January 31, 2015	\$—	\$ —	\$—
2014	42	50	92
2013	495	—	495

Table of Contents

Asset Protection

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

The following table presents the insurance and related product sales measured by the amount of single premiums and fees received:

Successor Company

For The Year Ended December 31,	Sales (Dollars In Millions)
2017	\$ 584
2016	504
For the period of February 1, 2015 to December 31, 2015	482

Predecessor Company

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

In 2017, all of the segment's sales were through the automobile, RV, marine, and powersports dealer distribution channel and approximately 78.6% of the segment's sales were extended service contracts. A portion of the sales and resulting premiums are reinsured with producer-affiliated reinsurers.

Corporate and Other

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

Table of Contents

Investments

As of December 31, 2017 (Successor Company), the Company's investment portfolio was approximately \$54.6 billion. The types of assets in which the Company may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, the Company invests in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. On February 1, 2015, immediately before the Merger, the fair value of the Company's investment portfolio was significantly above the carrying value primarily due to low market interest rates. As a result of purchase accounting applied as of February 1, 2015, the carrying value of the Company's investment portfolio was adjusted to fair value which resulted in a drop in the overall yield of the Company's investment portfolio for the successor period. For further information regarding the Company's investments, the maturity of and the concentration of risk among the Company's invested assets, derivative financial instruments, and liquidity, see Note 2, Summary of Significant Accounting Policies, Note 5, Investment Operations, and Note 7, Derivative Financial Instruments to the consolidated financial statements included in this report, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Successor Company

	Cash, Accrued Investment Income, and Investments as of December 31, (Dollars In Thousands)	Net Investment Income	Percentage Earned on Average of Cash and Investments		Realized Investment Gains (Losses)	Derivative Financial Instruments	All Other Investments
For The Year Ended December 31, 2017	\$55,370,926	\$2,051,588	3.7	%	\$(305,828)		\$109,686
For The Year Ended December 31, 2016	51,526,733	1,942,456	3.8		(40,288)		72,911
February 1, 2015 to December 31, 2015	46,040,220	1,632,948	3.5		29,997		(193,879)

Predecessor Company

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

Predecessor Company

	Cash, Accrued Investment Income, and Investments as of December 31, (Dollars In Thousands)	Net Investment Income	Percentage Earned on Average of Cash and Investments		Realized Investment Gains (Losses)	Derivative Financial Instruments	All Other Investments
For The Year Ended December 31,							
2014	\$46,531,371	\$2,197,724	4.7	%	\$(346,878)		\$198,127
2013	44,751,600	1,918,081	4.9		188,131		(145,984)

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2017 (Successor Company), the Company's mortgage loan holdings were approximately \$6.8 billion. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, senior living facilities, and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loan portfolio was underwritten and funded by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition. For more information

Table of Contents

regarding the Company's investment in mortgage loans, refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Note 9, Mortgage Loans to the consolidated financial statements included herein.

Ratings

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

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A+	AA-	A1
West Coast Life Insurance Company	A+	A+	AA-	A1
Protective Life and Annuity Insurance Company	A+	A+	AA-	—
Protective Property & Casualty Insurance Company	A-	—	—	—
MONY Life Insurance Company	A+	A+	A+	A1

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

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

Table of Contents

Investment Products In-Force

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

Successor Company

As of December 31,	Stable Value Products (Dollars In Thousands)	Fixed Annuities	Variable Annuities
2017	\$4,698,371	\$10,921,190	\$13,956,071
2016	3,501,636	10,642,115	13,244,252
2015	2,131,822	10,719,862	12,829,188

Predecessor Company

As of December 31,	Stable Value Products (Dollars In Thousands)	Fixed Annuities	Variable Annuities
2014	\$1,959,488	\$10,724,849	\$13,383,309
2013	2,559,552	10,832,956	13,083,735

Underwriting

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

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

The Company utilizes an advanced underwriting system, TeleLife®, for certain product lines in life business. TeleLife® streamlines the application process through a telephonic interview of the applicant, schedules medical exams, accelerates the underwriting process and the ultimate issuance of a policy mostly through electronic means, and reduces the number of attending physician statements. The Company also introduced a streamlined underwriting approach that utilizes the TeleLife® process and noninvasive risk selection tools to approve some applications without requiring a paramedical exam or lab testing.

The Company's maximum retention limit on directly issued business is \$5,000,000 for any one life on certain of its traditional life and universal life products.

Reinsurance Ceded

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

For approximately 10 years prior to mid-2005, the Company entered into reinsurance contracts in which the Company ceded approximately 90% of its newly written traditional life insurance business on a first dollar quota share basis

under coinsurance contracts. In mid-2005, the Company substantially discontinued coinsuring its newly written traditional life insurance and moved to yearly renewable term ("YRT") reinsurance. The amount of insurance retained by the Company on any one life on traditional life insurance was \$500,000 in years prior to mid-2005. In 2005, this retention amount was increased to \$1,000,000 for certain policies, and during 2008, was increased to \$2,000,000 for certain policies. During 2016, the retention amount was increased to \$5,000,000.

For approximately 15 years prior to 2012, the Company reinsured 90% of the mortality risk on the majority of its newly written universal life insurance on a YRT basis. During 2012, the Company moved to reinsure only amounts in excess of its \$2,000,000 retention, which was increased to \$5,000,000 during 2016, for the majority of its newly written universal life and level premium term insurance.

Table of Contents

Policy Liabilities and Accruals

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

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

Federal Taxes

In general, existing law exempts policyholders from current taxation on the increase in value of their life insurance and annuity products during these products' accumulation phase. This favorable tax treatment gives certain of the Company's products a competitive advantage over non-insurance products. If tax laws are revised such that there is an elimination or scale-back of this tax deferral, or competing non-insurance products are granted similar tax deferrals, then the relative attractiveness of the Company's products may be reduced or eliminated.

The Company is subject to corporate income, excise, franchise, and premium taxes. On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rate effective January 1, 2018. The legislation is expected to result in an overall benefit for investment-related adjustments decreasing the effective tax rate and taxable income. The Company also expects an increase in taxable income, but no effect on the effective tax rate, as the result of changes in legislation regarding the capitalization of deferred acquisition costs and policyholder benefit reserves. While overall the Tax Reform Act will cause the Company to report higher amounts of taxable income, the Company expects to pay less income tax in the future due to the lower tax rate.

In addition, life insurance products are often used to fund estate tax obligations. Future changes to estate tax laws may affect the demand for life insurance products.

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

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

Competition

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

Competition could result in, among other things, lower sales or higher lapses of existing products.

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

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

Table of Contents

Risk Management

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

Regulation

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

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

Under the insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In addition, legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long-term care insurance and other specialty products, that increases the cost of future assessments or alters future premium tax offsets received in connection with guaranty fund assessments. The Company cannot predict the amount, nature or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company's financial condition or results of operations.

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

the plan of acquisition, but also administrative approval prior to the acquisition. Holding company legislation has been adopted in certain states where the Company's insurance subsidiaries are domiciled, which subjects the subsidiaries to increased reporting requirements. Holding company legislation has also been proposed in additional states, which, if adopted, will subject any domiciled subsidiaries to additional reporting and supervision requirements.

The states in which the Company's insurance subsidiaries are domiciled also impose certain restrictions on the subsidiaries' ability to pay dividends to the Company. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts are considered extraordinary and are subject to approval by the insurance commissioner of the state of domicile. The maximum amount that would qualify as ordinary dividends to the Company by its insurance subsidiaries in 2018 is approximately, in the aggregate, \$853.2 million. No assurance can be given that more stringent restrictions will not be adopted from time to time by states in which the Company's insurance subsidiaries are domiciled; such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to the Company by such subsidiaries without prior approval by state regulatory authorities.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer. Some NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in various states without affirmative action by those states. The Uniform Laws Commission's revisions to model regulations affecting unclaimed property have prompted states to re-examine and, in some cases,

Table of Contents

change their own unclaimed property laws. These laws have resulted in exams conducted by the NAIC and on a state-by-state basis and could result in findings that adversely affect the Company. Additionally, regulatory actions with prospective impact can potentially have a significant adverse impact on currently sold products.

At the federal level, the executive branch or federal agencies may issue orders or take other action with respect to financial services and life insurance matters, and bills are routinely introduced in both chambers of the United States Congress which could affect the Company's business. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and solvency regulation, setting tax rates, and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, the impact of such legislation on the Company.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act") made sweeping changes to the regulation of financial services entities, products and markets. The Dodd-Frank Act directed existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that has substantially advanced but is not yet complete. Although the new presidential administration has indicated a desire to revise or reverse some of its provisions, the fate of these proposals is unclear, and we cannot predict with certainty how the Dodd-Frank Act will continue to affect the financial markets generally, or impact our business, ratings, results of operations, financial condition or liquidity.

Among other things, the Dodd-Frank Act imposed a comprehensive new regulatory regime on the over-the-counter ("OTC") derivatives marketplace and granted new joint regulatory authority to the United States Securities and Exchange Commission (the "SEC") and the U.S. Commodity Futures Trading Commission ("CFTC") over OTC derivatives. In collaboration with U.S. federal banking regulators, the CFTC has adopted regulations which categorize the Company as a "financial end-user" which is thereby required to post and collect margin in a variety of derivatives transactions. Recommendations and reports from entities created under the Dodd-Frank Act, such as the Federal Insurance Office ("FIO") and the Financial Stability Oversight Council ("FSOC"), could also affect the manner in which insurance and reinsurance are regulated in the U.S. and, thereby, the Company's business. The Dodd-Frank Act also created the Consumer Financial Protection Bureau ("CFPB"), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the SEC or the CFTC. Certain of the Company's subsidiaries sell products that may be regulated by the CFPB, and the Company is unable to predict at this time the ways in which the CFPB's regulations might directly or indirectly affect the Company or its subsidiaries.

The Company is subject to regulations adopted by the United States Department of Labor that affect a variety of products and services provided to employee benefit plans and individual investors that are governed by the Employee Retirement Income Security Act ("ERISA"). The regulations significantly expand the definition of "investment advice"

and increase the circumstances in which the Company and broker-dealers, insurance agencies and other financial institutions that sell the Company's products could be deemed a "fiduciary" when providing investment advice with respect to ERISA plans or Individual Retirement Accounts ("IRAs"). The Department of Labor also issued amendments to long-standing exemptions from the provisions of ERISA and the Internal Revenue Code (the "Code") that prohibit fiduciaries from engaging in certain types of transactions ("Prohibited Transaction Exemptions") and adopted new Prohibited Transaction Exemptions. These amended and new Prohibited Transaction Exemptions appear to increase significantly the conditions that must be satisfied by fiduciaries in order to receive traditional forms of commission, such as sales commissions, for sales of insurance products to ERISA plans, plan participants and IRAs.

The Department of Labor has recently expanded the definition of "investment advice fiduciary" and made effective new and revised Prohibited Transaction Exemptions, with additional exemptions and conditions thereto delayed and under review. In addition, various other suitability and/or best interest requirements are being considered at the state and federal levels which, if made effective, may ultimately apply to the Company. The indefiniteness and continued delays associated with these various initiatives have created uncertainty among distributors of our products, and this uncertainty continues to have an impact upon sales. Our current distributors may continue to move forward with their plans to limit the number of products they offer, including the types of products offered by the Company. The Company may find it necessary to change sales representative and/or broker compensation, to limit the assistance or advice it can provide to owners of the Company's annuities, to replace or engage additional distributors, or to otherwise change the manner in which it designs and supports sales of its annuities. In addition, the Company continues to incur expenses in connection with initial and ongoing compliance obligations with respect to such rules, and in the aggregate these expenses may be significant.

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

Table of Contents

investment advisers. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisers doing business through such entities and the entities' supervision of those persons.

The USA PATRIOT Act of 2001 includes anti-money laundering and financial transparency laws as well as various regulations applicable to broker-dealers and other financial services companies, including insurance companies. Financial institutions are required to collect information regarding the identity of their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies and share information with other financial institutions. As a result, the Company is required to maintain certain internal compliance practices, procedures, and controls.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting practices, tax laws, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, cybersecurity regulation, technology and data regulations, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws and, because the Company owns and operates real property, state, federal, and local environmental laws. The Company may also be subject to regulations influenced by or related to international regulatory authorities or initiatives. The Company's sole stockholder, Dai-ichi Life, is subject to regulation by the Japanese Financial Services Authority ("JFSA"). Under applicable laws and regulations, Dai-ichi Life is required to provide notice to or obtain the consent of the JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company and its consolidated subsidiaries. Domestically, the NAIC may be influenced by the initiatives or regulatory structures or schemes of international regulatory bodies, and those initiatives or regulatory structures or schemes may not translate readily into the regulatory structures or schemes of the legal system (including the interpretation or application of standards by juries) under which U.S. insurers must operate. Changes in laws and regulations or in interpretations thereof, or to initiatives or regulatory structures or schemes of international regulatory bodies, which are applicable to the Company could have a significant adverse impact on the Company.

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

Employees

As of December 31, 2017, the Company had approximately 2,773 employees, of which 2,755 were full-time and 18 were part-time employees. Included in the total were approximately 1,605 employees in Birmingham, Alabama, of which 1,597 were full-time and 8 were part-time employees. The Company believes its relations with its employees are satisfactory. Most employees are covered by contributory major medical, dental, vision, group life, and long-term disability insurance plans. The cost of these benefits to the Company in 2017 was approximately \$15.5 million. In addition, substantially all of the employees may participate in a defined benefit pension plan and 401(k) plan. The Company matches employee contributions to its 401(k) plan. See Note 16, Employee Benefit Plans to our consolidated financial statements for additional information.

Available Information

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

The Company makes available free of charge through its website, www.protective.com, the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. The

information found on the Company's website is not part of this or any other report filed with or furnished to the SEC. The Company will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P.O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

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

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

Table of Contents

Executive Officers

As of December 31, 2017, the Company's executive officers were as follows:

Name	Age	Position
John D. Johns	65	Executive Chairman of the Company and a Director
Richard J. Bielen	57	President, Chief Executive Officer, and a Director
D. Scott Adams	53	Executive Vice President and Chief Administrative Officer
Mark L. Drew	56	Executive Vice President and General Counsel
Deborah J. Long	64	Executive Vice President, Chief Legal Officer and Secretary
Michael G. Temple	55	Executive Vice President, Finance and Risk
Carl S. Thigpen	61	Executive Vice President and Chief Investment Officer
Steven G. Walker	58	Executive Vice President and Chief Financial Officer

All executive officers are elected annually and serve at the pleasure of the Board of Directors. None of the executive officers are related to any director of the Company or to any other executive officer.

Mr. Johns has been Chairman of the Board of the Company since July 2017. He previously served as Chairman of the Board of the Company from January 2003 to July 2017 and Chief Executive Officer of the Company from December 2001 to July 2017. He has been a director of the Company since May 1997. From August 1996 to January 2016, Mr. Johns also served as President of the Company. Mr. Johns has been employed by the Company and its subsidiaries since 1993.

Mr. Bielen has been Chief Executive Officer of the Company since July 2017 and President of the Company since January 2016. From January 2016 to July 2017, Mr. Bielen also served as Chief Operating Officer of the Company. From June 2007 to January 2016, Mr. Bielen served as Vice Chairman and Chief Financial Officer of the Company. From August 2006 to June 2007, Mr. Bielen served as Executive Vice President, Chief Investment Officer, and Treasurer of the Company. Mr. Bielen became a director of the Company on February 1, 2015. Mr. Bielen has been employed by the Company and its subsidiaries since 1991.

Mr. Adams has been Executive Vice President and Chief Administrative Officer of the Company since January 2016. From April 2006 to January 2016, Mr. Adams served as Senior Vice President and Chief Human Resources Officer of the Company.

Mr. Drew has been Executive Vice President and General Counsel of the Company since August 2016. From 2006 to August 2016, Mr. Drew served as Managing Shareholder of Maynard Cooper & Gale, P.C., a Birmingham, Alabama based law firm, where Mr. Drew worked from 1988 until July 2016.

Ms. Long has been Executive Vice President, Chief Legal Officer, and Secretary of the Company since August 2016. From March 2007 to August 2016, Ms. Long served as Executive Vice President, General Counsel, and Secretary of the Company and from January 2016 to August 2016, Ms. Long also served as Chief Legal Officer of the Company. From March 2007 to August 2016, Ms. Long served as Executive Vice President, General Counsel, and Secretary of the Company. Ms. Long has been employed by the Company and its subsidiaries since 1994.

Mr. Temple has been Executive Vice President, Finance and Risk of the Company since November 2016. From January 2016 to November 2016, Mr. Temple served as Executive Vice President, Finance and Risk, and Chief Risk Officer of the Company. From December 2012 to January 2016, Mr. Temple served as Executive Vice President and Chief Risk Officer of the Company. Prior to joining the Company, Mr. Temple served as Senior Vice President and Chief Risk Officer at Unum Group, an insurance company in Chattanooga, Tennessee.

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

Mr. Walker has been Executive Vice President and Chief Financial Officer of the Company since January 2016. From January 2016 to March 2017, Mr. Walker also served as Controller of the Company. From March 2004 to January 2016, Mr. Walker served as Senior Vice President, Chief Accounting Officer, and Controller of the Company. Mr.

Walker has been employed by the Company and its subsidiaries since 2002.

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

Item 1A. Risk Factors

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

15

Table of Contents

General Risk Factors

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

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

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

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural or man-made disaster or catastrophe, including a severe weather or geological event such as a storm, tornado, fire, flood, earthquake, disease, epidemic, pandemic, malicious act, cyber-attack, terrorist act, or the occurrence of climate change, could cause the Company's workforce to be unable to engage in operations at one or more of its facilities or result in short- or long-term interruptions in the Company's business operations, any of which could be material to the Company's operating results for a particular period. Certain of these events could also adversely affect the mortality, morbidity, or other experience of the Company or its reinsurers and have a significant negative impact on the Company. In addition, claims arising from the occurrence of such events or conditions could have a material adverse effect on the Company's financial condition and results of operations. Such events or conditions could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. In addition, such events or conditions could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the Company's business within such geographic areas and/or the general economic climate. Such events or conditions could also result in additional regulation or restrictions on the Company in the conduct of its business. The possible macroeconomic effects of such events or conditions could also adversely affect the Company's asset portfolio, as well as many other aspects of the Company's business, financial condition, and results of operations. The Company's risk management efforts and other precautionary plans and activities may not adequately predict the impact on the Company from such events.

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

In conducting its business, the Company relies extensively on various electronic systems, including computer systems, networks, data processing and administrative systems, and communication systems. The Company's business partners, counterparties, service providers and distributors also rely on such systems, as do securities exchanges and financial markets that are important to the Company's ability to conduct its business. These systems or their functionality could be disabled, disrupted, damaged or destroyed by intentional or unintentional acts or events such as cyber-attacks, viruses, sabotage, unauthorized tampering, physical or electronic break-ins or other security breaches, acts of war or

terrorism, human error, system failures, failures of power or water supply, or the loss or malfunction of other utilities or services. They may also be disabled, disrupted, damaged or destroyed by natural events such as storms, tornadoes, fires, floods or earthquakes. While the Company and others on whom it depends try to identify threats and implement measures to protect their systems, such protective measures may not be sufficient. Disruption, damage or destruction of any of these systems could cause the Company or others on whom the Company relies to be unable to conduct business for an extended period of time or could result in significant expenditures to replace, repair or reinstate functionality, which could materially adversely impact the Company's business and its financial condition and results of operations.

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

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

Table of Contents

customers and others from doing business with the Company, subjecting the Company to significant regulatory, civil, and criminal liability, and requiring the Company to incur significant legal and other expenses.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate and implement effective preventative or detective measures against security breaches of all types because the techniques used change frequently or are not recognized until launched and because cyber-attacks can originate from a wide variety of sources or parties. Those parties may also attempt to fraudulently induce employees, customers or other users of our system to deliberately or inadvertently disclose sensitive information in order to gain access to our data or that of our customers or clients.

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

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

In the conduct of business, the Company makes certain assumptions regarding mortality, morbidity, persistency, expenses, interest rates, equity markets, tax, business mix, casualty, contingent liabilities, investment performance, and other factors appropriate to the type of business it expects to experience in future periods. These assumptions are used to estimate the amounts of deferred policy acquisition costs, policy liabilities and accruals, future earnings, and various components of the Company's balance sheet. These assumptions are also used in the operation of the Company's business in making decisions crucial to the success of the Company, including the pricing of acquisitions and products. The Company's actual experience, as well as changes in estimates, is used to prepare the Company's financial statements. To the extent the Company's actual experience and changes in estimates differ from original estimates, the Company's financial condition may be adversely affected.

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

The calculations the Company uses to estimate various components of its balance sheet and statements of income are necessarily complex and involve analyzing and interpreting large quantities of data. The Company currently employs various techniques for such calculations and relies, in certain instances, on third parties to make or assist in making such calculations. From time to time it develops and implements more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates. The systems and procedures that the Company develops and the Company's reliance upon third parties could result in errors in the calculations that impact our financial statements or affect our financial condition.

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

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

The Company's Acquisitions segment focuses on the acquisitions of companies and business operations, and the coinsurance of blocks of insurance business, all of which have increased the Company's earnings. However, there can be no assurance that the Company will have future suitable opportunities for, or sufficient capital available to fund, such transactions. If our competitors have access to capital on more favorable terms or at a lower cost, our ability to compete for acquisitions may be diminished. In addition, there can be no assurance that the Company will be able to realize any projected operating efficiencies or achieve the anticipated financial results from such transactions.

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

Table of Contents

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

On October 1, 2013, the Company completed the acquisition of MONY Life Insurance Company ("MONY") from AXA Financial, Inc. MONY was converted from a mutual insurance company to a stock corporation in accordance with its Plan of Reorganization dated August 14, 1998, as amended. In connection with its demutualization, an accounting mechanism known as a closed block (the "Closed Block") was established for the benefit of policyholders who owned certain individual insurance policies of MONY in force as of the date of demutualization. Please refer to Note 4, MONY Closed Block of Business, to the consolidated financial statements for a more detailed description of the Closed Block.

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

The Company is dependent on the performance of others.

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

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

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

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

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

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

The Company's performance is highly dependent on its ability to manage risks that arise from a large number of its day-to-day business activities, including, but not limited to, policy pricing, reserving and valuation, underwriting, claims processing, policy administration and servicing, administration of reinsurance, execution of its investment and hedging strategy, financial and tax reporting, and other activities, many of which are very complex. The Company also may rely on third parties for such activities. The Company seeks to monitor and control its exposure to risks arising out of or related to these activities through a variety of internal controls, management review processes, and other mechanisms. However, the occurrence of unanticipated risks, or the occurrence of risks of a greater magnitude than expected, including those arising from a failure in processes, procedures or systems implemented by the Company or a failure on the part of employees or third parties upon which the Company relies in this regard, may have a material adverse effect on the Company's financial condition or results of operations.

Events that damage our reputation could adversely impact our business, results of operations or financial condition.

There are events which could harm our reputation, including, but not limited to, regulatory investigations, legal proceedings, and cyber or other information security events. Depending on the severity of damage to our reputation, our sales of new business and/or retention of existing business could be negatively impacted, and our ability to compete for acquisition transactions or engage in financial transactions may be diminished, all of which could adversely affect our results of operations or financial condition.

Table of Contents

Risks Related to the Financial Environment

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

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

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

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

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

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

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

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

The value of the Company's commercial mortgage loan portfolio depends in part on the financial condition of the tenants occupying the properties that the Company has financed. The value of the Company's investment portfolio, including its portfolio of government debt obligations, debt obligations of those entities with an express or implied governmental guarantee and debt obligations of other issuers holding a large amount of such obligations, depends in part on the ability of the issuers or guarantors of such debt to maintain their credit ratings and meet their contractual obligations. Factors that may affect the overall default rate on, and market value of, the Company's invested assets, derivative financial instruments, and mortgage loans include interest rate levels, financial market performance, general economic conditions, and conditions affecting certain sectors of the economy, as well as particular circumstances affecting the individual tenants, borrowers, issuers and guarantors.

Significant continued financial and credit market volatility, changes in interest rates and credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions and conditions affecting certain sectors of the economy, either alone or in combination, could have a material adverse impact on the Company's results of operations, financial condition, or cash flows through realized losses, impairments, changes in unrealized loss positions, and increased demands on

Table of Contents

capital, including obligations to post additional capital and collateral. In addition, market volatility can make it difficult for the Company to value certain of its assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on the Company's results of operations or financial condition.

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

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

Equity market volatility can also affect the profitability of annuity products with riders. The estimated cost of providing guaranteed minimum death benefits ("GMDB") and guaranteed living withdrawal benefits ("GLWB") incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets or increased equity market volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products. While these liabilities are hedged, there still may be a possible resulting negative impact to net income and to the statutory capital and risk-based capital ratios of the Company's insurance subsidiaries.

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

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

The Company uses derivative financial instruments within its risk management strategy to mitigate risks to which it is exposed, including risks related to credit and equity markets, interest rate levels, foreign exchange, and volatility on its fixed indexed annuity and variable annuity products and associated guaranteed benefit features. The Company may also use derivative financial instruments within its risk management strategy to mitigate risks arising from its exposure to investments in individual issuers or sectors of issuers and to mitigate the adverse effects of interest rate levels or volatility on its overall financial condition or results of operations.

These derivative financial instruments may not effectively offset the changes in the carrying value of the exposures due to, among other things, the time lag between changes in the value of such exposures and the changes in the value of the derivative financial instruments purchased by the Company, extreme credit and/or equity market and/or interest rate levels or volatility, contract holder behavior that differs from the Company's expectations, and basis risk.

The use of derivative financial instruments by the Company generally to hedge various risks that impact GAAP earnings may have an adverse impact on the level of statutory capital and risk-based capital ratios because earnings under the Company's hedging program are recognized differently under GAAP and statutory accounting methods.

The Company may also choose not to hedge, in whole or in part, these or other risks that it has identified, due to, for example, the availability and/or cost of a suitable derivative financial instrument. In addition, the Company may fail to identify risks, or the magnitude thereof, to which it is exposed. The derivative financial instruments used by the Company in its risk management strategy may not be properly designed, may not be properly implemented as

designed and/or may be insufficient to hedge the risks in relation to the Company's obligations.

The Company is subject to the risk that its derivative counterparties or clearinghouse may fail or refuse to meet their obligations to the Company, which may result in associated derivative financial instruments becoming ineffective or inefficient.

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

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

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

The Company's statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities on its fixed market value adjusted ("MVA") annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, the Company is required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the

Table of Contents

change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. Credit spreads are not consistently fully reflected in crediting rates based on U.S. Treasuries, and the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This situation would result in the need to devote significant additional capital to support fixed MVA annuity products.

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

The Company's business and results of operations could be materially affected by difficult general economic conditions. Stressed economic conditions and volatility and disruptions in capital markets, particular markets or financial asset classes can have an adverse effect on the Company due to the size of the Company's investment portfolio and the sensitive nature of insurance liabilities to changing market factors. Disruptions in one market or asset class can also spread to other markets or asset classes. Volatility in financial markets can also affect the Company's business by adversely impacting general levels of economic activity, employment and customer behavior.

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

The Company may be required to establish a valuation allowance against its deferred tax assets, which could have a material adverse effect on the Company's results of operations, financial condition, and capital position.

Deferred tax assets are attributable to certain differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets represent future savings of taxes that would otherwise be paid in cash. In general, the realization of the deferred tax assets is dependent upon the generation of sufficient future ordinary and capital taxable income. If it is determined that a certain deferred tax asset cannot be realized, then a deferred tax valuation allowance must be established, with a corresponding charge to either adjusted operating income or other comprehensive income (depending on the nature of the deferred tax asset).

Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize its material deferred tax assets net of any existing valuation allowance. The Company has recognized valuation allowances of \$5.0 million and \$9.2 million as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively, related to state operating loss carryforwards which are more likely than not to expire unutilized. If future events differ from the Company's current forecasts, an additional valuation allowance may need to be established, which could have a material adverse effect on the Company's results of operations, financial condition, or capital position.

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

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

Table of Contents

worth. The Company's right to make borrowings under the facility is subject to the fulfillment of certain conditions, including its compliance with all covenants. The Company's failure to comply with the covenants in the credit facility could restrict its ability to access this credit facility when needed. The Company's inability to access some or all of the line of credit under the credit facility could have a material adverse effect on its financial condition and/or results of operations.

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

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

The Company's securities lending program may subject it to liquidity and other risks.

The Company maintains a securities lending program in which securities are loaned to third parties, including brokerage firms and commercial banks. The borrowers of the Company's securities provide the Company with collateral, typically in cash, which it separately maintains. The Company invests the collateral in other securities, including primarily short-term government repo and money market funds. Securities loaned under the program may be returned to the Company by the borrower at any time, requiring the Company to return the related cash collateral. In some cases, the Company may use the cash collateral provided to purchase other securities to be held as invested collateral, and the maturity of such securities may exceed the term of the securities loaned under the program and/or the market value of such securities may fall below the amount of cash collateral that the Company is obligated to return to the borrower of the Company's loaned securities. If the Company is required to return significant amounts of cash collateral on short notice and is forced to sell the securities held as invested collateral to meet the obligation, the Company may have difficulty selling such securities in a timely manner and/or the Company may be forced to sell the securities in a volatile or illiquid market for less than it otherwise would have been able to realize under normal market conditions. In addition, the Company's ability to sell securities held as invested collateral may be restricted under stressful market and economic conditions in which liquidity deteriorates.

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

The Company makes assumptions regarding the fair value and expected future performance of its investments. Expectations that the Company's investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and consider the performance of the underlying assets. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such reduced performance may lead to adverse changes in the cash flows on the Company's holdings of these types of securities. In addition, expectations that the Company's investments in corporate securities and/or debt obligations will continue to

perform in accordance with their contractual terms are based on evidence gathered through its normal credit surveillance process. It is possible that issuers of the Company's investments in corporate securities and/or debt obligations will perform worse than current expectations. The occurrence of any of the foregoing events could lead the Company to recognize write-downs within its portfolio of mortgage and asset-backed securities or its portfolio of corporate securities and/or debt obligations. It is also possible that such unanticipated events would lead the Company to dispose of such investments and recognize the effects of any market movements in its financial statements. The Company also makes certain assumptions when utilizing internal models to value certain of its investments. It is possible that actual results will differ from the Company's assumptions. Such events could result in a material change in the value of the Company's investments.

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

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

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

The Company primarily conducts business through licensed insurance company subsidiaries. Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital formulas for life and property and casualty companies. The risk-based capital formula for life insurance companies establishes capital requirements relating to

Table of Contents

insurance, business, asset, interest rate, and certain other risks. The risk-based capital formula for property and casualty companies establishes capital requirements relating to asset, credit, underwriting, and certain other risks.

In any particular year, statutory surplus amounts and risk-based capital ratios may increase or decrease depending on a variety of factors, including, but not limited to, the amount of statutory income or losses generated by the Company's insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital its insurance subsidiaries must hold to support business growth, changes in the Company's statutory reserve requirements, the Company's ability to secure capital market solutions to provide statutory reserve relief, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, the credit ratings of investments held in its portfolio, including those issued by, or explicitly or implicitly guaranteed by, a government, the value of certain derivative instruments, changes in interest rates, foreign currency exchange rates or tax rates, credit market volatility, changes in consumer behavior, and changes to the NAIC risk-based capital formula. Most of these factors are outside of the Company's control.

The NAIC risk-based capital formula uses a tax factor that generally assumes a 35% corporate tax rate. Beginning in 2018, the maximum corporate tax rate will be 21%. While the extent of any changes to the risk-based capital formula is not yet known, the Company anticipates that the NAIC risk-based capital formula will change to reflect the lower corporate tax rate. This change would likely increase required capital, which, in turn, would decrease the statutory risk-based capital ratios of U.S. life insurance companies, including the Company and its subsidiaries.

The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and risk-based capital ratios of its insurance company subsidiaries. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital the Company must hold in order to maintain its current ratings. In addition, rating agencies may downgrade the investments held in the Company's portfolio, which could result in a reduction of the Company's capital and surplus and/or its risk-based capital ratio.

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

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

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

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

Industry and Regulatory Related Risks

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

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

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

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit

Table of Contents

of the consumer and may lead to additional expense for the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations. At the federal level, the executive branch or federal agencies may issue orders or take other action with respect to financial services and life insurance matters, and bills are routinely introduced in both chambers of the United States Congress that could affect the Company and its business. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and solvency regulation, setting tax rates, and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, whether the enacted legislation will positively or negatively affect the Company or whether any effects will be material.

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

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

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

The IAIS is also in the process of developing a common framework for the supervision of internationally active insurance groups ("IAIGs"), which is targeted to be implemented in 2019. The framework, which is currently under discussion, may include a global capital measurement standard for insurance groups deemed to be IAIGs that could exceed the sum of state or other local capital requirements. In addition, the IAIS is developing a model framework for the supervision of IAIGs that contemplates "group wide supervision" across national boundaries and legal entities, which could require each IAIG to conduct its own risk and solvency assessment to monitor and manage its overall solvency. It is likely that, as a result of the Merger, the combined group will be deemed an IAIG, in which case it may be subject to supervision requirements and capital measurement standards beyond those applicable to any competitors who are not designated as an IAIG.

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

While it is not yet known how or the extent to which the Company will be impacted by these regulations, the Company may experience increased costs of compliance, increased disclosure, less flexibility in capital management,

and more burdensome regulation and capital requirements for specific lines of business. In addition, such regulations could impact the business of the Company and its reserve and capital requirements, financial condition or results of operations.

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

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

The NAIC has announced more focused inquiries on certain matters that could have an impact on the Company's financial condition and results of operations. Such inquiries concern, for example, insurer use of captive reinsurance companies, variable annuity reserves and capital treatment, certain aspects of insurance holding company reporting and disclosure, reinsurance, cybersecurity practices, liquidity assessment, and risk-based capital calculations. In addition, the NAIC continues to consider

Table of Contents

various initiatives to change and modernize its financial and solvency requirements and regulations. It has adopted principles-based reserving methodologies for life insurance and annuity reserves, but additional formulas and/or guidance relevant to the new standard are being developed. The NAIC is also considering changes to accounting and risk-based capital regulations, risk-based capital calculations, governance practices of insurers, and other items. Additionally, the NAIC is studying a group capital calculation that would aggregate required capital across U.S.-based insurance groups. The Company cannot currently estimate what impact these more focused inquiries or proposed changes, if they occur, will have on its product mix, product profitability, reserve and capital requirements, financial condition or results of operations.

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

The Company currently uses affiliated captive reinsurance companies in various structures to finance certain statutory reserves based on a regulation entitled "Valuation of Life Insurance Policies Model Regulation," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies Model Regulation," commonly known as "Guideline AXXX," which are associated with term life insurance and universal life insurance with secondary guarantees, respectively, as well as to reduce the volatility in statutory risk-based capital associated with certain guaranteed minimum withdrawal and death benefit riders associated with certain of the Company's variable annuity products.

The NAIC has adopted Actuarial Guideline XLVIII ("AG48") and the substantially similar "Term and Universal Life Insurance Reserve Financing Model Regulation" (the "Reserve Model") which establish national standards for new reserve financing arrangements for term life insurance and universal life insurance with secondary guarantees. AG48 and the Reserve Model govern collateral requirements for captive reinsurance arrangements. In order to obtain reserve credit, AG48 and the Reserve Model require a minimum level of funds, consisting of primary and other securities, to be held by or on behalf of ceding insurers as security under each captive life reinsurance treaty. As a result of AG48 and the Reserve Model, the implementation of new captive structures in the future may be less capital efficient, lead to lower product returns and/or increased product pricing, or result in reduced sales of certain products. In some circumstances, AG48 and the Reserve Model could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

The Financial Condition (E) Committee of the NAIC established a Variable Annuity Issues Working Group ("VAIWG") in 2015 to oversee the NAIC's efforts to study and address regulatory issues resulting in variable annuity captive reinsurance transactions. The VAIWG developed a Framework for Change (the "Framework") which was adopted in 2015. The Framework suggests numerous changes to current NAIC rules and regulations that are intended to decrease incentives for insurers to establish variable annuities captives, which changes could potentially be applied to both in-force and new business. The Framework proposes that various NAIC groups consider and adopt recommended changes to current rules and regulations (with a likely effective date in 2019) and that, upon adoption, domestic regulators request that insurers ceding business to variable annuity captives recapture such business and dissolve such captives. The VAIWG recently exposed for comment a set of recommended changes received from its consultant in December 2017. If the recommendations are adopted, changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and/or results of operations.

The NAIC adopted revisions to the Part A Laws and Regulations Preamble (the "Preamble") of the NAIC Financial Regulation Standards and Accreditation Program that includes within the definition of "multi-state insurer" certain insurer-owned captives and special purpose vehicles that are single-state licensed but assume reinsurance from cedants operating in multiple states. The revised definition subjects certain captives, including XXX/AXXX captives, variable annuity and long-term care captives, to all of the accreditation standards applicable to other traditional multi-state

insurers, including standards related to capital and surplus requirements, risk-based capital requirements, investment laws and credit for reinsurance laws. Although we do not expect the revised definition to affect our existing life insurance captives (or our ability to engage in life insurance captive transactions in the future), such application will likely prevent us from engaging in variable annuity captive transactions on the same or a similar basis as in the past and, if applied retroactively, would likely cause us to recapture business from and unwind our existing variable annuity captive (“VA Captive”).

While the recapture of business from our existing VA Captive, caused either by actions of the VAIWG or the effect of the Preamble, would not have a material adverse effect on the Company given current market conditions, in the future the Company could experience fluctuations in its risk-based capital ratio due to market volatility if it were prohibited from engaging in similar transactions or required to unwind its existing VA Captive, which could adversely affect our future financial condition and results of operations.

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

Table of Contents

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

Since 2012, various states have enacted laws that require life insurers to search for unreported deaths. The National Conference of Insurance Legislators (“NCOIL”) has adopted the Model Unclaimed Life Insurance Benefits Act (the “Unclaimed Benefits Act”) and legislation or regulations have been enacted in numerous states that are similar to the Unclaimed Benefits Act, although each state’s version differs in some respects. The Unclaimed Benefits Act, if adopted by any state, imposes new requirements on insurers to periodically compare their life insurance and annuity contracts and retained asset accounts against the U.S. Social Security Administration’s Death Master File or similar databases (a “Death Database”), investigate any potential matches to confirm the death and determine whether benefits are due, and to attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. Other states in which the Company does business may also consider adopting legislation similar to the Unclaimed Benefits Act. The Company cannot predict whether such legislation will be proposed or enacted in additional states.

The Uniform Laws Commission has adopted revisions to the Uniform Unclaimed Property Act in a manner likely to impact state unclaimed property laws and requirements, though it is not clear at this time to what extent or whether requirements will conflict with otherwise imposed search requirements. Other life insurance industry associations and regulatory associations are also considering these matters. Certain states have amended or may amend their unclaimed property laws to require insurers to compare in-force and certain terminated life insurance policies, annuity contracts, and retained asset accounts against a Death Database, to investigate potential matches to determine whether the named insured is deceased, to attempt to locate and pay beneficiaries any unclaimed benefits required to be paid, and, if no beneficiary can be located, to escheat policy benefits to the appropriate state as unclaimed property. The enactment of such unclaimed property laws may require the Company to incur significant expenses, including benefits with respect to terminated policies for which no reserves are currently held and unanticipated operational expenses. Any of the foregoing could have a material adverse effect on the Company’s financial condition and results of operations.

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

The NAIC has established an Investigations of Life/Annuity Claims Settlement Practices (D) Task Force to coordinate targeted multi-state examinations of life insurance companies on claims settlement practices. The state insurance regulators on the Task Force have initiated targeted multi-state examinations of life insurance companies with respect to the companies’ claims paying practices and use of a Death Database to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement systems and procedures for periodically comparing their life insurance and

annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, escheating the benefits and interest to the state if the beneficiary could not be found, and paying penalties to the state, if required. It has been publicly reported that the life insurers have paid substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements.

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

During December 2012, the West Virginia Treasurer filed actions against the Company's subsidiaries Protective Life Insurance Company and West Coast Life Insurance Company in West Virginia state court (State of West Virginia ex rel. John D. Perdue v. Protective Life Insurance Company; State of West Virginia ex rel. John D. Perdue v. West Coast Life Insurance Company; Defendants' Motions to Dismiss granted on December 27, 2013; Notice of Appeal filed on January 27, 2014; dismissal reversed by the West Virginia Supreme Court of Appeals on June 16, 2015; Petition for Rehearing filed by Defendant insurance companies

Table of Contents

denied on September 21, 2015). The actions, which also name numerous other life insurance companies, allege that the companies violated the West Virginia Uniform Unclaimed Property Act, seek to compel compliance with the Act, and seek payment of unclaimed property, interest, and penalties. While the legal theory or theories that may give rise to liability in the West Virginia Treasurer litigation are uncertain, it is possible that other jurisdictions may pursue similar actions. The Company does not currently believe that losses, if any, arising from the West Virginia Treasurer litigation will be material. The Company cannot, however, predict whether other jurisdictions will pursue similar actions or, if they do, whether such actions will have a material impact on the Company's financial condition and/or results of operations.

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

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In 2017, the NAIC adopted provisions to the Life and Health Insurance Guaranty Association Model Act that, if adopted by states, would result in an increase to the percentage of liabilities attributable to any future long term care provider insolvency that can be assessed to life insurers. Legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long term care insurance and other specialty products, that differs from the revised Model Act and increases the cost of future assessments or that alters future premium tax offsets received in connection with guaranty fund assessments. The Company cannot predict the amount, nature or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company's financial condition or results of operations.

The Company is subject to insurable interest laws, rules and regulations that could adversely affect the Company's financial condition or results of operations.

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

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) enacted in July 2010 made sweeping changes to the regulation of financial services entities, products and markets. The Dodd-Frank Act directed existing and newly-created government agencies and bodies to perform studies and promulgate a multitude of regulations implementing the law, a process that has substantially advanced but is not yet complete. While a number of studies and much of the rule-making process has already been completed, there continues to be uncertainty regarding the results of ongoing studies and the ultimate requirements of regulations that have not yet been adopted. Although the new presidential administration has indicated a desire to revise or reverse some of its provisions, the fate of these proposals is unclear, and we cannot predict with certainty how the Dodd-Frank Act will continue to affect the financial markets generally, or impact our business, ratings, results of operations, financial condition or liquidity.

Among other things, the Dodd-Frank Act imposed a comprehensive new regulatory regime on the over-the-counter (“OTC”) derivatives marketplace and granted new joint regulatory authority to the United States Securities and Exchange Commission (the “SEC”) and the U.S. Commodity Futures Trading Commission (“CFTC”) over OTC derivatives. While the SEC and CFTC continue to promulgate rules required by the Dodd-Frank Act, most rules have been finalized and, as a result, certain of the Company’s derivatives operations are subject to, among other things, new recordkeeping, reporting and documentation requirements and new clearing requirements for certain swap transactions (currently, certain interest rate swaps and index-based credit default swaps; cleared swaps require the posting of margin to a clearinghouse via a futures commission merchant and, in some case, to the futures commission merchant as well).

In 2015, U.S. federal banking regulators and the CFTC adopted regulations that will require swap dealers, security-based swap dealers, major swap participants and major security-based swap participants (“Swap Entities”) to post margin to, and collect margin from, their OTC swap counterparties (the “Margin Rules”). Under the Margin Rules, the Company would be considered a “financial end-user” that, when facing a Swap Entity, is required to post and collect variation margin for its non-cleared swaps.

Table of Contents

In addition, depending on its derivatives exposure, the Company may be required to post and collect initial margin as well. The initial margin requirements of the Margin Rules will be phased-in over a period of five years based on the average aggregate notional amount of the Swap Entity's (combined with all of its affiliates) and its counterparty's (combined with all of its affiliates) swap positions. It is anticipated that the Company will not be subject to the initial margin requirements until September 1, 2020. The variation margin requirement took effect on September 1, 2016, for swaps where both the Swap Entity (and its affiliates) and its counterparty (and its affiliates) have an average daily aggregate notional amount of swaps for March, April and May of 2016 that exceeds \$3 trillion. Otherwise, the variation margin requirement, to which we are subject, took effect on March 1, 2017.

Other regulatory requirements may indirectly impact us. For example, non-U.S. counterparties of the Company may also be subject to non-U.S. regulation of their derivatives transactions with the Company. In addition, counterparties regulated by the Prudential Regulators (which consist of the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Farm Credit Administration, and the Federal Housing Finance Agency) are subject to liquidity, leverage and capital requirements that impact their derivatives transactions with the Company. Collectively, these new requirements have increased the direct and indirect costs of our derivatives activities and may further increase them in the future.

The Dodd-Frank Act also established a Federal Insurance Office ("FIO") under the U.S. Treasury Department. Although the Federal Insurance Office was not granted general supervisory authority over the insurance industry, it is authorized to, among other things, (1) monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance and (2) recommend changes to the state system of insurance regulation to the U.S. Congress. The FIO was required to issue several reports to Congress on the insurance industry, most notably, (i) a report on "how to modernize and improve the system of insurance regulation in the United States", and (ii) a report on "the breadth and scope of the global reinsurance market and the critical role such market plays in supporting insurance in the United States." The FIO issued its report on how to modernize and improve the system of insurance regulation in the United States in December 2013. The report details the strengths and weaknesses of the current insurance regulatory system and makes recommendations in the areas of insurance sector solvency and marketplace regulation. Although the report stops short of recommending direct federal regulation of insurance, it does recommend significantly greater federal involvement in a number of areas. In December 2014, the FIO published its report on the breadth and scope of the global reinsurance market. In this reinsurance report, the FIO indicates that reinsurance collateral continues to be at the forefront of its thinking with regard to potential direct federal involvement in insurance regulation. Specifically, the FIO's report argues that federal officials are well-positioned to make determinations regarding whether a foreign jurisdiction has sufficiently effective regulation and, in doing so, consider other prudential issues pending in the U.S. and between the U.S. and affected foreign jurisdictions. The reinsurance report notes that work continues towards initiating negotiations for covered agreements with leading reinsurance jurisdictions that may have the effect of preempting inconsistent state laws. In 2017, the U.S. and E.U. entered into such a covered agreement. It remains to be seen whether the U.S. will negotiate covered agreements with other major U.S. trading partners. More generally, it remains to be seen whether either of the FIO's reports will affect the manner in which insurance and reinsurance are regulated in the U.S. and, thereby, the Company's business.

The Dodd-Frank Act also established the Financial Stability Oversight Council (the "FSOC"), which is charged with identifying risks to the financial stability of the U.S. financial markets, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial markets. The FSOC is empowered to make recommendations to primary financial regulatory agencies regarding the application of new or heightened standards and safeguards for financial activities or practices, and certain participation in such activities, that threaten the stability of the U.S. financial markets. In addition, the FSOC is authorized to determine whether an insurance company is systematically significant and to recommend that it should be subject to enhanced prudential standards and to supervision by the Board of Governors of the Federal Reserve System. In April 2012, the FSOC approved its final rule for designating

non-bank financial companies as systemically important financial institutions (“SIFI”). Under the final rule, the Company’s assets, liabilities and operations do not currently satisfy the financial thresholds that serve as the first step of the three-stage process to designate a non-bank financial company as a SIFI. While recent developments suggest that it is unlikely that FSOC will be designating additional non-bank financial companies as systematically significant, there can be no assurance of that unless and until FSOC’s authority to do so has been rescinded.

Additionally, the Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, but excluding investment products already regulated by the SEC or the CFTC. The CFPB has supervisory authority over certain non-banks whose activities or products it determines pose risks to consumers, and issued a rule in 2016 amending regulations under the Home Mortgage Disclosure Act that requires the Company to, among other things, collect and disclose extensive data related to its lending practices. At this time, the rule relates to reporting data relative to Company loans made on multi-family apartments, seniors living housing, manufactured housing communities and any mixed-use properties which contain a residential component. It is unclear at this time how burdensome compliance with this or other rules promulgated under the Home Mortgage Disclosure Act will become.

Certain of the Company’s subsidiaries sell products that may be regulated by the CFPB. The CFPB continues to bring enforcement actions involving a growing number of issues, including actions brought jointly with state Attorneys General, which could directly or indirectly affect the Company or any of its subsidiaries. The Company is unable at this time to predict the impact of these activities on the Company.

Although the full impact of the Dodd-Frank Act cannot be determined until all of the various studies mandated by the law are conducted and all implementing regulations are adopted, many of the legislation’s requirements could have an adverse impact on the financial services and insurance industries. In addition, the Dodd-Frank Act could make it more expensive for us to conduct business, require us to make changes to our business model, or satisfy increased capital requirements.

Table of Contents

Regulations issued by the Department of Labor expanding the definition of “investment advice fiduciary” under ERISA and creating and revising several prohibited transaction exemptions for investment activities in light of that expanded definition may have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations.

Broker-dealers, insurance agencies and other financial institutions sell the Company’s annuities to employee benefit plans governed by provisions of the Employee Retirement Income Security Act (“ERISA”) and Individual Retirement Accounts (“IRAs”) that are governed by similar provisions under the Internal Revenue Code (the “Code”). Consequently, our activities and those of the firms that sell the Company’s products are subject to restrictions that require ERISA fiduciaries to perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that prohibit ERISA fiduciaries from causing a covered plan or retirement account to engage in certain prohibited transactions absent an exemption. In general, the prohibited transaction provisions of ERISA and the Code restrict the receipt of compensation from third parties in connection with the provision of investment advice to ERISA plans and participants and IRAs.

On April 6, 2016, the Department of Labor issued new regulations expanding the definition of “investment advice fiduciary” under ERISA. These new regulations increased the number of circumstances in which the Company and broker-dealers, insurance agencies and other financial institutions that sell the Company’s products could be deemed a fiduciary when providing investment advice with respect to ERISA plans or IRAs. The Department of Labor also issued amendments to long-standing exemptions from the provisions of ERISA and the Code that prohibit fiduciaries from engaging in certain types of transactions (“Prohibited Transaction Exemptions”) and adopted new Prohibited Transaction Exemptions. These amended and new Prohibited Transaction Exemptions appear to increase significantly the conditions that must be satisfied by fiduciaries in order to receive traditional forms of commission, such as sales commissions, for sales of insurance products to ERISA plans, plan participants and IRAs.

The expanded definition of “investment advice fiduciary” and certain regulations related to new and revised Prohibited Transaction Exemptions went into effect on June 9, 2017, allowing fiduciaries to rely on the Prohibited Transaction Exemptions provided that they adhere to certain required Impartial Conduct Standards. The implementation of additional conditions applicable to the Prohibited Transaction Exemptions with which fiduciaries must comply has been delayed until July 1, 2019 and may be impacted, along with the current definition of “investment advice fiduciary”, by public comments solicited pursuant to the Department of Labor's Request for Information. Responses to the Request for Information may also result in the adoption of new Prohibited Transaction Exemptions or additional conditions applicable to existing exemption requirements.

There remains significant uncertainty surrounding the final form that these regulations may take. Our current distributors may continue to move forward with their plans to limit the number of products they offer, including the types of products offered by the Company. The Company may find it necessary to change sales representative and/or broker compensation, to limit the assistance or advice it can provide to owners of the Company's annuities, to replace or engage additional distributors, or otherwise change the manner in which it designs and supports sales of its annuities. In addition, the Company continues to incur expenses in connection with initial and ongoing compliance obligations with respect to such rules, and in the aggregate these expenses may be significant. The foregoing could have a material adverse impact on our ability to sell annuities and other products, to retain in-force business, and on our financial condition or results of operations.

In addition to the foregoing, the NAIC has proposed the Suitability in Annuity Transactions Model Regulation which, if adopted by regulators, would impose a stricter standard of care upon insurers who sell annuities. Likewise, several states are considering legislation that would implement new requirements and standards applicable to the sale of annuities and, in some cases, life insurance products. These standards vary widely in scope, applicability and timing of implementation. The adoption and enactment of these or any revised standards as law or regulation could have a

material adverse effect upon the manner in which the Company's products are sold.

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

Certain life insurance policies, contracts, and annuities offered by the Company are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority ("FINRA") examine or investigate the activities of broker-dealers and investment advisors, including the Company's affiliated broker-dealers and investment advisers. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisers doing business through such entities and the entities' supervision of those persons. It is possible that any examination or investigation could lead to enforcement action by the regulator and/or may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures of such entities, any of which could have a material adverse effect on the Company's financial condition or results of operations.

In June of 2017, the Chairman of the SEC requested public comments on a series of questions focused on (1) the current regulatory framework for broker-dealers and investment advisers, (2) the current state of the market for retail advice, and (3) market trends. The SEC will consider these views as it determines future steps, including potential rulemaking, related to standards of conduct applicable to broker-dealers and investment advisers. In this request the Chairman also welcomed the opportunity to engage with the Department of Labor as the SEC moves forward with its examination of the standards of conduct applicable to broker-dealers, investment advisers and matters related thereto.

FINRA has also issued a report addressing how its member firms might identify and address conflicts of interest including conflicts related to the introduction of new products and services and the compensation of the member firms' associated persons.

Table of Contents

These regulatory initiatives could have an impact on Company operations and the manner in which broker-dealers and investment advisers distribute the Company's products.

The Company may also be subject to regulation by governments of the countries in which it currently does, or may in the future, do, business, as well as regulation by the U.S. Government with respect to its operations in foreign countries, such as the Foreign Corrupt Practices Act. Penalties for violating the various laws governing the Company's business in other countries may include restrictions upon business operations, fines and imprisonment, both within the U.S. and abroad. U.S. enforcement of anti-corruption laws continues to increase in magnitude, and penalties may be substantial.

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

Other types of regulation that could affect the Company and its subsidiaries include, but are not limited to, insurance company investment laws and regulations, state statutory accounting and reserving practices, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, cybersecurity regulation, technology and data regulations, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws (including laws in Alabama where over half of the Company's employees are located), and because the Company owns and operates real property, state, federal, and local environmental laws. Under some circumstances, severe penalties may be imposed for breach of these laws.

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

The Company's ability to enter into certain transactions is influenced by how such a transaction might affect Dai-ichi Life's taxation in Japan.

Changes to tax law, such as the effect of the Tax Reform Act enacted on December 22, 2017, or interpretations of existing tax law could adversely affect the Company and its ability to compete with non-insurance products or reduce the demand for certain insurance products.

In general, existing law exempts policyholders from current taxation on the increase in value of most insurance and annuity products during these products' accumulation phase. This favorable tax treatment provides some of the Company's products with a competitive advantage over products offered by non-insurance companies. To the extent that the law is revised to either reduce the tax-deferred status of life insurance and annuity products, or to establish the tax-deferred status of competing products, then all life insurance companies, including the Company's subsidiaries, would be adversely affected with respect to their ability to sell their products. Furthermore, such changes would generally cause increased surrenders of existing life insurance and annuity products. For example, a change in law that further restricts the deductibility of interest expense when a business owns a life insurance product would result in increased surrenders of these products.

The Company is subject to corporate income, excise, franchise, and premium taxes. Federal tax law in place for 2017 provided certain benefits to the Company, such as the dividends-received deduction, the deferral of current taxation on

derivatives' and securities' economic income, and the deduction for future policy benefits and claims. The Tax Cuts and Jobs Act (the "Tax Reform Act") will cause the Company to report higher amounts of taxable income in the future. However, the legislation significantly reduced the corporate income tax rate. Overall, the Company expects to pay less income tax in the future.

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

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

A number of judgments have been returned against insurers, broker-dealers, and other providers of financial services involving, among other things, sales, underwriting practices, product design, product disclosure, product administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the company does business, employment-related matters, payment of sales or other contingent commissions, and other matters. Often these legal proceedings have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given legal

Table of Contents

proceeding. Arbitration awards are subject to very limited appellate review. In addition, in some legal proceedings, companies have made material settlement payments. In some instances, substantial judgments may be the result of a party's perceived ability to satisfy such judgments as opposed to the facts and circumstances regarding the claims.

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

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

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

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

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

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

The Company is required to comply with accounting principles generally accepted in the United States ("GAAP"). A number of organizations are instrumental in the development and interpretation of GAAP such as the SEC, the Financial Accounting Standards Board ("FASB"), and the American Institute of Certified Public Accountants ("AICPA"). GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. The Company can give no assurance that future changes to GAAP will not have a negative impact on the Company. GAAP includes the requirement to carry certain assets and liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this sensitivity, changes in these fair values may cause increased levels of volatility in the Company's financial statements.

The FASB is working on several projects that could result in significant changes to GAAP. Furthermore, the FASB continues to monitor the development of International Financial Reporting Standards ("IFRS") and to consider the activities of the International Accounting Standards Board ("IASB") and how these activities may impact U.S. GAAP standard setting and financial reporting. While the SEC has indicated that it does not intend to incorporate IFRS into

the U.S. financial reporting system in the near term, any changes to conform or converge the IFRS and GAAP frameworks would impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure. Such changes would affect how we manage our business, as it will likely affect business processes such as the design of products and compensation plans. The Company is unable to predict whether, and if so, when the FASB projects will be adopted and/or implemented, or the degree to which IFRS will be incorporated into the U.S. financial reporting system.

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Certain NAIC pronouncements related to accounting and reporting matters take effect automatically without affirmative action by the states, and various proposals either are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect the Company. The NAIC is also currently working to reform model regulation in various areas. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and, if so, whether the enacted reforms will positively or negatively affect the Company. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. The Company cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of the Company's insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. The Company can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on the Company. For additional information regarding pending NAIC reforms, please see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

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

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

The estimated fair value of the operating segment is impacted by the performance of the business, which may be adversely impacted by prolonged market declines or other circumstances. If it is determined that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write downs could have an adverse effect on our results of operations or financial position. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Goodwill, and notes 2 and 11 of the notes to the consolidated financial statements for additional information.

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

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

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

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

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

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

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

The number of life reinsurers has remained relatively constant in recent years. If the reinsurance market contracts in the future, the Company's ability to continue to offer its products on terms favorable to it could be adversely impacted.

In addition, reinsurers face challenges regarding illiquid credit and/or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions, and other factors negatively impacting the financial services industry. If reinsurers, including those with significant exposure to international markets and European Union member states, are unable to meet their obligations, the Company would be adversely impacted.

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

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

The Company's results may fluctuate from period to period due to fluctuations in the amount of policy claims received. In addition, certain of the Company's lines of business may experience higher claims if the economy is growing slowly or in recession, or if equity markets decline. Also, insofar as the Company continues to retain a larger percentage of the risk of newly

Table of Contents

written life insurance products than it has in the past, its financial results may have greater variability due to fluctuations in mortality results.

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

The Company leases administrative and marketing office space in 16 cities (excluding the home office building), with most leases being for periods of three to ten years. The aggregate annualized rent is approximately \$7.8 million.

Table of Contents

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

Item 3. Legal Proceedings

To the knowledge and in the opinion of management, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company, to which the Company or any of its subsidiaries is a party or of which any of our properties is the subject. For additional information regarding legal proceedings see Item 1A, Risk Factors, and Note 15, Commitments and Contingencies, of the notes to the consolidated financial statements, each included herein.

Item 4. Mine Safety Disclosure—Not Applicable

Table of Contents

PART II

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

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

The Company paid \$143.8 million and \$89.3 million of dividends during the year ended December 31, 2017 and 2016, respectively, to its parent, Dai-ichi Life. In the future, the Company expects to pay cash dividends to its parent, Dai-ichi Life, subject to its earnings and financial condition, regulatory requirements, capital needs, and other relevant factors. The Company's ability to pay cash dividends is dependent in part on cash dividends received by the Company from its life insurance subsidiaries. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources" included herein. Such subsidiary dividends are restricted by the various insurance laws of the states in which the subsidiaries are domesticated. See Item 1, Business, "Regulation". The historical trading ranges of the Company's equity shares and related dividends are set forth below for the noted periods.

Table of Contents

Item 6. Selected Financial Data

	Successor Company For The Year Ended December 31,			Predecessor Company For The Year Ended December 31,		
	2017	2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015	2014	2013
	(Dollars In Thousands)			(Dollars In Thousands, Except Per Share Amounts)		
INCOME STATEMENT DATA						
Premiums and policy fees	\$3,477,419	\$3,407,931	\$3,008,050	\$261,866	\$3,297,768	\$2,981,651
Reinsurance ceded	(1,360,735)	(1,314,716)	(1,154,978)	(89,956)	(1,373,597)	(1,377,195)
Net of reinsurance ceded	2,116,684	2,093,215	1,853,072	171,910	1,924,171	1,604,456
Net investment income	2,051,588	1,942,456	1,632,948	175,180	2,197,724	1,918,081
Realized investment gains (losses):						
Derivative financial instruments	(305,828)	(40,288)	29,997	(123,274)	(346,878)	188,131
All other investments	121,428	90,659	(166,886)	81,153	205,402	(123,537)
Other-than-temporary impairment losses	(3,962)	(32,075)	(28,659)	(636)	(2,589)	(10,941)
Portion recognized in other comprehensive income (before taxes)	(7,780)	14,327	1,666	155	(4,686)	(11,506)
Net impairment losses recognized in earnings	(11,742)	(17,748)	(26,993)	(481)	(7,275)	(22,447)
Other income	446,662	415,653	388,531	36,421	430,428	394,315
Total revenues	4,418,792	4,483,947	3,710,669	340,909	4,403,572	3,958,999
Total benefits and expenses	3,983,735	3,889,950	3,310,827	339,727	3,820,283	3,368,626
Income before income tax	435,057	593,997	399,842	1,182	583,289	590,373
Income tax expense (benefit)	(671,475)	200,968	131,543	(327)	198,414	196,909
Net income	\$1,106,532	\$393,029	\$268,299	\$1,509	\$384,875	\$393,464
PER SHARE DATA						
Net income from continuing operations—basic				\$0.02	\$4.81	\$4.96
Net income available to PLC's common shareowners—basic				\$0.02	\$4.81	\$4.96
Average shares outstanding—basic				80,452,848	80,065,217	79,395,622
Net income from continuing operations—diluted				\$0.02	\$4.73	\$4.86
Net income available to PLC's common shareowners—diluted				\$0.02	\$4.73	\$4.86
Average shares outstanding—diluted				81,759,287	81,375,496	80,925,713
Cash dividends paid				\$—	\$0.92	\$0.78
Total Protective Life Corporation's Shareowners' Equity				\$68.49	\$62.58	\$47.28
	Successor Company As of December 31,			Predecessor Company As of December 31,		
	2017	2016	2015	2014	2013	
	(Dollars In Thousands)			(Dollars In Thousands)		

BALANCE SHEET DATA

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Total assets	\$79,634,767	\$75,003,379	\$68,488,697	\$70,480,306	\$68,757,363
Total stable value products and annuity account balances	15,619,561	14,143,751	12,851,684	12,910,217	13,684,805
Non-recourse funding obligations	2,747,477	2,796,474	685,684	582,404	562,448
Debt	945,052	1,163,285	1,588,806	1,300,000	1,585,000
Subordinated debt securities	495,289	441,202	448,763	540,593	540,593
Total shareowner's equity	7,127,199	5,471,521	4,581,224	4,964,884	3,714,794

37

Table of Contents

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

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

FORWARD-LOOKING STATEMENTS—CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations, including our liquidity and capital resources.

Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like "believe," "expect," "estimate," "project," "budget," "forecast," "anticipate," "plan," "will," "shall," "may," and other words, phrases, or expressions with similar meaning.

Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments, or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Item 1A, Risk Factors, included herein.

IMPORTANT INVESTOR INFORMATION

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

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

OVERVIEW

Our Business

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

We have several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments

and make adjustments to our segment reporting as needed.

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

Life Marketing—We market fixed universal life (“UL”), indexed universal life (“IUL”), variable universal life (“VUL”), bank-owned life insurance (“BOLI”), and level premium term insurance (“traditional”) products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, independent distribution organizations, and affinity groups.

Acquisitions—We focus on acquiring, converting, and/or servicing policies and contracts from other companies. This segment’s primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment’s acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are

Table of Contents

expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

Annuities—We market fixed and variable annuity (“VA”) products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.

Stable Value Products—We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank (“FHLB”), and markets guaranteed investment contracts (“GICs”) to 401(k) and other qualified retirement savings plans. We also have an unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.

Asset Protection—We market extended service contracts, guaranteed asset protection (“GAP”) products, credit life and disability insurance, and other specialized ancillary products to protect consumers’ investments in automobiles, recreational vehicles, watercraft, and powersports. GAP products are designed to cover the difference between the scheduled loan pay-off amount and an asset’s actual cash value in the case of a total loss. Each type of specialized ancillary product protects against damage or other loss to a particular aspect of the underlying asset.

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

RECENT DEVELOPMENTS

On January 18, 2018, PLICO and for the limited purposes set forth therein, the Company, entered into a Master Transaction Agreement (the "Master Transaction Agreement") with Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, for the limited purposes set forth therein, Liberty Mutual Group Inc. ("Liberty Mutual"), The Lincoln National Life Insurance Company ("Lincoln Life"), and for the limited purposes set forth therein, Lincoln National Corporation, pursuant to which Lincoln Life will acquire Liberty Mutual's Group Benefits Business and Individual Life and Annuity Business (the "Life Business") through the acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston ("Liberty") (the "Transaction"). Pursuant to the Master Transaction Agreement, the Company, PLICO and Protective Life and Annuity Insurance Company ("PLAIC"), a wholly owned subsidiary of PLICO, agreed to enter into reinsurance agreements and related ancillary documents at the closing of the Transaction. On the terms and subject to the conditions of the reinsurance agreements, Liberty will cede to PLICO and PLAIC, effective as of the closing of the Transaction, substantially all of the insurance policies relating to the Life Business. The aggregate statutory reserves of Liberty to be ceded to PLICO and PLAIC as of the closing of the Transaction are expected to be approximately \$13.0 billion. To support its obligations under the reinsurance agreements, PLICO and PLAIC will each establish a trust account for the benefit of Lincoln Life. Entry into the reinsurance agreements represents an estimated capital investment by PLICO of approximately \$1.17 billion. The transaction is expected to be completed in the second quarter of 2018, pending regulatory approvals and other customary closing conditions.

Table of Contents

RISKS AND UNCERTAINTIES

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

General

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

Financial Environment

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

significantly from time to time and is sensitive to a number of factors outside of our control;
• we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations;

Industry and Regulation

• the business of our company is highly regulated and is subject to routine audits, examinations, and actions by regulators, law enforcement agencies, and self-regulatory organizations;
• we may be subject to regulations of, or regulations influenced by, international regulatory authorities or initiatives;
• NAIC actions, pronouncements and initiatives may affect our product profitability, reserve and capital requirements, financial condition or results of operations;
• our use of captive reinsurance companies to finance statutory reserves related to our term and universal life products and to reduce volatility affecting our variable annuity products, may be limited or adversely affected by regulatory action, pronouncements and interpretations;
• laws, regulations and initiatives related to unreported deaths and unclaimed property and death benefits may result in operational burdens, fines, unexpected payments or escheatments;

Table of Contents

we are subject to insurance guaranty fund laws, rules and regulations that could adversely affect our financial condition or results of operations;

we are subject to insurable interest laws, rules and regulations that could adversely affect our financial condition or results of operations;

the Healthcare Act and related regulations could adversely affect our results of operations or financial condition;

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

- regulations issued by the Department of Labor expanding the definition of "investment advice fiduciary" under ERISA and creating and revising several prohibited transactions exemptions for investment activities in light of that expanded definition may have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations;

we may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with our business operations;

changes to tax law, such as the effect of the Tax Reform Act enacted on December 22, 2017, or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;

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

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

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

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

use of reinsurance introduces variability in our statements of income;

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

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

we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;

our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and

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

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

CRITICAL ACCOUNTING POLICIES

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

Fair value of financial instruments—the Financial Accounting Standards Board ("FASB") guidance defines fair value for accounting principles generally accepted in the United States of America ("GAAP") and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term "fair value" in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 2, Summary of Significant Accounting Policies and Note 6, Fair Value of Financial Instruments, to the consolidated financial statements included in this report.

Available-for-sale securities and trading account securities are recorded at fair value, which is primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value for these securities. Market price quotes may not be readily available for some positions or for some positions within a market sector where trading activity has slowed significantly or ceased. These situations are generally triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial position, changes in credit ratings, and cash flows on the investments. As of December 31, 2017 (Successor Company), \$1.2 billion of available-for-sale and trading account assets, excluding other long-term investments, were classified as Level 3 fair value assets.

For securities that are priced via non-binding independent broker quotations, we assess whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. We use a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if we determine that there is a more appropriate fair value based upon the analytics, the price received from the independent broker is

Table of Contents

adjusted accordingly. As of December 31, 2017 (Successor Company), we did not adjust any prices received from independent brokers.

Derivatives —We utilize a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. Assessing the effectiveness of the hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. The fair values of most of our derivatives are determined using exchange prices or independent broker quotes, but certain derivatives, including embedded derivatives, are valued based upon industry standard models which calculate the present-value of the projected cash flows of the derivatives using current and implied future market conditions. These models include market-observable estimates of volatility and interest rates in the determination of fair value. The use of different assumptions may have a material effect on the estimated fair value amounts, as well as the amount of reported net income. In addition, measurements of ineffectiveness of hedging relationships are subject to interpretations and estimations, and any differences may result in material changes to our results of operations. The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources. Estimation risk is greater for derivative financial instruments that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price, or index scenarios are used in determining fair values. As of December 31, 2017 (Successor Company), the fair value of derivatives reported on our balance sheet in "other long-term investments" and "other liabilities" was \$605.1 million and \$1.0 billion, respectively. Of those derivative assets and liabilities, \$136.0 million and \$760.9 million, respectively, were Level 3 fair values determined by quantitative models.

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

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

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

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

Table of Contents

comprehensive income (loss) as a non-credit portion impairment. When calculating the post impairment cost for residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), and other asset-backed securities (collectively referred to as asset-backed securities or "ABS"), we consider all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, we consider all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that we intend to sell or expect to be required to sell before recovery are written down to fair value with the change recognized in earnings.

Our specific accounting policies related to our invested assets are discussed in Note 2, Summary of Significant Accounting Policies, and Note 5, Investment Operations, to the consolidated financial statements. As of December 31, 2017 (Successor Company), we held \$38.5 billion of available-for-sale investments, including \$21.7 billion in investments with a gross unrealized loss of \$682.2 million, and \$2.7 billion of held-to-maturity investments with a gross unrecognized holding loss of \$19.2 million.

Reinsurance—For each of our reinsurance contracts, we must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. We must review all contractual features, particularly those that may limit the amount of insurance risk to which we are subject or features that delay the timely reimbursement of claims. If we determine that the possibility of a significant loss from insurance risk will occur only under remote circumstances, we record the contract under a deposit method of accounting with the net amount payable/receivable reflected in other reinsurance assets or liabilities on our consolidated balance sheets. Fees earned on the contracts are reflected as other revenues, as opposed to premiums, in our consolidated statements of income.

Our reinsurance is ceded to a diverse group of reinsurers. The collectability of reinsurance is largely a function of the solvency of the individual reinsurers. We perform periodic credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends, and commitment to the reinsurance business. We also require assets in trust, letters of credit, or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer's insolvency, inability, or unwillingness to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition. As of December 31, 2017 (Successor Company), our third party reinsurance receivables amounted to \$5.1 billion. These amounts include ceded reserve balances and ceded benefit payments. We account for reinsurance as required by FASB guidance under the ASC Financial Services Topic as applicable. In accordance with this guidance, costs for reinsurance are amortized as a level percentage of premiums for traditional life products and a level percentage of estimated gross profits for universal life products. Accordingly, ceded reserve and deferred acquisition cost balances are established using methodologies consistent with those used in establishing direct policyholder reserves and deferred acquisition costs. Establishing these balances requires the use of various assumptions including investment returns, mortality, persistency, and expenses. The assumptions made for establishing ceded reserves and ceded deferred acquisition costs are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs.

Assumptions are also made regarding future reinsurance premium rates and allowance rates. Assumptions made for mortality, persistency, and expenses are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs. Assumptions made for future reinsurance premium and allowance rates are consistent with rates provided for in our various reinsurance agreements. For certain of our reinsurance agreements, premium and allowance rates may be changed by reinsurers on a prospective basis, assuming certain contractual conditions are met (primarily that rates are changed for all companies with which the reinsurer has similar agreements). To the extent that future rates are modified, these assumptions would be revised and both current and future results would be affected. For traditional life products, assumptions are not changed unless projected future revenues are expected to be less than future expenses. For universal life products, assumptions are periodically updated whenever actual experience and/or expectations for the future differ from that assumed. When assumptions are updated, changes are reflected in the income statement as part of an "unlocking" process. During the year ended December 31, 2017 (Successor Company), we adjusted our estimates of future reinsurance costs in both the Acquisitions and Life Marketing segments, resulting

in an approximate \$28.9 million unfavorable impact.

Deferred Acquisition Costs and Value of Business Acquired—In conjunction with the Merger, a portion of the purchase price was allocated to the right to receive future gross profits from cash flows and earnings of the Company's insurance policies and investment contracts as of the date of the Merger. This intangible asset, called value of business acquired ("VOBA"), is based on the actuarially estimated present value of future cash flows from the Company's insurance policies and investment contracts in-force on the date of the Merger. The estimated present value of future cash flows used in the calculation of the VOBA is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. The Company amortizes VOBA in proportion to gross premiums for traditional life products, or estimated gross margins ("EGMs") for participating traditional life products within the MONY block. For interest sensitive products, the Company uses various amortization bases including expected gross profits ("EGPs"), revenues, or insurance in-force. VOBA amortization included accrued interest credited to account balances of up to approximately 7.8%. VOBA is subject to annual recoverability testing. We incur significant costs in connection with acquiring new insurance business. Portions of these costs, which are determined to be incremental direct costs associated with successfully acquired policies and coinsurance of blocks of policies, are deferred and amortized over future periods. The recovery of such costs is dependent on the future profitability of the related policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These costs are amortized over the expected lives of the contracts, based on the level and timing of either gross profits or gross premiums, depending on the type of contract. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts. As of December 31, 2017 (Successor Company), we had a deferred acquisition costs ("DAC") and VOBA asset of \$2.2 billion.

Table of Contents

We periodically review and update as appropriate our key assumptions on certain life and annuity products including future mortality, expenses, lapses, premium persistency, investment yields, and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC and VOBA amortization and/or benefits and expenses.

Goodwill—Accounting for goodwill requires an estimate of the future profitability of the associated lines of business within our operating segments to assess the recoverability of the capitalized acquisition goodwill. We evaluate the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, we first determine through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If the qualitative analysis does not indicate that an impairment of segment goodwill is more likely than not then no other specific quantitative impairment testing is required.

If it is determined that it is more likely than not that impairment exists, we perform a quantitative assessment and compare our estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We utilize a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. Our material goodwill balances are attributable to certain of our operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of our reporting units are dependent on a number of significant assumptions. Our estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions.

The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of our reporting units below its carrying amount. During the fourth quarter of 2017, we performed our annual qualitative evaluation of goodwill based on the circumstances that existed as of October 1, 2017 (Successor Company) and determined that there was no indication that its segment goodwill was more likely than not impaired, thus no quantitative assessment was performed and no adjustment to impair goodwill was necessary. We have assessed whether events have occurred subsequent to October 1, 2017 that would impact our conclusion and no such events were identified. As of December 31, 2017 (Successor Company), we had goodwill of \$793.5 million.

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

As of December 31, 2017 (Successor Company), we had total policy liabilities and accruals of \$31.8 billion.

Guaranteed Minimum Death Benefits—We establish liabilities for guaranteed minimum death benefits ("GMDB") on our VA products. The methods used to estimate the liabilities employ assumptions about mortality and the

performance of equity markets. We assume age-based mortality from the Ruark 2015 ALB adjusted table for company experience. Future declines in the equity market would increase our GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB as of December 31, 2017 (Successor Company), is subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2017 (Successor Company), the GMDB reserve was \$34.0 million.

Guaranteed Living Withdrawal Benefits—We establish reserves for guaranteed living withdrawal benefits ("GLWB") on our VA products. The GLWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the embedded derivative to be recorded at fair value using current implied volatilities for the equity indices. The fair value of the GLWB is impacted by equity market conditions and can result in the GLWB embedded derivative being in an overall net asset or net liability position. In times of favorable equity market conditions the likelihood and severity of claims is reduced and expected fee income increases. Since claims are generally expected later than fees, these favorable equity market conditions can result in the present value of fees being greater than the present value of claims, which results in a net GLWB embedded derivative asset. In times of unfavorable equity market conditions the likelihood and severity of claims is increased and expected fee income decreases and can result in the present value of claims exceeding the present value of fees resulting in a net GLWB embedded derivative liability. The methods used to estimate the embedded derivatives employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume age-based mortality from the Ruark 2015 ALB adjusted table for company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. As of December 31, 2017 (Successor Company), our net GLWB liability held was \$111.8 million.

Table of Contents

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

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

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

Deferred Taxes and Uncertain Tax Positions—Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to net unrealized gains (losses), deferred policy acquisition costs and value of business acquired, and future policy benefits and claims. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such differences reverse. On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rate. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Also on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. We have recognized the provisional tax impacts related to the revaluation of deferred tax assets and included these amounts in our consolidated financial statements for the year ended December 31, 2017 and disclosed such items which may be recorded on a provisional basis. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued, additional analysis, and resulting changes in interpretations and assumptions we have made. Any adjustments to these provisional amounts will be reported as a component of income tax expense (benefit) in the reporting period in which any such adjustments are determined. The accounting is expected to be complete by December 31, 2018.

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

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

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

RESULTS OF OPERATIONS

Our management and Board of Directors analyzes and assesses the operating performance of each segment using "pre-tax adjusted operating income (loss)" and "after-tax adjusted operating income (loss)". Consistent with GAAP accounting guidance for segment reporting, pre-tax adjusted operating income (loss) is our measure of segment performance. Pre-tax adjusted operating income (loss) is calculated by adjusting "income (loss) before income tax," by excluding the following items:

- realized gains and losses on investments and derivatives,
- changes in the GLWB embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,
- actual GLWB incurred claims, and
- the amortization of DAC, VOBA, and certain policy liabilities that is impacted by the exclusion of these items.

After-tax adjusted operating income (loss) is derived from pre-tax adjusted operating income (loss) with the inclusion of income tax expense or benefits associated with pre-tax adjusted operating income. Income tax expense or benefits is allocated to the items excluded from pre-tax adjusted operating income (loss) at the statutory federal income tax rate for the associated period. For periods ending on and prior to December 31, 2017 a rate of 35% was used. Beginning in 2018, a statutory federal income tax rate of 21% will be used to allocate income tax expense or benefits to items excluded from pre-tax adjusted operating income (loss). Income tax expense or benefits allocated to after-tax adjusted operating income (loss) can vary period to period based on changes in our effective income tax rate.

The items excluded from adjusted operating income (loss) are important to understanding the overall results of operations. Pre-tax adjusted operating income (loss) and after-tax adjusted operating income (loss) are not substitutes for income before income taxes or net income (loss), respectively. These measures may not be comparable to similarly titled measures reported by other companies. Our belief is that pre-tax and after-tax adjusted operating income (loss) enhances management's and the Board of Directors' understanding of the ongoing operations, the underlying profitability of each segment, and helps facilitate the allocation of resources.

In determining the components of the pre-tax adjusted operating income (loss) for each segment, premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC and VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on policy liabilities net of associated policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

During 2016, we modified our labeling of our non-GAAP measures presented herein as "Adjusted operating income (loss)" or "Pre-tax adjusted operating income (loss)". In previous filings, we referred to "Pre-tax adjusted operating income (loss)" as "Pre-tax operating income", "Operating income before tax", or "Segment operating income". In addition, we previously referred to "After-tax adjusted operating income (loss)" as "After-tax operating income" or "Operating earnings". The definition of these labels remains unchanged, but we have modified the labels to provide further clarity that these measures are non-GAAP measures.

We periodically review and update as appropriate our key assumptions used to measure certain balances related to insurance products, including future mortality, expenses, lapses, premium persistency, benefit utilization, investment yields, interest rates, and separate account fund returns. Changes to these assumptions result in adjustments which increase or decrease DAC and VOBA amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as "unlocking." When referring to unlocking the reference is to changes in all balance sheet components associated with these assumption changes.

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Adjusted Operating Income (Loss)				
Life Marketing	\$50,778	\$39,745	\$57,414	\$(1,618)
Acquisitions	249,749	260,511	194,654	20,134
Annuities	213,080	213,293	180,231	13,164
Stable Value Products	105,261	61,294	56,581	4,529
Asset Protection	24,356	16,487	20,627	2,420
Corporate and Other	(136,332)	(87,961)	(25,067)	(10,144)
Pre-tax adjusted operating income	506,892	503,369	484,440	28,485
Realized (losses) gains on investments and derivatives	(71,835)	90,628	(84,598)	(27,303)
Income before income tax	435,057	593,997	399,842	1,182
Income tax (benefit) expense	(671,475)	200,968	131,543	(327)
Net income	\$1,106,532	\$393,029	\$268,299	\$1,509
Pre-tax adjusted operating income	\$506,892	\$503,369	\$484,440	\$28,485
Adjusted operating income tax benefit (expense)	646,333	(169,248)	(161,152)	(9,229)
After-tax adjusted operating income	1,153,225	334,121	323,288	19,256
Realized (losses) gains on investments and derivatives	(71,835)	90,628	(84,598)	(27,303)
Income tax (expense) benefit on adjustments	25,142	(31,720)	29,609	9,556
Net income	\$1,106,532	\$393,029	\$268,299	\$1,509
Realized investment (losses) gains:				
Derivative financial instruments	\$(305,828)	\$(40,288)	\$29,997	\$(123,274)
All other investments	121,428	90,659	(166,886)	81,153
Net impairment losses recognized in earnings	(11,742)	(17,748)	(26,993)	(481)
Less: related amortization ⁽¹⁾	(39,480)	24,360	(8,726)	(9,143)
Less: VA GLWB economic cost	(84,827)	(82,365)	(70,558)	(6,156)
Realized (losses) gains on investments and derivatives	\$(71,835)	\$90,628	\$(84,598)	\$(27,303)

⁽¹⁾ Includes amortization of DAC/VOBA and benefits and settlement expenses that are impacted by realized gains (losses).

For The Year Ended December 31, 2017 (Successor Company), as compared to The Year Ended December 31, 2016 (Successor Company)

Net income for the year ended December 31, 2017 was \$1,106.5 million which was an increase of \$713.5 million. The increase in net income was primarily driven by a favorable change in income taxes of \$872.4 million which was driven by the change in the corporate tax rate. Pre-tax adjusted operating income was \$506.9 million which was an increase of \$3.5 million. The increase in pre-tax adjusted operating income consisted of an \$11.0 million increase in the Life Marketing segment, a \$44.0 million increase in the Stable Value Products segment, and an increase of \$7.9 million in the Asset Protection segment. These increases were partially offset by a \$10.8 million decrease in the Acquisitions segment and a \$48.4 million decrease in the Corporate and Other segment.

Income tax (benefit) expense decreased \$872.4 million for the year ended December 31, 2017, compared to 2016, due to the impact of the Tax Reform Act enacted on December 22, 2017. We recognized a provisional \$797.6 million tax benefit as a result of revaluing the ending net deferred tax liabilities from 35% to the newly enacted corporate income tax rate of 21%, partially offset by tax expense related to the write-off of certain deferred tax assets to reflect changes in tax law which will prohibit the deduction of those items in future periods. The effective tax rate was (154.3%) and 33.8% for the years ended December 31, 2017 and 2016, respectively. The decrease in the effective tax rate was due to the impact of the Tax Reform Act. Further information

47

on the components of the effective tax rates for the year ended December 31, 2017 and 2016, is presented in Note 18, Income Taxes.

Net realized losses on investments and derivatives for the year ended December 31, 2017 was \$71.8 million. These losses were primarily due to net losses on VA GLWB derivatives (after adjusting for economic cost and amortization) of \$67.6 million and net losses on FIA derivatives of \$6.6 million. The net losses on VA GLWB derivatives included a \$35.9 million loss related to variations in actual sub-account fund performance from the indices included in our hedging program, a \$25.7 million loss related to a decrease in our non-performance risk during the period, and a \$12.0 million loss from changes to policyholder assumptions. The net losses on FIA derivatives were primarily driven by losses of \$5.9 million from changes to policyholder assumptions.

Life Marketing segment pre-tax adjusted operating income was \$50.8 million for the year ended December 31, 2017, representing an increase of \$11.0 million from the year ended December 31, 2016. The increase was primarily due to the impact of unlocking for the year ended December 31, 2017, as compared to the prior year. The segment recorded an unfavorable \$4.0 million of unlocking for the year ended December 31, 2017, as compared to an unfavorable \$13.3 million of unlocking for the year ended December 31, 2016.

Acquisitions segment pre-tax adjusted operating income was \$249.7 million for the year ended December 31, 2017, a decrease of \$10.8 million as compared to the year ended December 31, 2016, primarily due to the expected runoff of the in-force blocks of business.

Annuities segment pre-tax adjusted operating income was \$213.1 million for the year ended December 31, 2017, as compared to \$213.3 million for the year ended December 31, 2016, a decrease of \$0.2 million, or 0.1%. This variance was primarily the result of an unfavorable change in SPIA mortality and higher non-deferred expenses, partially offset by increased interest spreads, growth in VA fee income, and favorable unlocking. Segment results were positively impacted by \$16.5 million of favorable unlocking for the year ended December 31, 2017, as compared to \$8.1 million of favorable unlocking for the year ended December 31, 2016.

Stable Value Products pre-tax adjusted operating income was \$105.3 million and increased \$44.0 million, or 71.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase in adjusted operating earnings primarily resulted from an increase in participating mortgage income and higher average account values. Participating mortgage income for the year ended December 31, 2017, was \$33.5 million as compared to \$11.0 million for the year ended December 31, 2016. The adjusted operating spread, which excludes participating income, decreased by eight basis points for the year ended December 31, 2017, from the prior year, due primarily to an increase in credited interest.

Asset Protection segment pre-tax adjusted operating income was \$24.4 million, representing an increase of \$7.9 million, or 47.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Service contract earnings increased \$13.7 million primarily due to favorable loss ratios and \$4.8 million of one-time transaction costs associated with the US Warranty acquisition in 2016. Credit insurance earnings decreased \$0.3 million primarily due to lower volume. Earnings from the GAP product line decreased \$5.5 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.

The Corporate and Other segment's pre-tax adjusted operating loss was \$136.3 million for the year ended December 31, 2017, as compared to an adjusted pre-tax operating loss of \$88.0 million for the year ended December 31, 2016. The decrease is primarily attributable to a \$49.5 million increase in corporate overhead expenses. The increase in overhead expenses was primarily due to certain accrued expenses that increased as a result of the favorable after-tax adjusted operating income results which increased due to the change in the corporate tax rate during the period.

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

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

We experienced net realized losses of \$163.9 million for the period of February 1, 2015 to December 31, 2015. The losses realized were primarily related to \$27.0 million of other-than-temporary impairment credit-related losses, net losses of \$135.3 million of derivatives related to variable annuity contracts, \$1.3 million of losses related to the net activity of the modified coinsurance portfolio, and net losses of \$1.0 million related to IUL contracts. The net losses on derivatives related to VA contracts in addition to capital market impacts were affected by changes in the lowering

of assumed lapses used to value the GLWB embedded derivatives. Partially offsetting these losses were \$0.3 million of gains related to investment securities sale activity, net gains of \$0.1 million of derivatives related to FIA contracts, and net gains of \$0.3 million loss related to other investment and derivative activity.

Life Marketing segment pre-tax adjusted operating income was \$57.4 million which consisted of universal life operating income of \$54.5 million, traditional life adjusted operating income of \$15.9 million, and an adjusted operating loss of \$13.0 million in other lines which included \$17.4 million of amortization related intangible assets. Traditional life operating income included favorable mortality of \$6.4 million.

Acquisitions segment pre-tax adjusted operating income was \$194.7 million. This included expected runoff of the in-force blocks of business.

Annuities segment pre-tax adjusted operating income was \$180.2 million which included \$83.8 million of fixed annuity adjusted operating earnings, \$111.7 million of variable annuity adjusted operating earnings, and a \$15.3 million loss in other annuity earnings which included \$12.2 million of amortization related to intangible assets. The

fixed annuity results were negatively impacted by \$0.8 million of unfavorable SPIA mortality. The segment recorded \$2.4 million of favorable unlocking.

Stable Value Products pre-tax adjusted operating income of \$56.6 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$23.0 million and the adjusted operating spread, which excludes participating income, was 188 basis points.

Asset Protection segment pre-tax adjusted operating income was \$20.6 million which consisted of service contract earnings of \$11.1 million, GAP product earnings of \$6.7 million, and credit insurance earnings of \$2.9 million.

The Corporate and Other segment's \$25.1 million pre-tax adjusted operating loss was primarily due to \$179.0 million of other operating expenses which is primarily interest and corporate overhead expenses. These expenses were partially offset by \$154.1 million of investment income which represents income on assets supporting our equity capital.

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

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

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

Life Marketing segment pre-tax adjusted operating loss was \$1.6 million. Included in that amount was a traditional life adjusted operating loss of \$3.4 million, universal life earnings of \$1.2 million, and adjusted operating earnings of \$0.6 million in other lines.

Acquisitions segment pre-tax adjusted operating income was \$20.1 million. This included expected runoff of the in-force blocks of business.

Annuities segment pre-tax adjusted operating income was \$13.2 million. Included in that amount was \$2.8 million of unfavorable SPIA mortality results and \$2.3 million of unfavorable unlocking, primarily related to the VA line of business.

Stable Value Products pre-tax adjusted operating income was \$4.5 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was \$0.1 million and the adjusted operating spread, which excludes participating income, was 276 basis points.

Asset Protection segment pre-tax adjusted operating income was \$2.4 million which consisted of \$1.3 million in service contract earnings, \$0.9 million in GAP product earnings, and credit insurance earnings of \$0.2 million.

The Corporate and Other segment's \$10.1 million pre-tax adjusted operating loss was primarily due to \$20.5 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by \$10.7 million of investment income which represents income on assets supporting our equity capital.

Life Marketing
Segment Results of Operations
Segment results were as follows:

	Successor Company			Predecessor Company
	For The	For The	February 1,	January 1,
	Year Ended	Year Ended	2015	2015
	December 31,	December	to	to
	2017	31, 2016	December	January 31,
			31, 2015	2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Gross premiums and policy fees	\$ 1,855,075	\$ 1,772,523	\$ 1,553,658	\$ 136,068
Reinsurance ceded	(843,164)	(800,276)	(671,487)	(51,142)
Net premiums and policy fees	1,011,911	972,247	882,171	84,926
Net investment income	553,999	525,495	446,439	47,460
Other income	112,855	111,292	111,497	12,810
Total operating revenues	1,678,765	1,609,034	1,440,107	145,196
Realized gains (losses)—investments	(6,291)	5,679	(13,008)	997
Realized gains (losses)—derivatives	(5,356)	13,135	(1,009)	(598)
Total revenues	1,667,118	1,627,848	1,426,090	145,595
BENEFITS AND EXPENSES				
Benefits and settlement expenses	1,330,031	1,261,231	1,109,341	123,525
Amortization of DAC/VOBA	119,164	130,560	108,035	4,584
Other operating expenses	178,792	177,498	165,317	18,705
Operating benefits and expenses	1,627,987	1,569,289	1,382,693	146,814
Amortization related to benefits and settlement expenses	(10,893)	6,613	499	(346)
Amortization of DAC/VOBA related to realized gains (losses)—investments	1,589	148	(224)	229
Total benefits and expenses	1,618,683	1,576,050	1,382,968	146,697
INCOME (LOSS) BEFORE INCOME TAX	48,435	51,798	43,122	(1,102)
Less: realized gains (losses)	(11,647)	18,814	(14,017)	399
Less: amortization related to benefits and settlement expenses	10,893	(6,613)	(499)	346
Less: related amortization of DAC/VOBA	(1,589)	(148)	224	(229)
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	\$50,778	\$39,745	\$57,414	\$(1,618)

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Sales By Product⁽¹⁾				
Traditional	\$8,065	\$1,035	\$512	\$42
Universal life	164,074	168,671	143,969	11,473
BOLI	—	—	15	—
	\$172,139	\$169,706	\$144,496	\$11,515
Sales By Distribution Channel				
Traditional brokerage	\$147,023	\$146,062	\$119,880	\$9,724
Institutional	16,291	16,294	18,936	1,472
Direct	8,825	7,350	5,680	319
	\$172,139	\$169,706	\$144,496	\$11,515
Average Life Insurance In-force⁽²⁾				
Traditional	\$346,134,076	\$361,976,539	\$380,364,300	\$391,411,413
Universal life	253,282,098	215,333,069	176,050,239	153,317,720
	\$599,416,174	\$577,309,608	\$556,414,539	\$544,729,133
Average Account Values				
Universal life	\$7,626,868	\$7,449,470	\$7,321,233	\$7,250,973
Variable universal life	718,890	624,022	586,840	574,257
	\$8,345,758	\$8,073,492	\$7,908,073	\$7,825,230

Sales data for traditional life insurance is based on annualized premiums. Universal life sales are based on annualized planned premiums, or "target" premiums if lesser, plus 6% of amounts received in excess of target premiums and 10% of single premiums. "Target" premiums for universal life are those premiums upon which full first year commissions are paid.

(2) Amounts are not adjusted for reinsurance ceded.

Operating Expenses Detail

Other operating expenses for the segment were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Insurance companies:				
First year commissions	\$197,815	\$196,375	\$163,229	\$14,109
Renewal commissions	39,931	38,089	31,773	2,513
First year ceding allowances	(2,244)	(3,556)	(2,716)	(49)
Renewal ceding allowances	(185,255)	(165,614)	(153,112)	(12,364)
General & administrative	228,960	213,879	192,686	17,467
Taxes, licenses, and fees	36,045	33,068	28,722	2,508
Other operating expenses incurred	315,252	312,241	260,582	24,184
Less: commissions, allowances and expenses capitalized	(254,375)	(246,738)	(201,951)	(17,059)
Other insurance company operating expenses	60,877	65,503	58,631	7,125
Distribution companies:				
Commissions	84,458	79,299	78,211	8,233
Other operating expenses	33,457	32,696	28,475	3,347
Other distribution company operating expenses	117,915	111,995	106,686	11,580
Other operating expenses	\$178,792	\$177,498	\$165,317	\$18,705

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$50.8 million for the year ended December 31, 2017, representing an increase of \$11.0 million from the year ended December 31, 2016. The increase was primarily due to the impact of unlocking for the year ended December 31, 2017, as compared to the prior year. The segment recorded an unfavorable \$4.0 million of unlocking for the year ended December 31, 2017, as compared to an unfavorable \$13.3 million of unlocking for the year ended December 31, 2016.

Operating Revenues

Total operating revenues for the year ended December 31, 2017, increased \$69.7 million, or 4.3%, as compared to the year ended December 31, 2016. This increase was driven by higher policy fees and higher universal life investment income due to increases in net in-force reserves, partly offset by lower traditional life premiums.

Net Premiums and Policy Fees

Net premiums and policy fees increased by \$39.7 million, or 4.1%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to an increase in policy fees associated with continued growth in universal life business, as well as increases in traditional life premiums.

Net Investment Income

Net investment income in the segment increased \$28.5 million, or 5.4%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Of the increase in net investment income, \$22.3 million resulted from growth in the universal life block of business. Traditional life investment income increased \$2.0 million.

Other Income

Other income increased \$1.6 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to higher revenue in the segment's non-insurance operations.

Benefits and Settlement Expenses

Benefits and settlement expenses increased by \$68.8 million, or 5.5%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due primarily to an increase in universal life claims and reserves, partially offset by lower traditional life claims and the impact of unlocking. For the year ended December 31, 2017, universal life unlocking increased policy benefits and settlement expenses \$8.6 million, as compared to an increase of \$16.3 million for the year ended December 31, 2016.

Amortization of DAC/VOBA

DAC/VOBA amortization decreased \$11.4 million, or 8.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to lower VOBA amortization in the traditional blocks resulting from decreased lapses. For the year ended December 31, 2017, universal life unlocking decreased amortization \$4.6 million, as compared to a decrease of \$3.0 million for the year ended December 31, 2016.

Other Operating Expenses

Other operating expenses increased \$1.3 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016. This increase was driven by higher commissions and general and administrative expense, partially offset by lower new business acquisition costs after capitalization and higher reinsurance allowances.

Sales

Sales for the segment increased \$2.4 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increased in traditional life sales of \$7.0 million was primarily due to the introduction of new term products during 2017 which also led to the decrease in universal life sales of \$4.6 million for the year ended December 31, 2017.

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$57.4 million for the period of February 1, 2015 to December 31, 2015, which consisted of universal life adjusted operating income of \$54.5 million, traditional life adjusted operating income of \$15.9 million, and an adjusted operating loss of \$13.0 million in other lines which included \$17.4 million of amortization related intangible assets. Traditional life adjusted operating income included favorable mortality of \$6.4 million.

Net Premiums and Policy Fees

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

Net Investment Income

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

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

Pre-tax Adjusted Operating Income (Loss)

Segment pre-tax adjusted operating loss was \$1.6 million. Included in that amount was a traditional life adjusted operating loss of \$3.4 million, universal life earnings of \$1.2 million, and adjusted operating earnings of \$0.6 million in other lines.

Net Premiums and Policy Fees

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

Net Investment Income

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

Reinsurance

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

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

Impact of Reinsurance

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

Life Marketing Segment

Line Item Impact of Reinsurance

	Successor Company			Predecessor Company
	For The	For The	February 1,	January 1,
	Year	Year	2015	2015
	Ended	Ended	to	to
	December 31,	December 31,	December 31,	January 31,
	2017	2016	2015	2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Reinsurance ceded	\$(843,164)	\$(800,276)	\$(671,487)	\$(51,142)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(710,959)	(776,507)	(586,030)	(58,501)
Amortization of DAC/VOBA	(5,533)	(6,048)	(5,350)	(3,766)
Other operating expenses ⁽¹⁾	(180,435)	(161,352)	(148,293)	(11,728)
Total benefits and expenses	(896,927)	(943,907)	(739,673)	(73,995)
NET IMPACT OF REINSURANCE	\$53,763	\$143,631	\$68,186	\$22,853
Allowances received	\$(187,499)	\$(169,170)	\$(155,828)	\$(12,413)
Less: Amount deferred	7,064	7,818	7,535	685
Allowances recognized (ceded other operating expenses) ⁽¹⁾	\$(180,435)	\$(161,352)	\$(148,293)	\$(11,728)

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

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies' profitability on the business that we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 170% to 380%. The Life Marketing segment's reinsurance programs do not materially impact the "other income" line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment's operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment's traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business has been ceded due to a change in reinsurance strategy on traditional business. In addition, since 2012, a much smaller percentage of the segment's new universal life business has been ceded. As a result of that change, the relative impact of reinsurance on the Life Marketing segment's overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances.

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

The higher ceded premium and policy fees for the year ended December 31, 2017, as compared to the year ended December 31, 2016, was caused primarily by higher universal life policy fees of \$48.5 million, offset by lower ceded traditional life premiums of \$5.1 million. Ceded traditional life premiums for the year ended December 31, 2017, decreased from the year ended December 31, 2016, primarily due to post level term activity.

Ceded benefits and settlement expenses were lower for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to lower ceded claims and reserves. Traditional ceded benefits decreased \$30.2 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to lower ceded reserves. Universal life ceded benefits decreased \$34.5 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to a decrease in ceded claims, partially offset by an increase in ceded reserves. Ceded universal life claims were \$40.0 million lower for the year ended December 31, 2017, as compared to the year ended December 31, 2016, driven by fewer high dollar claims during the current year. Ceded amortization of DAC and VOBA decreased slightly for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Ceded other operating expenses reflect the impact of reinsurance allowances net of amounts deferred.

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

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

Ceded benefits and settlement expenses were \$586.0 million for the period of February 1, 2015 to December 31, 2015.

This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional life ceded benefits

activity of \$321.0 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded

benefits of \$265.7 million were largely comprised of \$239.4 million in ceded universal life claims during the period.

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

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

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

The ceded premiums and policy fees were primarily comprised of ceded traditional life premiums of \$22.6 million

and universal life policy fees of \$27.2 million. Traditional life ceded premiums for the period January 1, 2015 to

January 31, 2015 were impacted by runoff and a number of policies with post level activity.

Ceded benefits and settlement expenses were \$58.5 million for the period of January 1, 2015 to January 31, 2015. This

amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional life ceded benefits activity of

\$29.3 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded benefits of \$30.0

million were mainly comprised of \$30.4 million in ceded universal life claims during the period.

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

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

Acquisitions

Segment Results of Operations

Segment results were as follows:

	Successor Company			Predecessor Company
	For The	For The	February 1,	January 1,
	Year Ended	Year Ended	2015	2015
	December 31,	December	to	to
	2017	31, 2016	December	January 31,
			31, 2015	2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Gross premiums and policy fees	\$ 1,113,355	\$ 1,180,376	\$ 1,023,413	\$ 88,855
Reinsurance ceded	(328,167)	(348,293)	(332,672)	(26,512)
Net premiums and policy fees	785,188	832,083	690,741	62,343
Net investment income	752,520	764,571	639,422	71,088
Other income	11,423	10,805	11,119	1,240
Total operating revenues	1,549,131	1,607,459	1,341,282	134,671
Realized gains (losses)—investments	121,036	69,018	(173,879)	73,601
Realized gains (losses)—derivatives	(101,084)	(460)	166,027	(68,511)
Total revenues	1,569,083	1,676,017	1,333,430	139,761
BENEFITS AND EXPENSES				
Benefits and settlement expenses	1,195,105	1,220,674	1,054,598	100,693
Amortization of VOBA	(6,330)	8,218	2,070	4,803
Other operating expenses	110,607	118,056	89,960	9,041
Operating benefits and expenses	1,299,382	1,346,948	1,146,628	114,537
Amortization related to benefits and settlement expenses	8,979	11,467	12,884	1,233
Amortization of VOBA related to realized gains (losses)—investments	(609)	(40)	(35)	230
Total benefits and expenses	1,307,752	1,358,375	1,159,477	116,000
INCOME BEFORE INCOME TAX				
INCOME BEFORE INCOME TAX	261,331	317,642	173,953	23,761
Less: realized gains (losses)	19,952	68,558	(7,852)	5,090
Less: amortization related to benefits and settlement expenses	(8,979)	(11,467)	(12,884)	(1,233)
Less: related amortization of VOBA	609	40	35	(230)
PRE-TAX ADJUSTED OPERATING INCOME	\$ 249,749	\$ 260,511	\$ 194,654	\$ 20,134

The following table summarizes key data for the Acquisitions segment:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Average Life Insurance In-Force ⁽¹⁾				
Traditional	\$227,487,175	\$233,303,794	\$175,316,149	\$182,177,575
Universal life	27,473,477	29,598,014	32,022,655	33,413,557
	\$254,960,652	\$262,901,808	\$207,338,804	\$215,591,132
Average Account Values				
Universal life	\$4,199,568	\$4,267,697	\$4,420,698	\$4,486,843
Fixed annuity ⁽²⁾	3,538,204	3,560,389	3,643,397	3,712,578
Variable annuity	1,189,695	1,181,332	1,327,080	1,396,587
	\$8,927,467	\$9,009,418	\$9,391,175	\$9,596,008
Interest Spread— Fixed Annuities				
Net investment income yield	4.07	% 3.97	% 3.95	% 5.31
Interest credited to policyholders	3.28	3.27	3.28	3.39
Interest spread ⁽³⁾	0.79	% 0.70	% 0.67	% 1.92

(1) Amounts are not adjusted for reinsurance ceded.

(2) Includes general account balances held within variable annuity products and is net of coinsurance ceded.

(3) Earned rates exclude portfolios supporting modified coinsurance and crediting rates exclude 100% cessions.

For the Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$249.7 million for the year ended December 31, 2017, a decrease of \$10.8 million as compared to the year ended December 31, 2016, primarily due to the expected runoff of the in-force blocks of business.

Operating revenues

Net premiums and policy fees decreased \$46.9 million, or 5.6%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the expected runoff of the in-force blocks of business. Net investment income decreased \$12.1 million, or 1.6%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016.

Total benefits and expenses

Total benefits and expenses decreased \$50.6 million, or 3.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The decrease was primarily due to favorable amortization of VOBA, as well as the expected runoff of the in-force blocks of business.

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$194.7 million. This included expected runoff of the in-force blocks of business.

Operating Revenues

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

Total Benefits and Expenses

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

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$20.1 million. This included expected runoff of the in-force blocks of business.

Operating Revenues

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

Total Benefits and Expenses

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

Reinsurance

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

Impact of Reinsurance

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

Acquisitions Segment

Line Item Impact of Reinsurance

	Successor Company		Predecessor Company	
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Reinsurance ceded	\$(328,167)	\$(348,293)	\$(332,672)	\$(26,512)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(275,698)	(276,947)	(326,068)	(25,832)
Amortization of VOBA	(580)	(438)	(260)	(233)
Other operating expenses	(40,005)	(43,463)	(43,284)	(3,647)
Total benefits and expenses	(316,283)	(320,848)	(369,612)	(29,712)
NET IMPACT OF REINSURANCE⁽¹⁾	\$(11,884)	\$(27,445)	\$36,940	\$3,200

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

The segment's reinsurance programs do not materially impact the other income line of the income statement. In addition, net investment income generally has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies' profitability on business assumed from the Company. For business ceded under modified coinsurance arrangements, the amount of investment income attributable to the assuming company is included as part of the overall change in policy reserves and, as such, is reflected in benefit and settlement expenses. The net investment income impact to us and the assuming companies has not been quantified as it is not fully reflected in our consolidated financial statements.

The net impact of reinsurance was more favorable by \$15.6 million for the year ended December 31, 2017 (Successor Company), as compared to the year ended December 31, 2016 (Successor Company), primarily due to lower ceded

revenues. For the year ended December 31, 2017 (Successor Company), ceded revenues decreased by \$20.1 million, while ceded benefits and expenses decreased by \$4.6 million primarily due to lower operating expenses. The net impact of reinsurance activity for the period of February 1, 2015 to December 31, 2015 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims. Ceded claims included an unusually elevated level of claims in a block that is assumed and then one hundred percent ceded to a third party. The net impact of reinsurance activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

Annuities

Segment Results of Operations

Segment results were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Gross premiums and policy fees	\$ 152,701	\$ 146,458	\$ 138,146	\$ 12,473
Reinsurance ceded	—	—	—	—
Net premiums and policy fees	152,701	146,458	138,146	12,473
Net investment income	321,844	322,608	297,114	37,189
Realized gains (losses)—derivatives	(84,827)	(82,365)	(70,558)	(6,156)
Other income	173,247	163,898	149,078	12,980
Total operating revenues	562,965	550,599	513,780	56,486
Realized gains (losses)—investments	28	(4,241)	(5,743)	(145)
Realized gains (losses)—derivatives, net of economic cost	(112,687)	28,576	(64,618)	(48,457)
Total revenues	450,306	574,934	443,419	7,884
BENEFITS AND EXPENSES				
Benefits and settlement expenses	212,533	213,181	226,127	27,485
Amortization of DAC and VOBA	(11,829)	(16,284)	(18,524)	5,911
Other operating expenses	149,181	140,409	125,946	9,926
Operating benefits and expenses	349,885	337,306	333,549	43,322
Amortization related to benefits and settlement expenses	4,096	919	697	3,128
Amortization of DAC/VOBA related to realized gains (losses)—investments	(42,642)	5,253	(22,547)	(13,617)
Total benefits and expenses	311,339	343,478	311,699	32,833
INCOME (LOSS) BEFORE INCOME TAX	138,967	231,456	131,720	(24,949)
Less: realized gains (losses)—investments	28	(4,241)	(5,743)	(145)
Less: realized gains (losses)—derivatives, net of economic cost	(112,687)	28,576	(64,618)	(48,457)
Less: amortization related to benefits and settlement expenses	(4,096)	(919)	(697)	(3,128)
Less: related amortization of DAC/VOBA	42,642	(5,253)	22,547	13,617
PRE-TAX ADJUSTED OPERATING INCOME	\$ 213,080	\$ 213,293	\$ 180,231	\$ 13,164

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

The following table summarizes key data for the Annuities segment:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Sales⁽¹⁾				
Fixed annuity	\$1,130,843	\$726,640	\$566,290	\$28,335
Variable annuity	426,353	593,409	1,096,113	59,115
	\$1,557,196	\$1,320,049	\$1,662,403	\$87,450
Average Account Values				
Fixed annuity ⁽²⁾	\$8,245,382	\$8,191,841	\$8,223,481	\$8,171,438
Variable annuity	13,050,411	12,328,057	12,506,856	12,365,217
	\$21,295,793	\$20,519,898	\$20,730,337	\$20,536,655
Interest Spread—Fixed Annuities				
Net investment income yield	3.67	% 3.69	% 3.71	% 5.22
Interest credited to policyholders	2.54	2.65	2.88	3.17
Interest spread ⁽³⁾	1.13	% 1.04	% 0.83	% 2.05

(1) Sales are measured based on the amount of purchase payments received less surrenders occurring within twelve months of the purchase payments.

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

(3) Interest spread on average general account values.

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Derivatives related to VA contracts:				
Interest rate futures - VA	\$26,015	\$(3,450)	\$(14,818)	\$1,413
Equity futures - VA	(91,776)	(106,431)	(5,033)	9,221
Currency futures - VA	(23,176)	33,836	7,169	7,778
Equity options - VA	(94,791)	(60,962)	(27,733)	3,047
Interest rate swaptions - VA	(2,490)	(1,161)	(13,354)	9,268
Interest rate swaps - VA	27,981	20,420	(85,942)	122,710
Total return swaps - VA	(32,240)	—	—	—
Embedded derivative - GLWB ⁽¹⁾	3,614	68,056	4,412	(207,018)
Total derivatives related to VA contracts	(186,863)	(49,692)	(135,299)	(53,581)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(55,878)	(16,494)	(738)	1,769
Equity futures - FIA	642	4,248	(355)	(184)
Volatility futures - FIA	—	—	5	—
Equity options - FIA	44,585	8,149	1,211	(2,617)

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Total derivatives related to FIA contracts	(10,651)	(4,097)	123	(1,032)
Economic cost - VA GLWB ⁽²⁾	84,827	82,365	70,558	6,156
Realized gains (losses) - derivatives, net of economic cost	\$(112,687)	\$28,576	\$(64,618)	\$(48,457)

Includes impact of nonperformance risk of \$(41.6) million, \$9.7 million, \$2.2 million, and \$11.8 million for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

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

	Successor Company	
	As of December 31,	
	2017	2016
	(Dollars In Thousands)	
GMDB—Net amount at risk	\$72,825	\$ 123,091
GMDB Reserves	30,944	31,695
GLWB and GMAB Reserves	111,760	115,370
Account value subject to GLWB rider	9,718,269	9,486,773
GLWB Benefit Base	10,560,890	10,559,907
GMAB Benefit Base	3,298	3,770
S&P 500® Index	2,674	2,239

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

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$213.1 million for the year ended December 31, 2017, as compared to \$213.3 million for the year ended December 31, 2016, a decrease of \$0.2 million, or 0.1%. This variance was primarily the result of an unfavorable change in SPIA mortality and higher non-deferred expenses, partially offset by increased interest spreads, growth in VA fee income, and favorable unlocking. Segment results were positively impacted by \$16.5 million of favorable unlocking for the year ended December 31, 2017, as compared to \$8.1 million of favorable unlocking for the year ended December 31, 2016.

Operating revenues

Segment operating revenues increased \$12.4 million, or 2.2%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to higher policy fees and other income from the VA line of business. Those increases were partially offset by higher GLWB economic cost in the VA line of business. Average fixed account balances increased 0.7% and average variable account balances increased 5.9% for the year ended December 31, 2017 as compared to the year ended December 31, 2016.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$0.6 million, or 0.3%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. This decrease was primarily the result of lower credited interest partially offset by an unfavorable change in SPIA mortality. Included in benefits and settlement expenses was \$0.2 million of favorable unlocking for the year ended December 31, 2017, as compared to \$0.4 million of favorable unlocking for the year ended December 31, 2016.

Amortization of DAC and VOBA

DAC and VOBA amortization unfavorably changed by \$4.5 million, or 27.4%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The unfavorable changes in DAC and VOBA amortization were primarily due to higher fee income in the VA line of business and the runoff of negative VOBA in the fixed annuity lines of business. These changes were partially offset by a favorable change in unlocking. DAC and VOBA unlocking for the year ended December 31, 2017, was \$16.3 million favorable as compared to \$7.8 million favorable for the year ended December 31, 2016.

Other operating expenses

Other operating expenses increased \$8.8 million, or 6.2%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. This increase was the result of higher non-deferred acquisition costs, maintenance and overhead, and commission expenses.

Sales

Total sales increased \$237.1 million, or 18.0%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Sales of variable annuities decreased \$167.1 million, or 28.2% for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to disruptions in the broader market driven by regulatory rule changes and the relative competitiveness of our product within the market. Sales of fixed annuities

increased by \$404.2 million, or 55.6%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to an increase in SPDA sales.

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$180.2 million which included \$83.8 million of fixed annuity adjusted operating earnings, \$111.7 million of variable annuity adjusted operating earnings, and a \$15.3 million loss in other annuity earnings.

Operating Revenues

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$13.2 million. Included in that amount was \$2.8 million of unfavorable SPIA mortality results and \$2.3 million of unfavorable unlocking, primarily related to the VA line of business.

Operating Revenues

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

Stable Value Products

Segment Results of Operations

Segment results were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Net investment income	\$ 186,576	\$ 107,010	\$ 78,459	\$ 6,888
Other income	24	229	133	—
Total operating revenues	186,600	107,239	78,592	6,888
Realized gains (losses)	3,406	7,341	1,078	1,293
Total revenues	190,006	114,580	79,670	8,181
BENEFITS AND EXPENSES				
Benefits and settlement expenses	74,578	41,736	19,348	2,255
Amortization of DAC	2,354	1,176	43	25
Other operating expenses	4,407	3,033	2,620	79
Total benefits and expenses	81,339	45,945	22,011	2,359
INCOME BEFORE INCOME TAX	108,667	68,635	57,659	5,822
Less: realized gains (losses)	3,406	7,341	1,078	1,293
PRE-TAX ADJUSTED OPERATING INCOME	\$ 105,261	\$ 61,294	\$ 56,581	\$ 4,529

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Sales⁽¹⁾				
GIC	\$ 115,500	\$ 189,800	\$ 114,700	\$ —
GFA	1,650,000	1,667,178	699,648	—
	\$ 1,765,500	\$ 1,856,978	\$ 814,348	\$ —
Average Account Values	\$ 4,143,568	\$ 2,753,636	\$ 1,933,838	\$ 1,932,722
Ending Account Values	\$ 4,698,371	\$ 3,501,636	\$ 2,131,822	\$ 1,911,751

Operating Spread

Net investment income yield	4.50	% 3.96	% 4.36	% 4.28	%
Other income yield	—	0.01	0.01	—	
Interest credited	1.79	1.53	1.12	1.40	
Operating expenses	0.16	0.15	0.15	0.07	
Operating spread	2.55	% 2.29	% 3.10	% 2.81	%

Adjusted operating spread⁽²⁾ 1.74 % 1.82 % 1.88 % 2.76 %

(1) Sales are measured at the time the purchase payments are received.

(2) Excludes participating mortgage loan income.

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$105.3 million and increased \$44.0 million, or 71.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase in adjusted operating earnings primarily resulted from an increase in participating mortgage income and higher average account values. Participating mortgage income for the year ended December 31, 2017, was \$33.5 million as compared to \$11.0 million for the year ended December 31, 2016. The adjusted operating spread, which excludes participating income, decreased by eight basis points for the year ended December 31, 2017, from the prior year, due primarily to an increase in credited interest.

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

Pre-tax Adjusted Operating Income

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

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

Pre-tax Adjusted Operating Income

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

Asset Protection

Segment Results of Operations

Segment results were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Gross premiums and policy fees	\$ 343,489	\$ 294,588	\$ 278,937	\$ 23,127
Reinsurance ceded	(189,323)	(165,901)	(150,599)	(12,302)
Net premiums and policy fees	154,166	128,687	128,338	10,825
Net investment income	27,325	22,082	17,459	1,878
Other income	146,083	118,376	115,896	9,250
Realized gains (losses)	(1)	—	—	—
Total operating revenues	327,573	269,145	261,693	21,953
BENEFITS AND EXPENSES				
Benefits and settlement expenses	126,459	106,668	101,881	7,592
Amortization of DAC/VOBA	16,524	20,033	25,211	1,820
Other operating expenses	160,235	125,957	113,974	10,121
Total benefits and expenses	303,218	252,658	241,066	19,533
INCOME BEFORE INCOME TAX	24,355	16,487	20,627	2,420
Less: realized gains (losses) - investments	(1)	—	—	—
PRE-TAX ADJUSTED OPERATING INCOME	\$ 24,356	\$ 16,487	\$ 20,627	\$ 2,420

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

	Successor Company		Predecessor Company	
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)	
Sales⁽¹⁾				
Credit insurance	\$ 15,292	\$ 21,310	\$ 23,837	\$ 2,088
Service contracts	459,062	378,183	371,242	28,835
GAP	109,533	104,104	87,017	6,318
	\$ 583,887	\$ 503,597	\$ 482,096	\$ 37,241
Loss Ratios⁽²⁾				
Credit insurance	20.5	% 32.1	% 28.8	% 27.9
Service contracts	62.6	76.2	85.4	82.4
GAP	121.9	109.0	83.9	56.6

(1) Sales are based on the amount of single premiums and fees received

(2) Incurred claims as a percentage of earned premiums

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income

Asset Protection segment pre-tax adjusted operating income was \$24.4 million, representing an increase of \$7.9 million, or 47.7%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Service contract earnings

66

increased \$13.7 million primarily due to favorable loss ratios and \$4.8 million of one-time transaction costs associated with the US Warranty acquisition in 2016. Credit insurance earnings decreased \$0.3 million primarily due to lower volume. Earnings from the GAP product line decreased \$5.5 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.

Net premiums and policy fees

Net premiums and policy fees increased \$25.5 million, or 19.8%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Service contract premiums increased \$12.1 million primarily due to the addition of US Warranty business, somewhat offset by higher ceded premiums in existing distribution channels. GAP premiums increased \$15.0 million primarily due to higher premium rates on existing business and the addition of US Warranty business. Credit insurance premiums decreased \$1.6 million as a result of lower sales.

Other income

Other income increased \$27.7 million, or 23.4%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the addition of US Warranty business in the service contract and GAP lines.

Benefits and settlement expenses

Benefits and settlement expenses increased \$19.8 million, or 18.6%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. GAP claims increased \$23.9 million due to higher loss ratios and the acquisition of US Warranty. Service contract claims decreased \$2.3 million primarily due to lower loss ratios, somewhat offset by the addition of claims from the US Warranty line. Credit insurance claims decreased \$1.8 million due primarily to lower loss ratios and lower volume.

Amortization of DAC and VOBA and Other operating expenses

Amortization of DAC and VOBA was \$3.5 million, or 17.5%, lower for year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to decreased amortization of in-force VOBA in the GAP product line and lower volume in the credit product line. Other operating expenses were \$34.3 million higher for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to the acquisition of US Warranty.

Sales

Total segment sales increased \$80.3 million, or 15.9%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Service contract sales increased \$80.9 million due to additional volume provided by US Warranty. GAP sales increased \$5.4 million due to additional volume provided by US Warranty. Credit insurance sales decreased \$6.0 million due to decreasing demand for the product.

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$20.6 million which consisted of service contract earnings of \$11.1 million, GAP product earnings of \$6.7 million, and credit insurance earnings of \$2.9 million.

Net Premiums and Policy Fees

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA and Other Operating Expenses

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

Sales

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

Pre-tax Adjusted Operating Income

Pre-tax adjusted operating income was \$2.4 million which consisted of \$1.3 million in service contract earnings, \$0.9 million in GAP product earnings, and credit insurance earnings of \$0.2 million.

Net Premiums and Policy Fees

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA and Other Operating Expenses

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

Sales

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

Reinsurance

The majority of the Asset Protection segment's reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies ("PARCs"). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis generally at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. We also carry a catastrophic reinsurance policy for our GAP program. Losses incurred as a result of the recent hurricanes are covered under this policy. We believe losses from these catastrophes, net of reinsurance, will have an immaterial impact on our results of operations. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, Summary of Significant Accounting Policies to our consolidated financial statements included in this report.

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

Asset Protection Segment

Line Item Impact of Reinsurance

	Successor Company		Predecessor Company	
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)	
REVENUES				
Reinsurance ceded	\$(189,323)	\$(165,901)	\$(150,599)	\$(12,302)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(80,439)	(72,742)	(65,895)	(4,659)
Amortization of DAC/VOBA	(3,216)	(1,870)	(637)	(520)
Other operating expenses	(3,685)	(4,745)	(4,162)	(531)
Total benefits and expenses	(87,340)	(79,357)	(70,694)	(5,710)

NET IMPACT OF REINSURANCE⁽¹⁾ \$(101,983) \$(86,544) \$(79,905) \$(6,592)

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

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Reinsurance premiums ceded increased \$23.4 million, or 14.1%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. Service contract ceded premiums increased \$21.1 million, or 16.1%. Gap ceded premiums increased \$4.7 million, or 24.0%. Ceded premiums in the credit line decreased \$2.4 million, or 15.6%.

Benefits and settlement expenses ceded increased \$7.7 million, or 10.6%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. GAP ceded claims increased \$8.7 million partly due ceded claims related to Hurricane Harvey. The increase was partially offset by a \$1.0 million decrease in ceded claims in the credit product line.

Amortization of DAC and VOBA ceded was \$1.3 million, or 72.0%, higher for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to increases in all product lines. Other operating expenses were \$1.1 million lower for the year ended December 31, 2017, as compared to the year ended December 31, 2016, due to decreases in all product lines.

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

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

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

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

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

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

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

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

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

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

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

Corporate and Other
Segment Results of Operations
Segment results were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
REVENUES				
Gross premiums and policy fees	\$12,799	\$13,986	\$13,896	\$1,343
Reinsurance ceded	(81)	(246)	(220)	—
Net premiums and policy fees	12,718	13,740	13,676	1,343
Net investment income	209,324	200,690	154,055	10,677
Other income	3,030	11,053	808	141
Total operating revenues	225,072	225,483	168,539	12,161
Realized gains (losses)—investments	(8,492)	(4,886)	(2,254)	4,919
Realized gains (losses)—derivatives	(1,874)	826	82	455
Total revenues	214,706	221,423	166,367	17,535
BENEFITS AND EXPENSES				
Benefits and settlement expenses	16,382	17,946	14,568	1,722
Amortization of DAC/VOBA	—	—	27	87
Other operating expenses	345,022	295,498	179,011	20,496
Total benefits and expenses	361,404	313,444	193,606	22,305
INCOME (LOSS) BEFORE INCOME TAX	(146,698)	(92,021)	(27,239)	(4,770)
Less: realized gains (losses)—investments	(8,492)	(4,886)	(2,254)	4,919
Less: realized gains (losses)—derivatives	(1,874)	826	82	455
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	\$(136,332)	\$(87,961)	\$(25,067)	\$(10,144)

For The Year Ended December 31, 2017 (Successor Company), as compared to The Year Ended December 31, 2016 (Successor Company)

Pre-tax Adjusted Operating Income (Loss)

Pre-tax adjusted operating loss was \$136.3 million for the year ended December 31, 2017, as compared to an adjusted pre-tax operating loss of \$88.0 million for the year ended December 31, 2016. The decrease is primarily attributable to a \$49.5 million increase in corporate overhead expense. The increase in overhead expenses was primarily due to certain accrued expenses that increased as a result of the favorable after-tax adjusted operating income results which increased due to the change in the corporate tax rate during the period.

Operating Revenues

Net investment income for the segment increased \$8.6 million, or 4.3%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase in net investment income was primarily due to an increase in invested assets and investment yields.

Other Income

Other income decreased \$8.0 million or 72.6% for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The decrease in income was primarily due to a decrease in the gain on extinguishment of debt.

Total Benefits and Expenses

Total benefits and expenses increased \$48.0 million or 15.3%, for the year ended December 31, 2017, as compared to the year ended December 31, 2016, primarily due to increases in corporate overhead expenses.

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

Pre-tax Adjusted Operating Income (Loss)

Pre-tax adjusted operating loss was \$25.1 million for the period of February 1, 2015 to December 31, 2015, which consisted of \$193.6 million of other operating expenses which is primarily interest and corporate overhead expenses. These expenses were partially offset by \$154.1 million of investment income which represents income on assets supporting our equity capital.

Operating Revenues

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

Total Benefits and Expenses

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

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

Pre-tax Adjusted Operating Income (Loss)

The segment's \$10.1 million pre-tax adjusted operating loss was primarily due to \$20.5 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by \$10.7 million of investment income which represents income on assets supporting our equity capital.

Operating Revenues

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

Total Benefits and Expenses

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

CONSOLIDATED INVESTMENTS

As of December 31, 2017 (Successor Company), our investment portfolio was approximately \$54.6 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio.

Within our fixed maturity investments, we maintain portfolios classified as “available-for-sale”, “trading”, and “held-to-maturity”. We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified \$38.5 billion, or 87.7%, of our fixed maturities as “available-for-sale” as of December 31, 2017 (Successor Company). These securities are carried at fair value on our consolidated balance sheets. Changes in fair value for our available-for-sale portfolio, net of tax and the related impact on certain insurance assets and liabilities are recorded directly to shareowner’s equity. Declines in fair value that are other-than-temporary are recorded as realized losses in the consolidated statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income (loss).

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounted for \$2.7 billion, or 6.1%, of our fixed maturities and \$56.3 million of short-term investments as of December 31, 2017 (Successor Company). Changes in fair value on the Modco trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement.

Fixed maturities with respect to which we have both the positive intent and ability to hold to maturity are classified as “held-to-maturity”. We classified \$2.7 billion, or 6.2%, of our fixed maturities as “held-to-maturity” as of December 31, 2017 (Successor Company). These securities are carried at amortized cost on our consolidated balance sheets.

Fair values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate fair value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to fair value, management makes a determination as to the appropriate valuation amount. For more information about our the fair values of our investments please refer to Note 6, Fair Value of Financial Instruments, to the financial statements.

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

	Successor Company As of December 31,			
	2017		2016	
	(Dollars In Thousands)			
Publicly issued bonds (amortized cost: 2017 - \$30,880,196; 2016 - \$30,523,193)	\$30,860,541	56.5 %	\$29,184,566	57.6 %
Privately issued bonds (amortized cost: 2017 - \$12,894,569; 2016 - \$11,981,360)	12,939,997	23.7	11,679,121	23.0
Redeemable preferred stock (amortized cost: 2017 - \$97,690; 2016 - \$98,348)	94,418	0.1	89,827	0.3
Fixed maturities	43,894,956	80.3 %	40,953,514	80.9 %
Equity securities (cost: 2017 - \$740,813; 2016 - \$768,423)	754,360	1.4	754,489	1.5
Mortgage loans	6,817,723	12.5	6,132,125	12.1
Investment real estate	8,355	—	8,060	—
Policy loans	1,615,615	3.0	1,650,240	3.3

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Other long-term investments	915,595	1.7	865,304	1.7
Short-term investments	615,210	1.1	332,431	0.5
Total investments	\$54,621,814	100.0%	\$50,696,163	100.0%

Included in the preceding table are \$2.7 billion and \$2.6 billion of fixed maturities and \$56.3 million and \$52.6 million of short-term investments classified as trading securities as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively. All of the fixed maturities in the trading portfolio are invested assets that are held pursuant

Table of Contents

to modified coinsurance (“Modco”) arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are \$2.7 billion and \$2.8 billion of securities classified as held-to-maturity as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively.

Fixed Maturity Investments

As of December 31, 2017 (Successor Company), our fixed maturity investment holdings were approximately \$43.9 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	Successor Company As of December 31,			
	2017		2016	
	(Dollars in Thousands)			
AAA	\$5,740,115	13.1 %	\$5,241,698	12.8 %
AA	3,577,512	8.2	3,500,090	8.5
A	13,969,721	31.8	12,748,585	31.1
BBB	15,752,970	35.9	14,471,125	35.4
Below investment grade	2,135,734	4.8	2,221,839	5.4
Not rated ⁽¹⁾	2,718,904	6.2	2,770,177	6.8
	\$43,894,956	100.0%	\$40,953,514	100.0%

(1) Our "not rated" securities are \$2.7 billion or 6.2% of our fixed maturity investments, of held-to-maturity securities issued by affiliates of the Company which are considered variable interest entities ("VIE's") and are discussed in Note 5, Investment Operations, to the consolidated financial statements. We are not the primary beneficiary of these entities and thus these securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding obligations issued by captive insurance companies that are wholly owned subsidiaries of the Company.

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

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

Type	Successor Company As of December 31,	
	2017	2016
	(Dollars In Thousands)	
Corporate securities	\$31,400,193	\$28,996,154
Residential mortgage-backed securities	2,586,906	2,153,510
Commercial mortgage-backed securities	2,036,626	1,961,153
Other asset-backed securities	1,387,646	1,411,617
U.S. government-related securities	1,250,486	1,295,120
Other government-related securities	351,207	302,933
States, municipals, and political subdivisions	2,068,570	1,973,022
Redeemable preferred stock	94,418	89,828
Securities issued by affiliates	2,718,904	2,770,177
Total fixed income portfolio	\$43,894,956	\$40,953,514

Table of Contents

We periodically update our industry segmentation based on an industry accepted index. Updates to this index can result in a change in segmentation for certain securities between periods.

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

	Successor Company		Successor Company	
	As of December 31, 2017 (Dollars In Thousands)	% Fair Value	As of December 31, 2016 (Dollars In Thousands)	% Fair Value
Banking	\$4,301,821	9.8 %	\$3,857,746	9.4 %
Other finance	60,697	0.1	83,895	0.2
Electric utility	3,977,035	9.1	3,929,300	9.6
Energy	4,009,926	9.1	3,897,950	9.5
Natural gas	736,626	1.7	603,149	1.5
Insurance	3,689,572	8.4	3,197,348	7.8
Communications	1,691,391	3.9	1,654,630	4.0
Basic industrial	1,629,349	3.7	1,536,879	3.8
Consumer noncyclical	3,816,011	8.7	3,483,948	8.5
Consumer cyclical	1,232,991	2.8	1,050,529	2.6
Finance companies	162,673	0.4	139,050	0.3
Capital goods	1,910,950	4.4	1,779,590	4.3
Transportation	1,210,272	2.8	1,144,450	2.8
Other industrial	239,368	0.5	200,605	0.5
Brokerage	921,295	2.1	769,663	1.9
Technology	1,756,746	4.0	1,551,826	3.8
Real estate	82,125	0.2	122,058	0.3
Other utility	65,763	0.1	83,366	0.2
Commercial mortgage-backed securities	2,036,626	4.6	1,961,153	4.8
Other asset-backed securities	1,387,646	3.2	1,411,617	3.4
Residential mortgage-backed non-agency securities	1,861,883	4.2	1,423,735	3.5
Residential mortgage-backed agency securities	725,023	1.7	729,775	1.8
U.S. government-related securities	1,250,486	2.8	1,295,120	3.2
Other government-related securities	351,207	0.8	302,933	0.7
State, municipals, and political divisions	2,068,570	4.7	1,973,022	4.8
Securities issued by affiliates	2,718,904	6.2	2,770,177	6.8
Total	\$43,894,956	100.0 %	\$40,953,514	100.0 %

The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	Successor Company	
	As of December 31, 2017	2016
	(Dollars In Thousands)	
AAA	\$355,719	\$341,364
AA	277,984	301,258
A	911,490	849,286
BBB	890,101	884,850
Below investment grade	228,895	263,102
Total Modco trading fixed maturities	\$2,664,189	\$2,639,860

Table of Contents

A portion of our bond portfolio is invested in residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”). ABS are securities that are backed by a pool of assets. These holdings as of December 31, 2017 (Successor Company), were approximately \$6.0 billion. Mortgage-backed securities (“MBS”) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

The following tables include the percentage of our collateral grouped by rating category and categorizes the estimated fair value by year of security origination for our Prime, Non-Prime, Commercial, and Other asset-backed securities as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company).

As of December 31, 2017 (Successor Company)										
Rating	Prime ⁽¹⁾		Non-Prime ⁽¹⁾		Commercial		Other asset-backed		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(Dollars In Millions)									
	Rating									
	\$									
AAA	\$2,264.2	\$2,268.0	\$—	\$—	\$1,258.2	\$1,271.1	\$591.5	\$590.5	\$4,113.9	\$4,129.6
AA	1.4	1.4	—	—	522.9	533.6	158.5	150.1	682.8	685.1
A	1.1	1.1	15.9	15.9	252.2	253.9	512.9	508.6	782.1	779.5
BBB	1.5	1.5	1.5	1.5	3.3	3.3	50.2	49.6	56.5	55.9
Below	92.5	92.1	208.8	209.0	—	—	74.5	73.7	375.8	374.8
	\$2,360.7	\$2,364.1	\$226.2	\$226.4	\$2,036.6	\$2,061.9	\$1,387.6	\$1,372.5	\$6,011.1	\$6,024.9

Rating	%										
AAA	95.9	% 95.9	% —	% —	% 61.7	% 61.6	% 42.6	% 43.0	% 68.4	% 68.5	%
AA	0.1	0.1	—	—	25.7	25.9	11.4	10.9	11.4	11.4	
A	—	—	7.0	7.0	12.4	12.3	37.0	37.1	13.0	12.9	
BBB	0.1	0.1	0.6	0.6	0.2	0.2	3.6	3.6	0.9	0.9	
Below	3.9	3.9	92.4	92.4	—	—	5.4	5.4	6.3	6.3	
	100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	%

Estimated Fair Value of Security by Year of Security Origination

	2013									
and prior	\$897.4	\$898.8	\$226.2	\$226.4	\$1,025.2	\$1,039.4	\$761.2	\$752.4	\$2,910.0	\$2,917.0
2014	203.8	202.8	—	—	239.0	243.8	31.2	31.6	474.0	478.2
2015	456.4	458.4	—	—	213.7	211.9	29.4	28.7	699.5	699.0
2016	237.0	240.0	—	—	456.2	463.8	232.9	230.3	926.1	934.1
2017	566.1	564.1	—	—	102.5	103.0	332.9	329.5	1,001.5	996.6
Total	\$2,360.7	\$2,364.1	\$226.2	\$226.4	\$2,036.6	\$2,061.9	\$1,387.6	\$1,372.5	\$6,011.1	\$6,024.9

(1)Included in Residential Mortgage-Backed securities.

Table of Contents

As of December 31, 2016 (Successor Company)										
Rating	Prime ⁽¹⁾		Non-Prime ⁽¹⁾		Commercial		Other asset-backed		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(Dollars In Millions)									
\$										
AAA	\$1,767.5	\$1,779.9	\$—	\$—	\$1,167.9	\$1,186.7	\$727.3	\$732.6	\$3,662.7	\$3,699.2
AA	3.1	3.1	—	—	517.0	532.9	125.2	117.8	645.3	653.8
A	2.8	2.8	0.5	0.5	266.5	270.9	426.4	428.6	696.2	702.8
BBB	2.2	2.2	1.8	1.9	9.8	9.8	34.6	34.7	48.4	48.6
Below	118.1	117.9	257.5	260.1	—	—	98.1	96.9	473.7	474.9
	\$1,893.7	\$1,905.9	\$259.8	\$262.5	\$1,961.2	\$2,000.3	\$1,411.6	\$1,410.6	\$5,526.3	\$5,579.3

Rating											
%											
AAA	93.3	% 93.4	% —	% —	% 59.6	% 59.4	% 51.5	% 51.9	% 66.3	% 66.3	%
AA	0.2	0.2	—	—	26.4	26.6	8.9	8.4	11.7	11.7	
A	0.1	0.1	0.2	0.2	13.5	13.5	30.2	30.4	12.6	12.6	
BBB	0.1	0.1	0.7	0.7	0.5	0.5	2.5	2.5	0.9	0.9	
Below	6.3	6.2	99.1	99.1	—	—	6.9	6.8	8.5	8.5	
	100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	% 100.0	%

Estimated Fair Value of Security by Year of Security Origination

Year	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
2012 and prior	\$845.2	\$845.2	\$259.8	\$262.5	\$825.5	\$837.1	\$828.7	\$828.9	\$2,759.2	\$2,773.7
2013	166.5	168.0	—	—	231.2	235.7	98.6	98.8	496.3	502.5
2014	205.0	205.0	—	—	238.2	246.9	168.4	168.4	611.6	620.3
2015	461.2	464.6	—	—	210.9	211.6	66.2	64.6	738.3	740.8
2016	215.8	223.1	—	—	455.4	469.0	249.7	249.9	920.9	942.0
Total	\$1,893.7	\$1,905.9	\$259.8	\$262.5	\$1,961.2	\$2,000.3	\$1,411.6	\$1,410.6	\$5,526.3	\$5,579.3

(1) Included in Residential Mortgage-Backed securities

The majority of our RMBS holdings as of December 31, 2017 (Successor Company) were super senior or senior bonds in the capital structure. Our total non-agency portfolio has a weighted-average life of 9.99 years. The following table categorizes the weighted-average life for our non-agency portfolio, by category of material holdings, as of December 31, 2017 (Successor Company):

Non-agency portfolio	Weighted-Average Life
Prime	10.51
Alt-A	3.45
Sub-prime	2.83

Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of December 31, 2017 (Successor Company), our mortgage loan holdings were approximately \$6.8 billion. We have specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and

disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). We believe that these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history. The majority of our mortgage loans portfolio was underwritten and funded by us. From time to time, we may acquire loans in conjunction with an acquisition. Our commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's

Table of Contents

contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts, and prepayment fees are reported in net investment income. Certain of the mortgage loans have call options that occur within the next 11 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options on our existing mortgage loans commensurate with the significantly increased market rates. As of December 31, 2017 (Successor Company), assuming the loans are called at their next call dates, approximately \$161.2 million will be due in 2018, \$858.6 million in 2019 through 2023, \$105.8 million in 2024 through 2028, and \$2.0 million thereafter.

We offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), approximately \$669.3 million and \$595.2 million, respectively, of our total mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income when received. During the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), we recognized, \$37.2 million, \$16.7 million, \$29.8 million, and \$0.1 million, respectively, of participating mortgage loan income.

The following table includes a breakdown of our commercial mortgage loan portfolio as of December 31, 2017 (Successor Company):

Commercial Mortgage Loan Portfolio Profile

Total portfolio of 1,668 loans	\$6.8 billion
Average loan size	\$4.0 million
Weighted-average amortization	22.5 years
Weighted-average coupon	4.76%
Weighted-average LTV	56.1%
Weighted-average debt coverage ratio	1.55

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of December 31, 2017 (Successor Company) there were no allowances for mortgage loan credit losses and as of December 31, 2016 (Successor Company), the Company had an allowance for mortgage loan credit losses of \$0.7 million. While our mortgage loans do not have quoted market values, as of December 31, 2017 (Successor Company), we estimated the fair value of our mortgage loans to be \$6.7 billion (using an internal fair value model which calculates the value of most loans by using the loan's discounted cash flows to the loan's call or maturity date), which was approximately 1.13% less than the amortized cost, less any related loan loss reserve.

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

As of December 31, 2017, approximately \$6.5 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2017, certain mortgage loan transactions occurred that would have been accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is reflected in our investment balance and in the allowance for mortgage loan credit losses. During the year ended December 31, 2017, we recognized two troubled debt restructurings as a result of the Company granting concessions to borrowers which included loan terms unavailable from other lenders. These concessions were the result of agreements between the creditor and the debtor. We did not identify any loans whose principal was permanently impaired during the year ended December 31, 2017 (Successor Company).

Our mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of December 31, 2017 (Successor Company), \$6.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming,

restructured, or mortgage loans that were foreclosed and were converted to real estate properties. We foreclosed on \$6.1 million nonperforming loans during the year ended December 31, 2017 (Successor Company). We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities.

As of December 31, 2017 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. We did not foreclose on any nonperforming loans subject to a pooling and servicing agreement during the year ended December 31, 2017 (Successor Company).

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

Table of Contents

Unrealized Gains and Losses—Available-for-Sale Securities

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after December 31, 2017 (Successor Company), the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a “bright line test” to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized gains and losses is largely based on management’s decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. We had an overall net unrealized gain of \$36.0 million, prior to income tax and the related impact of certain insurance assets and liabilities offsets, as of December 31, 2017 (Successor Company), and an overall net unrealized loss of \$1.7 billion as of December 31, 2016 (Successor Company).

For fixed maturity and equity securities held that are in an unrealized loss position as of December 31, 2017 (Successor Company), the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position are presented in the table below:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
<= 90 days	\$6,352,717	29.3 %	\$6,415,298	28.7 %	\$(62,581)	9.2 %
>90 days but <= 180 days	453,654	2.1	466,505	2.1	(12,851)	1.9
>180 days but <= 270 days	133,617	0.6	135,660	0.6	(2,043)	0.3
>270 days but <= 1 year	122,746	0.6	124,767	0.6	(2,021)	0.3
>1 year but <= 2 years	6,659,813	30.7	6,830,315	30.5	(170,502)	25.0
>2 years but <= 3 years	7,979,534	36.7	8,411,717	37.5	(432,183)	63.3
>3 years but <= 4 years	—	—	—	—	—	—
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	\$21,702,081	100.0 %	\$22,384,262	100.0 %	\$(682,181)	100.0 %

As of December 31, 2017 (Successor Company), the Barclays Investment Grade Index was priced at 91 basis points versus a 10 year average of 176 basis points. Similarly, the Barclays High Yield Index was priced at 364 basis points versus a 10 year average of 652 basis points. As of December 31, 2017 (Successor Company), the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 2.2%, 2.4%, and 2.7%, as compared to 10 year averages of 1.7%, 2.6%, and 3.5%, respectively.

As of December 31, 2017 (Successor Company), 88.8% of the unrealized loss was associated with securities that were rated investment grade. We have examined the performance of the underlying collateral and cash flows and expect that our investments will continue to perform in accordance with their contractual terms. Factors such as credit enhancements within the deal structures and the underlying collateral performance/characteristics support the recoverability of the investments. Based on the factors discussed, we do not consider these unrealized loss positions to be other-than-temporary. However, from time to time, we may sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield enhancement, asset/liability management, and liquidity requirements.

Expectations that investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions that a market participant would use in determining the current fair value. It is reasonably possible that the underlying collateral of these investments will perform worse than current

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

As of December 31, 2017 (Successor Company), there were estimated gross unrealized losses of \$3.0 million related to our mortgage-backed securities collateralized by Alt-A mortgage loans. Gross unrealized losses in our securities collateralized by Alt-A residential mortgage loans as of December 31, 2017 (Successor Company), were primarily the result of continued widening spreads, representing marketplace uncertainty arising from higher defaults in Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by Alt-A residential mortgage loans.

Table of Contents

We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of December 31, 2017 (Successor Company) is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
Banking	\$1,733,309	8.0 %	\$1,758,549	7.9 %	\$(25,240)	3.7 %
Other finance	54,454	0.3	58,198	0.3	(3,744)	0.5
Electric utility	3,111,719	14.3	3,242,952	14.5	(131,233)	19.2
Energy	1,397,312	6.4	1,458,690	6.5	(61,378)	9.0
Natural gas	604,431	2.8	624,203	2.8	(19,772)	2.9
Insurance	1,697,233	7.8	1,743,140	7.8	(45,907)	6.7
Communications	1,238,082	5.7	1,303,264	5.8	(65,182)	9.6
Basic industrial	581,249	2.7	603,248	2.7	(21,999)	3.2
Consumer noncyclical	2,016,112	9.3	2,077,552	9.3	(61,440)	9.0
Consumer cyclical	630,915	2.9	651,415	2.9	(20,500)	3.0
Finance companies	39,710	0.2	40,581	0.2	(871)	0.1
Capital goods	1,121,919	5.2	1,146,545	5.1	(24,626)	3.6
Transportation	791,776	3.6	812,358	3.6	(20,582)	3.0
Other industrial	174,797	0.8	185,701	0.8	(10,904)	1.6
Brokerage	380,331	1.8	384,860	1.7	(4,529)	0.7
Technology	576,855	2.7	598,112	2.7	(21,257)	3.1
Real estate	43,096	0.2	43,610	0.2	(514)	0.1
Other utility	46,731	0.1	47,514	0.2	(783)	0.3
Commercial mortgage-backed securities	1,553,928	7.2	1,584,114	7.1	(30,186)	4.4
Other asset-backed securities	220,822	1.0	226,586	1.0	(5,764)	0.8
Residential mortgage-backed non-agency securities	822,794	3.8	838,846	3.7	(16,052)	2.4
Residential mortgage-backed agency securities	360,025	1.7	367,006	1.6	(6,981)	1.0
U.S. government-related securities	1,166,342	5.4	1,198,519	5.4	(32,177)	4.7
Other government-related securities	140,124	0.6	145,071	0.6	(4,947)	0.7
States, municipals, and political divisions	1,198,015	5.5	1,243,628	5.6	(45,613)	6.7
Total	\$21,702,081	100.0%	\$22,384,262	100.0 %	\$(682,181)	100.0 %

Table of Contents

We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of December 31, 2016 (Successor Company) is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
Banking	\$3,106,898	10.6 %	\$3,214,957	10.3 %	\$(108,059)	5.8 %
Other finance	65,883	0.2	69,729	0.2	(3,846)	0.2
Electric utility	3,412,425	11.7	3,727,811	12.0	(315,386)	16.9
Energy	2,714,073	9.3	2,892,598	9.3	(178,525)	9.6
Natural gas	542,654	1.9	593,355	1.9	(50,701)	2.7
Insurance	2,864,965	9.8	3,101,797	10.0	(236,832)	12.7
Communications	1,466,405	5.0	1,607,756	5.2	(141,351)	7.6
Basic industrial	1,149,208	3.9	1,236,848	4.0	(87,640)	4.7
Consumer noncyclical	2,636,679	9.0	2,822,430	9.1	(185,751)	10.0
Consumer cyclical	770,269	2.6	814,406	2.6	(44,137)	2.4
Finance companies	64,490	0.2	69,077	0.2	(4,587)	0.2
Capital goods	1,393,935	4.8	1,480,205	4.8	(86,270)	4.6
Transportation	954,836	3.3	1,018,546	3.3	(63,710)	3.4
Other industrial	163,993	0.6	176,558	0.6	(12,565)	0.7
Brokerage	516,318	1.8	550,112	1.8	(33,794)	1.8
Technology	949,675	3.2	1,003,894	3.2	(54,219)	2.9
Real estate	126,156	0.5	131,715	0.4	(5,559)	0.3
Other utility	17,326	0.1	18,516	0.1	(1,190)	0.1
Commercial mortgage-backed securities	1,552,621	5.3	1,594,299	5.1	(41,678)	2.2
Other asset-backed securities	500,497	1.7	521,195	1.7	(20,698)	1.1
Residential mortgage-backed non-agency securities	965,399	3.3	985,142	3.2	(19,743)	1.1
Residential mortgage-backed agency securities	265,996	0.9	271,920	0.9	(5,924)	0.3
U.S. government-related securities	1,237,945	4.2	1,278,400	4.1	(40,455)	2.2
Other government-related securities	177,805	0.6	192,602	0.6	(14,797)	0.8
States, municipals, and political divisions	1,610,621	5.5	1,716,179	5.4	(105,558)	5.7
Total	\$29,227,072	100.0%	\$31,090,047	100.0 %	\$(1,862,975)	100.0 %

Table of Contents

The range of maturity dates for securities in an unrealized loss position as of December 31, 2017 (Successor Company) varies, with 23.4% maturing in less than 5 years, 17.1% maturing between 5 and 10 years, and 59.5% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of December 31, 2017 (Successor Company):

S&P or Equivalent Designation	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
AAA/AA/A	\$13,236,188	61.0 %	\$13,577,874	60.7 %	\$(341,686)	50.1 %
BBB	7,728,464	35.6	7,992,327	35.7	(263,863)	38.7
Investment grade	20,964,652	96.6	21,570,201	96.4	(605,549)	88.8
BB	383,672	1.8	417,420	1.9	(33,748)	4.9
B	221,947	1.0	250,466	1.1	(28,519)	4.2
CCC or lower	131,810	0.6	146,175	0.6	(14,365)	2.1
Below investment grade	737,429	3.4	814,061	3.6	(76,632)	11.2
Total	\$21,702,081	100.0%	\$22,384,262	100.0 %	\$(682,181)	100.0 %

As of December 31, 2017 (Successor Company), we held a total of 1,845 positions that were in an unrealized loss position. Included in that amount were 105 positions of below investment grade securities with a fair value of \$737.4 million that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were \$76.6 million, \$66.4 million of which had been in an unrealized loss position for more than twelve months. Below investment grade securities in an unrealized loss position were 1.4% of invested assets.

As of December 31, 2017 (Successor Company), securities in an unrealized loss position that were rated as below investment grade represented 3.4% of the total fair value and 11.2% of the total unrealized loss. We have the ability and intent to hold these securities to maturity. After a review of each security and its expected cash flows, we believe the decline in market value to be temporary.

The following table includes the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position for all below investment grade securities as of December 31, 2017 (Successor Company):

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
<= 90 days	\$189,398	25.7 %	\$196,440	24.1 %	\$(7,042)	9.2 %
>90 days but <= 180 days	40,100	5.4	42,333	5.2	(2,233)	2.9
>180 days but <= 270 days	11,019	1.5	11,709	1.4	(690)	0.9
>270 days but <= 1 year	1,360	0.2	1,630	0.2	(270)	0.4
>1 year but <= 2 years	57,346	7.8	62,340	7.7	(4,994)	6.5
>2 years but <= 3 years	438,205	59.4	499,608	61.4	(61,403)	80.1
>3 years but <= 4 years	—	—	—	—	—	—
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	\$737,428	100.0%	\$814,060	100.0 %	\$(76,632)	100.0 %

Table of Contents

Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of December 31, 2017 (Successor Company):

Rating	Fair Value (Dollars In Thousands)	Percent of Fair Value
AAA	\$5,384,396	14.0 %
AA	3,299,528	8.6
A	13,058,231	33.9
BBB	14,862,869	38.6
Investment grade	36,605,024	95.1
BB	1,328,272	3.4
B	295,990	0.8
CCC or lower	282,577	0.7
Below investment grade	1,906,839	4.9
Total	\$38,511,863	100.0%

Not included in the table above are \$2.4 billion of investment grade and \$228.9 million of below investment grade fixed maturities classified as trading securities and \$2.7 billion of fixed maturities classified as held-to-maturity.

Limiting bond exposure to any creditor group is another way we manage credit risk. We held no credit default swaps on the positions listed below as of December 31, 2017 (Successor Company). The following table summarizes our ten largest maturity exposures to an individual creditor group as of December 31, 2017 (Successor Company):

Creditor	Fair Value of		Total Fair Value
	Funded Securities	Unfunded Exposures	
	(Dollars In Millions)		
Federal Home Loan Bank	\$231.8	\$ —	\$231.8
Southern Co.	212.1	—	212.1
Duke Energy Corp.	209.9	—	209.9
AT&T, Inc.	207.1	—	207.1
Morgan Stanley	201.5	—	201.5
Exelon Corp.	200.2	—	200.2
Goldman Sachs Group Inc.	196.6	—	196.6
Wells Fargo & Co.	194.5	0.8	195.3
Anheuser-Busch Inbev.	193.9	—	193.9
Bank of American Corp.	186.4	0.2	186.6
Total	\$2,034.0	\$ 1.0	\$2,035.0

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

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

For certain securitized financial assets with contractual cash flows, including RMBS, CMBS, and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”), GAAP requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the expected cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative

Table of Contents

process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of our intent to sell the security (including a more likely than not assessment of whether we will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, along with an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the year ended December 31, 2017 (Successor Company), we recognized approximately \$11.7 million of credit related impairments on investment securities in an unrealized loss position that were other-than-temporarily impaired resulting in a charge to earnings.

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

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

The chart shown below includes our non-sovereign fair value exposures in these countries as of December 31, 2017 (Successor Company). As of December 31, 2017 (Successor Company), we had no unfunded exposure and had no direct sovereign fair value exposure.

Financial Instrument and Country	Non-sovereign Debt		Total Gross Funded Exposure
	Financial	Non-financial	(Dollars In Millions)
Securities:			
United Kingdom	\$622.5	\$ 869.9	\$ 1,492.4
Netherlands	224.7	256.6	481.3
France	142.1	231.7	373.8
Switzerland	228.4	112.4	340.8
Germany	148.8	165.0	313.8
Spain	7.6	221.2	228.8
Belgium	—	193.9	193.9
Sweden	127.7	20.6	148.3
Norway	—	100.0	100.0
Ireland	16.0	45.1	61.1
Luxembourg	—	57.6	57.6
Italy	—	45.9	45.9
Portugal	—	15.6	15.6
Total securities	1,517.8	2,335.5	3,853.3
Derivatives:			

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Germany	34.9	—	34.9
United Kingdom	10.2	—	10.2
Switzerland	4.3	—	4.3
France	1.4	—	1.4
Total derivatives	50.8	—	50.8
Total	\$1,568.6	\$ 2,335.5	\$ 3,904.1

83

Table of Contents

Realized Gains and Losses

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Fixed maturity gains - sales	\$ 18,790	\$ 41,698	\$ 8,650	\$ 6,920
Fixed maturity losses - sales	(5,849)	(9,488)	(7,368)	(29)
Equity gains - sales	78	387	95	—
Equity losses - sales	(2,408)	(295)	(1,096)	—
Impairments on securities	(11,742)	(17,748)	(26,993)	(481)
Modco trading portfolio	119,206	67,583	(167,359)	73,062
Other	(8,389)	(9,226)	192	1,200
Total realized gains (losses) - investments	\$ 109,686	\$ 72,911	\$ (193,879)	\$ 80,672

Derivatives related to VA contracts:

Interest rate futures - VA	\$ 26,015	\$ (3,450)	\$ (14,818)	\$ 1,413
Equity futures - VA	(91,776)	(106,431)	(5,033)	9,221
Currency futures - VA	(23,176)	33,836	7,169	7,778
Equity options - VA	(94,791)	(60,962)	(27,733)	3,047
Interest rate swaptions - VA	(2,490)	(1,161)	(13,354)	9,268
Interest rate swaps - VA	27,981	20,420	(85,942)	122,710
Total return swaps - VA	(32,240)	—	—	—
Embedded derivative - GLWB	3,614	68,056	4,412	(207,018)
Total derivatives related to VA contracts	(186,863)	(49,692)	(135,299)	(53,581)

Derivatives related to FIA contracts:

Embedded derivative - FIA	(55,878)	(16,494)	(738)	1,769
Equity futures - FIA	642	4,248	(355)	(184)
Volatility futures - FIA	—	—	5	—
Equity options - FIA	44,585	8,149	1,211	(2,617)
Total derivatives related to FIA contracts	(10,651)	(4,097)	123	(1,032)

Derivatives related to IUL contracts:

Embedded derivative - IUL	(14,117)	9,529	(614)	(486)
Equity futures - IUL	(818)	129	144	3
Equity options - IUL	9,580	3,477	(540)	(115)
Total derivatives related to IUL contracts	(5,355)	13,135	(1,010)	(598)
Embedded derivative - Modco reinsurance treaties	(103,009)	390	166,092	(68,026)
Other derivatives	50	(24)	91	(37)
Total realized gains (losses) - derivatives	\$ (305,828)	\$ (40,288)	\$ 29,997	\$ (123,274)

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments and Modco trading portfolio activity during the year ended December 31, 2017 (Successor Company), primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment, as well as tax planning strategies designed to

utilize capital loss carryforwards.

84

Table of Contents

Realized losses are comprised of other-than-temporary impairments and actual sales of investments. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments are presented in the chart below:

	Successor Company		Predecessor Company	
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)	
Alt-A MBS	\$—	\$—	\$—	\$—
Other MBS	81	178	203	—
Corporate securities	8,031	16,830	26,580	481
Equities	2,630	—	—	—
Other	1,000	740	210	—
Total	\$11,742	\$17,748	\$26,993	\$481

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold them until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the year ended December 31, 2017 (Successor Company), we sold securities in an unrealized loss position with a fair value of \$185.2 million. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below:

	Successor Company		Predecessor Company	
	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)		(Dollars In Thousands)	
<= 90 days	\$35,086	18.9 %	\$(3,182)	38.5 %
>90 days but <= 180 days	26,592	14.4	(520)	6.3
>180 days but <= 270 days	5,888	3.2	(179)	2.2
>270 days but <= 1 year	14,561	7.9	(524)	6.3
>1 year	103,030	55.6	(3,852)	46.7
Total	\$185,157	100.0 %	\$(8,257)	100.0 %

For the year ended December 31, 2017 (Successor Company) we sold securities in an unrealized loss position with a fair value (proceeds) of \$185.2 million. The loss realized on the sale of these securities was \$8.3 million. We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the year ended December 31, 2017 (Successor Company), we sold securities in an unrealized gain position with a fair value of \$879.2 million. The gain realized on the sale of these securities was \$18.9 million.

The \$8.4 million of other realized losses recognized for the year ended December 31, 2017 (Successor Company), included \$7.7 million of realized losses associated with our mortgage loan portfolio.

For the year ended December 31, 2017 (Successor Company), net gains of \$119.2 million related to changes in fair value on our Modco trading portfolios were included in realized gains and losses. Of this amount, approximately \$7.7 million of losses were realized through the sale of certain securities, which will be reimbursed by our reinsurance partners over time through the reinsurance settlement process for this block of business. The Modco embedded derivative associated with the trading portfolios had realized pre-tax losses of \$103.0 million during the year ended

December 31, 2017 (Successor Company). These losses were due to higher treasury yields and tightened credit spreads.

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

We use various derivative instruments to manage risks related to certain life insurance and annuity products. We can use these derivatives as economic hedges against risks inherent in the products. These risks have a direct impact on the cost of these products and are correlated with the equity markets, interest rates, foreign currency levels, and overall volatility. The hedged risks are recorded through the recognition of embedded derivatives associated with the products. These products include the GLWB rider associated with the variable annuity, fixed indexed annuity products as well as indexed universal life products. During the year ended December 31, 2017 (Successor Company), we experienced net realized losses on derivatives related to VA contracts of approximately \$186.9 million. These net losses on derivatives related to VA contracts were affected by capital market impacts, changes in the Company's non-performance risk, variations in actual sub-account fund performance from the indices included in our hedging program, as well as updates to certain policyholder assumptions during the year ended December 31, 2017.

Table of Contents

We also use various swaps and other types of derivatives to mitigate risk related to other exposures. These contracts generated \$0.1 million of gains for the year ended December 31, 2017 (Successor Company).

LIQUIDITY AND CAPITAL RESOURCES**The Holding Company****Overview**

Our primary sources of funding are dividends from our operating subsidiaries; revenues from investment management, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These sources of cash support our general corporate needs including our common stock dividends and debt service. We expect to use a portion of our positive cash flow from operations to pay dividends to our parent, Dai-ichi Life. We paid a \$143.8 million dividend during the year ended December 31, 2017 (Successor Company), and expect to pay a dividend of approximately \$140.0 million during 2018.

The states in which our insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay us dividends. These restrictions are based in part on the prior year's statutory income and/or surplus. Generally, these restrictions pose no short-term liquidity concerns. We plan to retain portions of the earnings of our insurance subsidiaries in those companies primarily to support their future growth.

Debt and other capital resources

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

We have the ability to borrow under a Credit Facility arrangement on an unsecured basis up to an aggregate principal amount of \$1.0 billion. We have the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.25 billion. We are not aware of any non-compliance with the financial debt covenants of the Credit Facility as of December 31, 2017. The Company did not have an outstanding balance on the Credit Facility as of December 31, 2017.

Our aggregate principal balance with our debt, subordinated debt securities, and a Credit Facility decreased \$121.5 million during the year ended December 31, 2017 (Successor Company), as compared to a decrease of \$368.1 million during the year ended December 31, 2016 (Successor Company).

Changes in principal during 2017 and 2016 (Successor Company) are detailed below:

Successor Company

Description	Change in Principal (Dollars In Thousands)
2017	
8.45% Senior Notes (2009), due 2039 (Par value: \$232,928)	\$(13,998)
6.25% Subordinated Debt, due 2042 (Par value: \$287,500)	(287,500)
6.00% Subordinated Debt, due 2042 (Par value: \$150,000)	(150,000)
5.35% Subordinated Debt, due 2052 (Par value: \$500,000)	500,000

2016

8.45% Senior Notes (2009), due 2039 (par value: \$246,926) \$(53,074)

Increases (reductions) in the Credit Facility balance during 2017 and 2016 are detailed below:

Successor Company

Description	Change in Principal (Dollars In Thousands)	Interest Rate
2017		
Credit Facility	\$ (170,000)	one-month LIBOR + 1.00%
2016		
Credit Facility	\$ (315,000)	one-month LIBOR + 1.00%

Table of Contents

Liquidity

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

In the event of significant unanticipated cash requirements beyond our normal liquidity needs, we have additional sources of liquidity available depending on market conditions and the amount and timing of the liquidity need. These additional sources of liquidity include cash flows from operations, the sale of liquid assets, accessing our credit facility, and other sources described herein. Our decision to sell investment assets could be impacted by accounting rules, including rules relating to the likelihood of a requirement to sell securities before recovery of our cost basis. Under stressful market and economic conditions, liquidity may broadly deteriorate, which could negatively impact our ability to sell investment assets. If we require on short notice significant amounts of cash in excess of normal requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

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

Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits and expected surrenders, withdrawals, loans, and redemption obligations without forced sales of investments. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund our expected operating expenses, surrenders, and withdrawals. As of December 31, 2017 (Successor Company), our total cash and invested assets were \$54.9 billion. The life insurance subsidiaries were committed as of December 31, 2017 (Successor Company), to fund mortgage loans in the amount of \$572.3 million.

Our positive cash flows are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. The holding company held \$83.6 million of cash and short-term investments, and our subsidiaries held approximately \$783.9 million in cash and short-term investments as of December 31, 2017.

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

	Successor Company			Predecessor Company
	For The Year Ended December 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Net cash provided by operating activities	\$195,272	\$249,638	\$355,628	\$191,223
Net cash (used in) provided by investing activities	(2,624,770)	(4,366,985)	(1,492,815)	22,994
Net cash provided by (used in) financing activities	2,333,626	4,069,457	1,070,549	(130,918)
Total	\$(95,872)	\$(47,890)	\$(66,638)	\$83,299

For The Year Ended December 31, 2017 (Successor Company) as compared to The Year Ended December 31, 2016 (Successor Company)

Net Cash Provided by Operating Activities - Cash flows from operating activities are affected by the timing of premiums received, investment income, and benefits and expenses paid. Principal sources of cash inflows from operating activities include sales of our products and services as well as income from investments. We typically generate positive cash flows from operating activities, as premiums collected from our insurance products exceed benefit payments and surrenders, and we invest the excess. Due to the nature of our business and the fact that many of the products we sell produce financing and investing cash flows it is important to consider cash flows generated by investing and financing activities in conjunction with those generated by operating activities.

Net Cash Provided By (Used in) Investing Activities - Changes in cash from investing activities primarily related to our investment portfolio.

Net Cash (Used in) Provided by Financing Activities - Changes in cash from financing activities included \$220.0 million of inflows from secured financing liabilities for the year ended December 31, 2017 (Successor Company), as compared to the \$359.5 million of inflows for the year ended December 31, 2016 (Successor Company) and \$2.4 billion inflows of investment

Table of Contents

product and universal life net activity as compared to \$2.1 billion in the prior year. Net activity related to credit facility resulted in outflows of \$121.5 million for the year ended December 31, 2017 (Successor Company), as compared to \$368.1 million of outflows for year ended December 31, 2016 (Successor Company). Net repayment of non-recourse funding obligations equaled \$47.0 million during the year ended December 31 2017 (Successor Company), as compared to net issuances of \$2.1 billion during the year ended December 31, 2016 (Successor Company). The Company paid a dividend during the year ended December 31, 2017 (Successor Company) of \$143.8 million, as compared to a dividend of \$89.3 million during the year ended December 31, 2016 (Successor Company). For The Period of February 1, 2015 to December 31, 2015 (Successor Company)

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

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

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

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

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

Through our subsidiaries, we are members of the FHLB of Cincinnati and the FHLB of New York. FHLB advances provide an attractive funding source for short-term borrowing and for the sale of funding agreements. Membership in the FHLB requires that we purchase FHLB capital stock based on a minimum requirement and a percentage of the dollar amount of advances outstanding. Our borrowing capacity is determined by criteria established by each respective bank. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of December 31, 2017 (Successor Company), we had \$595.8 million of funding agreement-related advances and accrued interest outstanding under the FHLB program. While we anticipate that the cash flows of our operating subsidiaries will be sufficient to meet our investment commitments and operating cash needs in a normal credit market environment, we recognize that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, we have established repurchase agreement programs for certain of our insurance subsidiaries to provide liquidity when needed. We expect that the rate received on its investments will equal or exceed its borrowing rate. Under this program, we may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of December 31, 2017 (Successor Company), the fair value of securities pledged under the repurchase program was \$1,006.6 million and the repurchase obligation of \$885.0 million was included in our consolidated balance sheets (at an average borrowing rate of 142 basis points). During the year ended December 31, 2017 (Successor Company), the maximum balance outstanding at any one point in time related to these programs was \$988.5 million. The average daily balance was \$624.7 million (at an average borrowing rate of 101 basis points) during the year ended December 31, 2017

(Successor Company). As of December 31, 2016 (Successor Company), the fair value of securities pledged under the repurchase program was \$861.7 million and the repurchase obligation of \$797.7 million was included in our consolidated balance sheets (at an average borrowing rate of 65 basis points). During 2016, the maximum balance outstanding at any one point in time related to these programs was \$1,065.8 million. The average daily balance was \$505.4 million (at an average borrowing rate of 44 basis points) during the year ended December 31, 2016 (Successor Company).

We participate in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. We require initial collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis. As of December 31, 2017 (Successor Company), securities with a market value of \$125.3 million were loaned under this program. As collateral for the loaned securities, we receive short-term investments, which are recorded in "short-term investments" with a corresponding liability recorded in "secured financing liabilities" to account for its obligation to return the collateral. As of December 31, 2017 (Successor Company), the fair value of the collateral related to this program was \$132.7 million and we had an obligation to return \$132.7 million of collateral to the securities borrowers.

Statutory Capital

A life insurance company's statutory capital is computed according to rules prescribed by the NAIC, as modified by state law. Generally speaking, other states in which a company does business defer to the interpretation of the domiciliary state with respect to NAIC rules, unless inconsistent with the other state's regulations. Statutory accounting rules are different from GAAP

Table of Contents

and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval of the insurance commissioner of the state of domicile. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as an ordinary dividend to us from our insurance subsidiaries in 2018 is approximately \$853.2 million.

State insurance regulators and the NAIC have adopted risk-based capital ("RBC") requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense, and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to RBC. We manage our capital consumption by using the ratio of our total adjusted capital, as defined by the insurance regulators, to our company action level RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2017 (Successor Company), our total adjusted capital and company action level RBC were approximately \$4.7 billion and \$759.3 million, respectively, providing an RBC ratio of approximately 614%.

Statutory reserves established for VA contracts are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees and product design. As a result, the relationship between reserve changes and equity market performance may be non-linear during any given reporting period. Market conditions greatly influence the capital required due to their impact on the valuation of reserves and derivative investments mitigating the risk in these reserves. Risk mitigation activities may result in material and sometimes counterintuitive impacts on statutory surplus and RBC ratio. Notably, as changes in these market and non-market factors occur, both our potential obligation and the related statutory reserves and/or required capital can vary at a non-linear rate.

Our statutory surplus is impacted by credit spreads as a result of accounting for the assets and liabilities on our fixed MVA annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase or decrease sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value gains or losses. As actual credit spreads are not fully reflected in current crediting rates based on U.S. Treasuries, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in a change in statutory surplus. The result of this mismatch had a positive impact to our statutory surplus of approximately \$12 million on a pre-tax basis for the year ended December 31, 2017 (Successor Company), as compared to a positive impact to our statutory surplus of approximately \$16.0 million on a pre-tax basis for the year ended December 31, 2016 (Successor Company).

We cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations that it assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. For the year ended December 31, 2017 (Successor Company), we ceded

premiums to third party reinsurers amounting to \$1.4 billion. In addition, we had receivables from reinsurers amounting to \$5.1 billion as of December 31, 2017 (Successor Company). We review reinsurance receivable amounts for collectability and establish bad debt reserves if deemed appropriate. For additional information related to our reinsurance exposure, see Note 13, Reinsurance, to the consolidated financial statements included in this report.

Captive Reinsurance Companies

Our life insurance subsidiaries are subject to a regulation entitled “Valuation of Life Insurance Policies Model Regulation,” commonly known as “Regulation XXX,” and a supporting guideline entitled “The Application of the Valuation of Life Insurance Policies Model Regulation,” commonly known as “Guideline AXXX.” The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves either through the issuance of non-recourse funding obligations by the captives or obtaining Letters of Credit from third-party financial institutions.

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

The National Association of Insurance Commissioners (“NAIC”), through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers. The Financial Condition

Table of Contents

(E) Committee of the NAIC established a Variable Annuity Issues Working Group to examine company use of variable annuity captives. The Committee has proposed changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and results of operations.

The NAIC has adopted Actuarial Guideline XLVIII ("AG48") and the substantially similar "Term and Universal Life Insurance Reserve Financing Model Regulation" (the "Reserve Model") which establish national standards for new reserve financing arrangements for term life insurance and universal life insurance with secondary guarantees. AG48 and the Reserve Model govern collateral requirements for captive reinsurance arrangements. In order to obtain reserve credit, AG48 and the Reserve Model require a minimum level of funds, consisting of primary and other securities, to be held by or on behalf of ceding insurers as security under each captive life reinsurance treaty. As a result of AG48 and the Reserve Model, the implementation of new captive structures in the future may be less capital efficient, lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. In some circumstances, AG48 and the Reserve Model could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

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

We maintain an intercompany capital support agreement with Shades Creek that provides through a guarantee that we will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek's regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. As of December 31, 2017 (Successor Company), Shades Creek maintained capital levels in excess of the required minimum thresholds. The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

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

Ratings

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

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A+	AA-	A1
West Coast Life Insurance Company	A+	A+	AA-	A1
Protective Life and Annuity Insurance Company	A+	A+	AA-	—
Protective Property & Casualty Insurance Company	A-	—	—	—
MONY Life Insurance Company	A+	A+	A+	A1

Our ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of our insurance

subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. The rating agencies may take various actions, positive or negative, with respect to the financial strength ratings of our insurance subsidiaries, including as a result of our status as a subsidiary of Dai-ichi Life.

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

Table of Contents

LIABILITIES

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

As of December 31, 2017 (Successor Company), we had policy liabilities and accruals of approximately \$31.8 billion. Our interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.48%.

Contractual Obligations

We enter into various obligations to third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed solely based upon an analysis of these obligations. The most significant factors affecting our future cash flows are our ability to earn and collect cash from our customers, and the cash flows arising from our investment program. Future cash outflows, whether they are contractual obligations or not, will also vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings.

Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates, market performance, or surrender provisions. Many of our obligations are linked to cash-generating contracts. In addition, our operations involve significant expenditures that are not based upon contractual obligations. These include expenditures for income taxes and payroll.

As of December 31, 2017 (Successor Company), we carried a \$11.5 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

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

	Total	Payments due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(Dollars In Thousands)				
Debt ⁽¹⁾	\$1,265,095	\$199,582	\$462,719	\$39,365	\$563,429
Non-recourse funding obligations ⁽²⁾	4,597,851	268,269	626,830	660,970	3,041,782
Subordinated debt securities ⁽³⁾	1,425,847	26,750	53,500	53,500	1,292,097
Stable value products ⁽⁴⁾	4,955,737	966,975	2,612,675	1,236,295	139,792
Operating leases ⁽⁵⁾	29,169	4,562	8,364	7,298	8,945
Home office lease ⁽⁶⁾	77,219	77,219	—	—	—
Mortgage loan and investment commitments	703,313	624,628	78,685	—	—
Secured financing liabilities ⁽⁷⁾	1,017,854	1,017,854	—	—	—
Policyholder obligations ⁽⁸⁾	42,754,187	10,705,219	3,803,665	3,702,049	24,543,254
Total ⁽⁹⁾	\$56,826,272	\$13,891,058	\$7,646,438	\$5,699,477	\$29,589,299

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

Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, \$1.7 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. Additionally, \$2.7 billion relates to the Golden Gate transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate receives from notes issued by a nonconsolidated variable interest entity. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.

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

- (4) Anticipated stable value product cash flows including interest.
- (5) Includes all lease payments required under operating lease agreements.
- (6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term.
- (7) Represents secured borrowings and accrued interest as part of our repurchase program as well as liabilities associated with securities lending transactions.
Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.
- (8)
- (9) Excluded from this table are certain pension obligations.

Employee Benefit Plans

We sponsor a tax-qualified defined benefit pension plan ("Qualified Pension Plan") covering substantially all of our employees. In addition, we sponsor an unfunded, nonqualified excess benefit pension plan ("Nonqualified Excess Pension Plan") and provide other postretirement benefits to eligible employees.

Table of Contents

We report the net funded status of our pension and other postretirement plans in the consolidated balance sheet. The net funded status represents the differences between the fair value of plan assets and the projected benefit obligation. Our funding policy is to contribute amounts to the Qualified Pension Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA") plus such additional amounts as we may determine to be appropriate from time to time. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. We may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage ("AFTAP") of at least 80% and to avoid certain Pension Benefit Guaranty Corporation ("PBGC") reporting triggers.

We have not yet determined the total amount we will fund during 2018, but may contribute an amount that would eliminate the PBGC variable-rate premiums payable in 2018. The Company currently estimates that amount will be between \$10 million and \$20 million.

For a complete discussion of our benefit plans, additional information related to the funded status of our benefit plans, and our funding policy, see Note 16, Employee Benefit Plans, to the consolidated financial statements included in this report.

OFF-BALANCE SHEET ARRANGEMENTS

We have entered into indemnity agreements with each of our directors as well as operating leases that do not result in an obligation being recorded on the balance sheet. Refer to Note 15, Commitments and Contingencies, of the consolidated financial statements for more information.

MARKET RISK EXPOSURES

Our financial position and earnings are subject to various market risks including changes in interest rates, the yield curve, spreads between risk-adjusted and risk-free interest rates, foreign currency rates, used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. See Note 7, Derivative Financial Instruments, to the consolidated financial statements included in this report for additional information on our financial instruments.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one year of one another, although, from time to time, a broader interval may be allowed.

We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us, net of collateral held, based upon current market conditions. In addition, we periodically assess exposure related to potential payment obligations between us and our counterparties. We minimize the credit risk in derivative financial instruments by entering into transactions with high quality counterparties (A-rated or higher at the time we enter into the contract), and we maintain credit support annexes with certain of those counterparties.

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

Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We attempt to minimize our credit risk by entering into transactions with highly rated counterparties. We manage the

market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions. Our inflation risk management strategy involves the use of swaps that require us to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (“CPI”).

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

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

Foreign Currency Futures

Table of Contents

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

We believe that our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements, implied volatility, policyholder behavior, and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

The following table sets forth the estimated market values of our fixed maturity investments and mortgage loans resulting from a hypothetical immediate 100 basis point increase in interest rates from levels prevailing as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), and the percent change in fair value the following estimated fair values would represent:

Successor Company

As of December 31,	Amount	Percent
	(Dollars	Change
	In	
	Millions)	
2017		
Fixed maturities	\$40,286.8	(8.2)%
Mortgage loans	6,369.5	(5.5)
2016		
Fixed maturities	\$37,689.5	(8.0)%
Mortgage loans	5,621.4	(5.2)

Estimated fair values from the hypothetical increase in rates were derived from the durations of our fixed maturities and mortgage loans. Duration measures the change in fair value resulting from a change in interest rates. While these estimated fair values provide an indication of how sensitive the fair values of our fixed maturities and mortgage loans are to changes in interest rates, they do not represent management's view of future fair value changes or the potential impact of fluctuations in credit spreads. Actual results may differ from these estimates.

In the ordinary course of our commercial mortgage lending operations, we may commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates.

As of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), we had outstanding mortgage loan commitments of \$572.3 million at an average rate of 4.1% and \$855.3 million at an average rate of 4.2%, respectively, with estimated fair values of \$583.0 million and \$863.3 million, respectively (using discounted cash flows from the first call date). The following table sets forth the estimated fair value of our

mortgage loan commitments resulting from a hypothetical immediate 100 basis point increase in interest rate levels prevailing as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), and the percent change in fair value that the following estimated fair values would represent:

Successor Company

As of December 31,	Amount	Percent
	(Dollars In Millions)	Change
2017	\$ 557.0	(4.5)%
2016	\$ 817.8	(5.3)%

The estimated fair values from the hypothetical increase in rates were derived from the durations of our outstanding mortgage loan commitments. While these estimated fair values provide an indication of how sensitive the fair value of our outstanding commitments are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Table of Contents

As previously discussed, we utilize a risk management strategy that involves the use of derivative financial instruments. Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures.

As of December 31, 2017 (Successor Company), total derivative contracts with a notional amount of \$26.3 billion were in a \$644.8 million net loss position. Included in the \$26.3 billion is a notional amount of \$2.5 billion in a \$214.2 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$9.6 billion in a \$111.8 million net loss position that relates to our GLWB embedded derivatives, \$2.0 billion in a \$218.7 million net loss position that relates to our FIA embedded derivatives, and \$168.3 million in a \$80.2 million net loss position that relates to our IUL embedded derivatives.

As of December 31, 2016 (Successor Company), total derivative contracts with a notional amount of \$25.5 billion were in a \$444.6 million net loss position. Included in the \$25.5 billion is a notional amount of \$2.5 billion in a \$138.7 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$10.6 billion in a \$115.4 million net loss position that relates to our GLWB embedded derivatives, \$1.5 billion in a \$147.4 million net loss position that relates to our FIA embedded derivatives, and \$103.8 million in a \$46.1 million net loss position that relates to our IUL embedded derivatives.

We recognized losses of \$305.8 million, \$40.3 million, and gains of \$30.0 million related to derivative financial instruments for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company) and for the period of February 1, 2015 to December 31, 2015 (Successor Company), respectively.

The following table sets forth the notional amount and fair value of our interest rate risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing as of December 31:

Successor Company

	Notional Amount	Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Interest Rates ⁽¹⁾⁽²⁾	
			+100 bps	-100 bps
(Dollars In Millions)				
2017				
Futures	\$1,302.3	\$ 2.3	\$(41.2)	\$57.8
Interest Rate Swaptions	225.0	—	2.3	—
Floating to fixed Swaps	—	—	—	—
Fixed to floating Swaps	1,862.5	52.5	(145.9)	290.8
GLWB embedded derivative	9,615.4	(111.8)	175.1	(491.3)
Total	\$13,005.2	\$ (57.0)	\$(9.7)	\$(142.7)
2016				
Futures	\$1,096.4	\$ (5.7)	\$(80.0)	\$84.3
Interest Rate Swaptions	225.0	2.5	12.3	—

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Floating to fixed Swaps	70.0	0.5	3.2	(2.2)
Fixed to floating Swaps	1,640.0	60.9	(136.6)	301.8
GLWB embedded derivative	10,563.7	(115.4)	171.1	(498.3)
Total	\$13,595.1	\$ (57.2)	\$(30.0)	\$(114.4)

(1) Interest rate change scenario subject to floor, based on treasury rates as of December 31, 2017 and 2016.

(2) Includes an effect for inflation.

Table of Contents

The following table sets forth the notional amount and fair value of our equity risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in equity level from levels prevailing as of December 31:

Successor Company

	Notional Amount	Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference Index Equity Level	
			+10%	-10%
(Dollars In Millions)				
2017				
Futures	\$381.1	\$ (2.4)	\$(32.2)	\$27.3
Options	7,549.4	166.4	157.7	177.0
Total return swaps	434.3	(0.2)	(43.6)	43.2
GLWB embedded derivative	9,615.4	(111.8)	(12.4)	(234.6)
FIA embedded derivative	1,951.7	(218.7)	(232.9)	(186.7)
IUL embedded derivative	168.3	(80.2)	82.7	70.4
Total	\$20,100.2	\$ (246.9)	\$(80.7)	\$(103.4)
2016				
Futures	\$756.8	\$ 2.9	\$(70.2)	\$75.9
Options	6,534.8	171.8	155.0	196.4
GLWB embedded derivative	10,563.7	(115.4)	(11.7)	(238.3)
FIA embedded derivative	1,496.3	(147.4)	(159.0)	(124.6)
IUL embedded derivative	103.8	(46.1)	(48.2)	(41.2)
Total	\$19,455.4	\$ (134.2)	\$(134.1)	\$(131.8)

Table of Contents

The following table sets forth the notional amount and fair value of our currency risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in currency level from levels prevailing as of December 31:

Successor Company

Notional Amount	Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference in Currency Level	
		+10%	-10%
(Dollars In Millions)			
2017			
Currency futures	\$256.4	\$ (2.1)	\$(27.9) \$23.7
Swaps Fixed to Fixed	117.2	6.0	19.7 (7.7)
	\$373.6	\$ 3.9	\$(8.2) \$16.0
2016			
Currency futures	\$340.1	\$ 7.9	\$(25.3) \$41.1
Swaps Fixed to Fixed	117.2	0.1	13.3 (13.0)
	\$457.3	\$ 8.0	\$(12.0) \$28.1

Estimated gains and losses were derived using pricing models specific to derivative financial instruments. While these estimated gains and losses provide an indication of how sensitive our derivative financial instruments are to changes in interest rates, volatility, equity levels, and credit spreads, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Our stable value contract and annuity products tend to be more sensitive to market risks than our other products. As such, many of these products contain surrender charges and other features that reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue. Additionally, approximately \$0.6 billion of our stable value contracts have no early termination rights.

As of December 31, 2017 (Successor Company), we had \$4.7 billion of stable value product account balances with an estimated fair value of \$4.7 billion (using discounted cash flows) and \$10.9 billion of annuity account balances with an estimated fair value of \$10.5 billion (using discounted cash flows). As of December 31, 2016 (Successor Company), we had \$3.5 billion of stable value product account balances with an estimated fair value of \$3.5 billion (using discounted cash flows) and \$10.6 billion of annuity account balances with an estimated fair value of \$10.3 billion (using discounted cash flows).

The following table sets forth the estimated fair values of our stable value and annuity account balances resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing and the percent change in fair value that the following estimated fair values would represent:

Successor Company

Fair Value as of December 31,	Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference in Interest Rates	
	+100 bps	-100 bps

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

+100 -100 bps
 bps
 (Dollars In Millions)

2017

Stable value product account balances \$4,698.9 \$4,592.7 \$4,805.1

Annuity account balances 10,497.1 10,341.3 10,612.7

2016

Stable value product account balances \$3,488.9 \$3,403.7 \$3,574.0

Annuity account balances 10,314.8 10,164.0 10,424.5

Estimated fair values from the hypothetical changes in interest rates were derived from the durations of our stable value and annuity account balances. While these estimated fair values provide an indication of how sensitive the fair values of our stable

96

Table of Contents

value and annuity account balances are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Certain of our liabilities relate to products whose profitability could be significantly affected by changes in interest rates. In addition to traditional whole life and term insurance, many universal life policies with secondary guarantees that insurance coverage will remain in force (subject to the payment of specified premiums) have such characteristics. These products do not allow us to adjust policyholder premiums after a policy is issued, and most of these products do not have significant account values upon which we credit interest. If interest rates fall, these products could have both decreased interest earnings and increased amortization of deferred acquisition costs and VOBA, and the converse could occur if interest rates rise.

Impact of Continued Low Interest Rate Environment

Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between the interest rate earned on investments and the interest rate credited to in-force policies and contracts. In addition, certain of our insurance and investment products guarantee a minimum guaranteed interest rate ("MGIR"). In periods of prolonged low interest rates, the interest spread earned may be negatively impacted to the extent our ability to reduce policyholder crediting rates is limited by the guaranteed minimum credited interest rates. Additionally, those policies without account values may exhibit lower profitability in periods of prolonged low interest rates due to reduced investment income.

Table of Contents

The tables below present account values by range of current minimum guaranteed interest rates and current crediting rates for our universal life and deferred fixed annuity products as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company):

Credited Rate Summary

As of December 31, 2017 (Successor Company)

Minimum Guaranteed Interest Rate Account Value	At MGIR	1 - 50 bps above MGIR	More than 50 bps above MGIR	Total	
(Dollars In Millions)					
Universal Life Insurance					
>2% - 3%	\$206	\$1,252	\$2,006	\$3,464	
>3% - 4%	4,146	993	8	5,147	
>4% - 5%	1,987	13	1	2,001	
>5% - 6%	199	—	—	199	
Subtotal	6,538	2,258	2,015	10,811	
Fixed Annuities					
1%	\$571	\$239	\$540	\$1,350	
>1% - 2%	473	331	70	874	
>2% - 3%	1,897	63	4	1,964	
>3% - 4%	254	—	—	254	
>4% - 5%	271	—	—	271	
>5% - 6%	2	—	—	2	
Subtotal	3,468	633	614	4,715	
Total	\$10,006	\$2,891	\$2,629	\$15,526	
Percentage of Total	64	% 19	% 17	% 100	%

Credited Rate Summary

As of December 31, 2016 (Successor Company)

Minimum Guaranteed Interest Rate Account Value	At MGIR	1 - 50 bps above MGIR	More than 50 bps above MGIR	Total
(Dollars In Millions)				
Universal Life Insurance				
>2% - 3%	\$202	\$1,133	\$2,023	\$3,358
>3% - 4%	4,001	1,191	11	5,203
>4% - 5%	1,928	14	—	1,942
>5% - 6%	208	—	—	208
Subtotal	6,339	2,338	2,034	10,711
Fixed Annuities				
1%	\$670	\$153	\$114	\$937
>1% - 2%	535	463	103	1,101
>2% - 3%	2,056	68	7	2,131
>3% - 4%	267	—	—	267
>4% - 5%	281	—	—	281

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

>5% - 6%	3	—	—	3	
Subtotal	3,812	684	224	4,720	
Total	\$10,151	\$3,022	\$2,258	\$15,431	
Percentage of Total	66	% 19	% 15	% 100	%

98

Table of Contents

We are active in mitigating the impact of a continued low interest rate environment through product design, as well as adjusting crediting rates on current in-force policies and contracts. We also manage interest rate and reinvestment risks through our asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations; cash flow testing under various interest rate scenarios; and the regular rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk.

Employee Benefit Plans

Pursuant to the accounting guidance related to our obligations to employees under our pension plan and other postretirement benefit plans, we are required to make a number of assumptions to estimate related liabilities and expenses. Our most significant assumptions are those for the discount rate and expected long-term rate of return.

Discount Rate Assumption

The assumed discount rates used to determine the benefit obligations were based on an analysis of future benefits expected to be paid under the plans. The assumed discount rate reflects the interest rate at which an amount that is invested in a portfolio of high-quality debt instruments on the measurement date would provide the future cash flows necessary to pay benefits when they come due.

The following presents our estimates of the hypothetical impact to the December 31, 2017 (Successor Company) benefit obligation and to the 2017 benefit cost, associated with sensitivities related to the discount rate assumption:

	Defined Benefit Pension Plan	Other Postretirement Benefit Plans ⁽¹⁾
(Dollars in Thousands)		
Increase (Decrease) in Benefit Obligation:		
100 basis point increase	\$(28,252)	\$ (4,834)
100 basis point decrease	34,139	5,712
Increase (Decrease) in Benefit Cost:		
100 basis point increase	\$406	\$ (57)
100 basis point decrease	1,081	196

(1) Includes excess pension plan, retiree medical plan, and postretirement life insurance plan.

Long-Term Rate of Return Assumption

To determine an appropriate long-term rate of return assumption for our defined benefit pension plan, we obtained 25 year annualized returns for each of the represented asset classes. In addition, we received evaluations of market performance based on the Company's asset allocation as provided by external consultants. A combination of these statistical analytics provided results that the Company utilized to determine an appropriate long-term rate of return assumption.

For our postretirement life insurance plan, we utilized 25 year average and annualized return results on the Barclay's short treasury index to determine an appropriate long-term rate of return assumption.

The following presents our estimates of the hypothetical impact to the 2017 benefit cost, associated with sensitivities related to the long-term rate of return assumption:

	Defined Benefit Pension Plan	Postretirement Life Insurance Plan
(Dollars in Thousands)		
Increase (Decrease) in Benefit Cost:		
100 basis point increase	\$(2,397)	\$ (51)
100 basis point decrease	2,397	51

IMPACT OF INFLATION

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value

Table of Contents

and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising interest rates. During the periods covered by this report, we believe inflation has not had a material impact on our business.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this report for information regarding recently issued accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required by this item is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

The following financial statements are located in this report on the pages indicated.

100

Table of Contents

	Page
<u>Consolidated Statements of Income For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>	102
<u>Consolidated Statements of Comprehensive Income (Loss) For The Year Ended Decmebe 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>	103
<u>Consolidated Balance Sheets as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company)</u>	104
<u>Consolidated Statements of Shareowner's Equity For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>	106
<u>Consolidated Statements of Cash Flows For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>	107
Notes to Consolidated Financial Statements:	
<u>1. Basis of Presentation</u>	109
<u>2. Summary of Significant Accounting Policies</u>	109
<u>3. Significant Transactions</u>	120
<u>4. MONY Closed Block of Business</u>	122
<u>5. Investment Operations</u>	124
<u>6. Fair Value of Financial Instruments</u>	132
<u>7. Derivative Financial Instruments</u>	144
<u>8. Offsetting of Assets and Liabilities</u>	148
<u>9. Mortgage Loans</u>	150
<u>10. DAC and VOBA</u>	155
<u>11. Goodwill</u>	155
<u>12. Certain Nontraditional long duration contracts</u>	156
<u>13. Reinsurance</u>	157
<u>14. Debt and Other Obligations</u>	160
<u>15. Commitments and Contingencies</u>	165
<u>16. Employee Benefit Plans</u>	167
<u>17. Accumulated Other Comprehensive Income (Loss)</u>	175
<u>18. Income Taxes</u>	180
<u>19. Supplemental Cash Flow</u>	183
<u>20. Related Party Transactions</u>	184
<u>21. Statutory Reporting Practices</u>	184
<u>22. Operating Segments</u>	186
<u>23. Consolidated Quarterly Information</u>	190
<u>24. Subsequent Events</u>	191
<u>Report of Independent Registered Public Accounting Firm</u>	193

Predecessor and Successor Company information is not comparable.

For supplemental quarterly financial information, please see Note 23, Consolidated Quarterly Results—Unaudited of the notes to consolidated financial statements included herein.

PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For the Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015 (Dollars In Thousands, Except Per Share Amounts)
	(Dollars In Thousands)			
Revenues				
Premiums and policy fees	\$3,477,419	\$3,407,931	\$3,008,050	\$261,866
Reinsurance ceded	(1,360,735)	(1,314,716)	(1,154,978)	(89,956)
Net of reinsurance ceded	2,116,684	2,093,215	1,853,072	171,910
Net investment income	2,051,588	1,942,456	1,632,948	175,180
Realized investment gains (losses):				
Derivative financial instruments	(305,828)	(40,288)	29,997	(123,274)
All other investments	121,428	90,659	(166,886)	81,153
Other-than-temporary impairment losses	(3,962)	(32,075)	(28,659)	(636)
Portion recognized in other comprehensive income (before taxes)	(7,780)	14,327	1,666	155
Net impairment losses recognized in earnings	(11,742)	(17,748)	(26,993)	(481)
Other income	446,662	415,653	388,531	36,421
Total revenues	4,418,792	4,483,947	3,710,669	340,909
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (Successor 2017 - \$1,242,797; Successor 2016 - \$1,181,960; 2015 - \$1,025,596); (Predecessor 2015 - \$87,674)	2,957,270	2,880,435	2,539,943	267,287
Amortization of deferred policy acquisition costs and value of business acquired	78,221	149,064	94,056	4,072
Other operating expenses, net of reinsurance ceded: (Successor 2017 - \$222,963; Successor 2016 - \$207,197; 2015 - \$191,346); (Predecessor 2015 - \$35,036)	948,244	860,451	676,828	68,368
Total benefits and expenses	3,983,735	3,889,950	3,310,827	339,727
Income before income tax	435,057	593,997	399,842	1,182
Income tax (benefit) expense				
Current	26,252	(46,719)	1,471	(31,118)
Deferred	(697,727)	247,687	130,072	30,791
Total income tax (benefit) expense	(671,475)	200,968	131,543	(327)
Net income	\$1,106,532	\$393,029	\$268,299	\$1,509
Net income—basic				\$0.02
Net income—diluted				\$0.02
Cash dividends paid per share				\$—
Average shares outstanding—basic				80,452,848
Average shares outstanding—diluted				81,759,287

See Notes to Consolidated Financial Statements

102

Table of ContentsPROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Net income	\$ 1,106,532	\$ 393,029	\$ 268,299	\$ 1,509
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (Successor 2017 - \$329,801; 2016 - \$326,838; 2015 - \$(680,634)); (Predecessor 2015 - \$259,738)	700,536	606,985	(1,264,034)	482,370
Reclassification adjustment for investment amounts included in net income, net of income tax: (Successor 2017 - \$489; 2016 - \$(5,094); 2015 - \$9,349); (Predecessor 2015 - \$(2,244))	642	(9,460)	17,362	(4,166)
Change in net unrealized (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2017 - \$3,858; 2016 - \$(3,652); 2015 - \$(212)); (Predecessor 2015 - \$(131))	7,153	(6,782)	(393)	(243)
Change in accumulated (loss) gain—derivatives, net of income tax: (Successor 2017 - \$(303); 2016 - \$370; 2015 - \$(45)); (Predecessor 2015 - \$5)	(563)	688	(86)	9
Reclassification adjustment for derivative amounts included in net income, net of income tax: (Successor 2017 - \$243; 2016 - \$21; 2015 - \$45); (Predecessor 2015 - \$13)	451	39	86	23
Change in postretirement benefits liability adjustment, net of income tax: (Successor 2017 - \$(4,047); 2016 - \$(2,616); 2015 - \$3,194); (Predecessor 2015 - \$(6,475))	(15,225)	(4,859)	5,931	(12,025)
Total other comprehensive income (loss)	692,994	586,611	(1,241,134)	465,968
Total comprehensive income (loss)	\$ 1,799,526	\$ 979,640	\$ (972,835)	\$ 467,477

See Notes to Consolidated Financial Statements

103

Table of ContentsPROTECTIVE LIFE CORPORATION
CONSOLIDATED BALANCE SHEETS

	Successor Company As of December 31,	
	2017	2016
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: Successor 2017 - \$41,153,551; 2016 - \$39,832,724)	\$41,176,052	\$38,183,337
Fixed maturities, at amortized cost (fair value: Successor 2017 - \$2,776,327; 2016 - \$2,733,340)	2,718,904	2,770,177
Equity securities, at fair value (cost: Successor 2017 - \$740,813; 2016 - \$768,423)	754,360	754,489
Mortgage loans (related to securitizations: Successor 2017 - \$226,409; 2016 - \$277,964)	6,817,723	6,132,125
Investment real estate, net of accumulated depreciation (Successor 2017 - \$132; 2016 - \$252)	8,355	8,060
Policy loans	1,615,615	1,650,240
Other long-term investments	915,595	865,304
Short-term investments	615,210	332,431
Total investments	54,621,814	50,696,163
Cash	252,310	348,182
Accrued investment income	491,802	482,388
Accounts and premiums receivable	124,934	118,303
Reinsurance receivables	5,075,698	5,323,846
Deferred policy acquisition costs and value of business acquired	2,199,577	2,019,829
Goodwill	793,470	793,470
Other intangibles, net of accumulated amortization (Successor 2017 - \$140,368; 2016 - \$79,226)	663,572	688,083
Property and equipment, net of accumulated depreciation (Successor 2017 - \$22,926; 2016 - \$17,450)	111,417	106,111
Other assets	227,357	170,004
Income tax receivable	76,543	116,823
Assets related to separate accounts		
Variable annuity	13,956,071	13,244,252
Variable universal life	1,035,202	895,925
Total assets	\$79,629,767	\$75,003,379

See Notes to Consolidated Financial Statements

104

Table of Contents

PROTECTIVE LIFE CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (continued)

	Successor Company As of December 31,	
	2017	2016
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	\$30,957,592	\$30,511,085
Unearned premiums	875,405	848,495
Total policy liabilities and accruals	31,832,997	31,359,580
Stable value product account balances	4,698,371	3,501,636
Annuity account balances	10,921,190	10,642,115
Other policyholders' funds	1,267,198	1,165,749
Other liabilities	2,353,565	1,924,155
Deferred income taxes	1,232,407	1,599,764
Non-recourse funding obligations	2,747,477	2,796,474
Secured financing liabilities	1,017,749	797,721
Debt	945,052	1,163,285
Subordinated debt securities	495,289	441,202
Liabilities related to separate accounts		
Variable annuity	13,956,071	13,244,252
Variable universal life	1,035,202	895,925
Total liabilities	72,502,568	69,531,858
Commitments and contingencies—Note 15		
Shareowner's equity		
Common Stock, Successor 2017 and 2016 - \$.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,554,059	5,554,059
Retained earnings	1,560,444	571,985
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (Successor 2017 - \$6,883; 2016 - \$(349,541))	25,896	(649,147)
Net unrealized losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2017 - \$(6); 2016 - \$(3,864))	(22)	(7,175)
Accumulated loss - derivatives, net of income tax: (Successor 2017 - \$198; 2016 - \$391)	747	727
Postretirement benefits liability adjustment, net of income tax: (Successor 2017 - \$(3,469); 2016 - \$578)	(13,925)	1,072
Total shareowner's equity	7,127,199	5,471,521
Total liabilities and shareowner's equity	\$79,629,767	\$75,003,379

See Notes to Consolidated Financial Statements

105

Table of ContentsPROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREOWNER'S EQUITY

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total shareowners' equity
(Dollars In Thousands)						
Predecessor Company						
Balance, December 31, 2014	\$44,388	\$ 606,125	\$(185,705)	\$3,082,000	\$ 1,418,076	\$ 4,964,884
Net income for the period of January 1, 2015 to January 31, 2015				1,509		1,509
Other comprehensive income					465,968	465,968
Comprehensive income for the period of January 1, 2015 to January 31, 2015						467,477
Stock-based compensation		1,550				1,550
Balance, January 31, 2015	\$44,388	\$ 607,675	\$(185,705)	\$3,083,509	\$ 1,884,044	\$ 5,433,911

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner's equity
(Dollars In Thousands)						
Successor Company						
Balance, February 1, 2015	\$—	\$5,554,059	\$—	\$—	\$—	\$ 5,554,059
Net income for the period of February 1, 2015 to December 31, 2015				268,299		268,299
Other comprehensive loss					(1,241,134)	(1,241,134)
Comprehensive loss for the period of February 1, 2015 to December 31, 2015						(972,835)
Balance, December 31, 2015	\$—	\$5,554,059	\$—	—\$268,299	\$(1,241,134)	\$ 4,581,224
Net income for 2016				393,029		393,029
Other comprehensive income					586,611	586,611
Comprehensive income for 2016						979,640
Dividends to parent				(89,343)		(89,343)
Balance, December 31, 2016	\$—	\$5,554,059	\$—	—\$571,985	\$(654,523)	\$ 5,471,521
Net income for 2017				1,106,532		1,106,532
Other comprehensive income					692,994	692,994
Comprehensive income for 2017						1,799,526
Cumulative effect adjustments				25,775	(25,775)	—
Dividends to parent				(143,848)		(143,848)
Balance, December 31, 2017	\$—	\$5,554,059	\$—	—\$1,560,444	\$ 12,696	\$ 7,127,199

See Notes to Consolidated Financial Statements

Table of ContentsPROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor Company			Predecessor Company
	For The	For The Year	February	January 1,
	Year Ended	Ended	1, 2015	2015
	December 31,	December 31,	to	to
	2017	2016	December	January 31,
			31, 2015	2015
	(Dollars In Thousands)			(Dollars In Thousands)
Cash flows from operating activities				
Net income	\$1,106,532	\$ 393,029	\$268,299	\$ 1,509
Adjustments to reconcile net income to net cash provided by operating activities:				
Realized investment (gains) losses	196,142	(32,623)	163,882	42,602
Amortization of deferred policy acquisition costs and value of business acquired	78,221	149,064	94,056	4,072
Capitalization of deferred policy acquisition costs	(333,252)	(327,938)	(296,795)	(22,489)
Depreciation and amortization expense	62,609	37,504	49,741	820
Deferred income tax	(697,727)	247,687	130,072	30,791
Accrued income tax	40,280	(162,619)	65,415	(32,803)
Interest credited to universal life and investment products	692,993	699,227	682,836	79,088
Policy fees assessed on universal life and investment products	(1,354,685)	(1,262,166)	(1,056,092)	(90,288)
Change in reinsurance receivables	248,148	222,302	187,269	(85,081)
Change in accrued investment income and other receivables	(6,643)	(36,360)	24,202	(5,789)
Change in policy liabilities and other policyholders' funds of traditional life and health products	(294,205)	(208,075)	(164,232)	176,980
Trading securities:				
Maturities and principal reductions of investments	165,575	154,633	114,501	17,946
Sale of investments	281,441	459,802	135,465	26,422
Cost of investments acquired	(355,410)	(532,429)	(220,094)	(27,289)
Other net change in trading securities	9,151	22,427	73,376	(26,901)
Amortization of premiums and accretion of discounts on investments and mortgage loans	319,582	375,044	373,636	12,930
Change in other liabilities	138,304	132,220	(206,765)	238,592
Other, net	(101,784)	(81,091)	(63,144)	(149,889)
Net cash provided by operating activities	195,272	249,638	355,628	191,223

See Notes to Consolidated Financial Statements

107

Table of Contents

PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(continued)

	Successor Company			Predecessor Company
	For The	For The	February	January 1,
	Year	Year	1, 2015	2015
	Ended	Ended	to	to
	December	December	December	January 31,
	2017	31, 2016	31, 2015	2015
	(Dollars In Thousands)			(Dollars In Thousands)
Cash flows from investing activities				
Maturities and principal reductions of investments, available-for-sale	696,574	1,299,753	1,052,198	59,028
Sale of investments, available-for-sale	1,802,215	1,956,302	1,336,350	191,062
Cost of investments acquired, available-for-sale	(4,029,233)	(4,982,907)	(3,546,474)	(149,887)
Change in investments, held-to-maturity	47,000	(2,181,000)	(65,000)	—
Mortgage loans:				
New lendings	(1,671,929)	(1,396,283)	(1,466,020)	(100,530)
Repayments	923,347	863,873	1,306,034	45,741
Change in investment real estate, net	(104)	2,851	(3,662)	7
Change in policy loans, net	34,625	49,268	52,364	6,365
Change in other long-term investments, net	(91,518)	(250,557)	(73,907)	(25,339)
Change in short-term investments, net	(279,191)	(72,810)	(11,221)	(40,314)
Net unsettled security transactions	(19,023)	28,853	(64,615)	37,510
Purchase of property and equipment	(37,533)	(5,295)	(8,862)	(649)
Cash received from or paid for acquisitions, net of cash acquired	—	320,967	—	—
Net cash (used in) provided by investing activities	(2,624,770)	(4,366,985)	(1,492,815)	22,994
Cash flows from financing activities				
Borrowings under line of credit arrangements and debt	1,035,000	265,000	330,000	—
Principal payments on line of credit arrangement and debt	(1,156,498)	(633,074)	(338,093)	(60,000)
Issuance (repayment) of non-recourse funding obligations	(47,000)	2,094,700	65,000	—
Secured financing liabilities	220,028	359,536	388,185	—
Dividends to shareowners	(143,848)	(89,343)	—	—
Investment product and universal life deposits	4,683,121	4,393,596	3,064,373	169,233
Investment product and universal life withdrawals	(2,256,981)	(2,320,958)	(2,438,916)	(240,147)
Other financing activities, net	(196)	—	—	(4)
Net cash provided by (used in) financing activities	2,333,626	4,069,457	1,070,549	(130,918)
Change in cash	(95,872)	(47,890)	(66,638)	83,299
Cash at beginning of period	348,182	396,072	462,710	379,411
Cash at end of period	\$252,310	\$348,182	\$396,072	\$462,710

See Notes to Consolidated Financial Statements

108

Table of Contents

PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Basis of Presentation

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities (see also Note 21, Statutory Reporting Practices and Other Regulatory Matters).

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

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Earnings Per Share - Predecessor Company

As of February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life, and on that date the Company's outstanding common stock was delisted from public exchanges, and there was no market for the Company's common stock, which is held entirely by Dai-ichi Life. Therefore, the Company will no longer disclose earnings per share information subsequent to the presentation for the predecessor company period.

Significant Accounting Policies

Valuation of Investment Securities

The Company determines the appropriate classification of investment securities at the time of purchase and periodically re-evaluates such designations. Investment securities are classified as either trading, available-for-sale, or held-to-maturity securities. Investment securities classified as trading are recorded at fair value with changes in fair value recorded in realized gains (losses). Investment securities purchased for long term investment purposes are classified as available-for-sale and are recorded at fair value with changes in unrealized gains and losses, net of taxes,

reported as a component of other comprehensive income (loss). Investment securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity and are reported at amortized cost. Interest income on available-for-sale and held-to-maturity securities includes the amortization of premiums and accretion of discounts and are recorded in investment income.

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data

Table of Contents

including market research publications. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which the Company purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party service or an independent broker quotation. Included in the pricing of other asset-backed securities, collateralized mortgage obligations ("CMOs"), and mortgage-backed securities ("MBS") are estimates of the rate of future prepayments of principal and underlying collateral support over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. The basis for the cost of securities sold was determined at the Committee on Uniform Securities Identification Procedures ("CUSIP") level on a first in first out basis. The committee supplies a unique nine-character identification, called a CUSIP number, for each class of security approved for trading in the U.S., to facilitate clearing and settlement. These numbers are used when any buy and sell orders are recorded.

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

Cash

Cash includes all demand deposits reduced by the amount of outstanding checks and drafts. As a result of the Company's cash management system, checks issued from a particular bank but not yet presented for payment may create negative book cash balances with the bank at certain reporting dates. Such negative balances are included in other liabilities and were \$132.7 million as of December 31, 2017 (Successor Company) and \$79.2 million as of

December 31, 2016 (Successor Company), respectively. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of a material loss.

Deferred Policy Acquisition Costs

The incremental direct costs associated with successfully acquired insurance policies, are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products. DAC are subject to recoverability testing at the end of each accounting period. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization. The Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates (equal to the rate used to compute liabilities for future policy benefits, currently 1.0% to 7.8%) the Company expects to experience in future periods when determining the present value of estimated gross profits. These assumptions are best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

Table of Contents

Value of Businesses Acquired

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

Intangible Assets

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

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

	Successor Company		
	As of December 31, Estimated		
	2017	2016	Useful Life
	(Dollars In		(In Years)
	Thousands)		
Distribution relationships	\$402,975	\$428,499	14-22
Trade names	85,340	92,049	13-17
Technology	107,343	121,253	7-14
Other	35,914	14,282	
Total intangible assets subject to amortization	631,572	656,083	
Insurance licenses	32,000	32,000	Indefinite
Total intangible assets	\$663,572	\$688,083	

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

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

Year	Amount
	(Dollars In
	Thousands)
2018	\$ 56,011
2019	52,898
2020	49,897
2021	48,105
2022	45,771

Property and Equipment

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

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

111

Table of Contents

Property and equipment consisted of the following:

	Successor Company	
	As of December 31,	
	2017	2016
	(Dollars In Thousands)	
Home office building	\$68,123	\$67,279
Data processing equipment	24,102	21,750
Other, principally furniture and equipment	17,198	9,612
Total property and equipment subject to depreciation	109,423	98,641
Accumulated depreciation	(22,926)	(17,450)
Land	24,920	24,920
Total property and equipment	\$111,417	\$106,111

Separate Accounts

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

Stable Value Product Account Balances

The Stable Value Products segment sells fixed and floating rate funding agreements directly to qualified institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank ("FHLB"), and markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans. GICs are contracts which specify a return on deposits for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan.

The Company records its stable value contract liabilities in the consolidated balance sheets in "stable value product account balances" at the deposit amount plus accrued interest, adjusted for any unamortized premium or discount. Interest on the contracts is accrued based upon contract terms. Any premium or discount is amortized using the effective yield method.

The segment's products complement the Company's overall asset/liability management in that the terms may be tailored to the needs of PLICO as the seller of the contracts. Stable value product account balances include GICs and funding agreements the Company has issued. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company had \$3,337.9 million and \$1,872.5 million, respectively, of stable value product account balances marketed through structured programs. Most GICs and funding agreements the Company has written have maturities of one to twelve years.

As of December 31, 2017 (Successor Company), future maturities of stable value products were as follows:

Year of Maturity	Amount
	(Dollars In Millions)
2018	\$ 888.0
2019 - 2020	2,479.5
2021 - 2022	1,201.0
Thereafter	124.8

Derivative Financial Instruments

The Company records its derivative financial instruments in the consolidated balance sheet in "other long-term investments" and "other liabilities" in accordance with GAAP, which requires that all derivative instruments be

recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in the statement of other comprehensive income (loss), depending upon whether the derivative instrument qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists. For cash flow hedges, the effective portion of their gain or loss is reported as a component of other comprehensive income (loss) and reclassified into earnings in the period during which the hedged item impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Effectiveness of the Company's hedge relationships is assessed on a quarterly basis. The Company reports changes in fair values of derivatives that are not part of a qualifying hedge relationship in earnings. Changes in the fair value of derivatives that are recognized in current earnings are

Table of Contents

reported in "Realized investment gains (losses)—Derivative financial instruments". For additional information, see Note 7, Derivative Financial Instruments.

Insurance Liabilities and Reserves

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

Guaranteed Living Withdrawal Benefits

The Company also establishes reserves for guaranteed living withdrawal benefits ("GLWB") on its variable annuity ("VA") products. The GLWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the embedded derivative to be recorded at fair value using current implied volatilities for the equity indices. The fair value of the GLWB is impacted by equity market conditions and can result in the GLWB embedded derivative being in an overall net asset or net liability position. In times of favorable equity market conditions the likelihood and severity of claims is reduced and expected fee income increases. Since claims are generally expected later than fees, these favorable equity market conditions can result in the present value of fees being greater than the present value of claims, which results in a net GLWB embedded derivative asset. In times of unfavorable equity market conditions the likelihood and severity of claims is increased and expected fee income decreases and can result in the present value of claims exceeding the present value of fees resulting in a net GLWB embedded derivative liability. The methods used to estimate the embedded derivatives employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. The Company assumes age-based mortality from the Ruark 2015 ALB adjusted table for company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. As of December 31, 2017 (Successor Company), our net GLWB liability held was \$111.8 million.

Goodwill

The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of the Company's reporting units below its carrying amount. Accounting for goodwill requires an estimate of the future profitability of the associated lines of business within the Company's operating segments to assess the recoverability of the capitalized acquisition goodwill. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). 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 the qualitative analysis does not indicate that an impairment of segment goodwill is more likely than not then no other specific quantitative impairment testing is required.

If it is determined that it is more likely than not that impairment exists, the Company performs a quantitative assessment and 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 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.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. The Company has one life insurance subsidiary that is not eligible to be included in the consolidated federal income tax return and files a separate corporate tax return.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). Further information on the tax impacts of the Tax Reform Act is included in Note 18, Income Taxes.

The Company uses the asset and liability method of accounting for income taxes. Generally, most items in pretax book income are also included in taxable income in the same year. However, some items are recognized for book purposes and for tax purposes in different years or are never recognized for either book or tax purposes. Those differences that will never be recognized

Table of Contents

for either book or tax purposes are permanent differences (e.g., the dividends-received deduction). As a result, the effective tax rate reflected in the financial statements may differ from the statutory rate reflected in the tax return. Those differences that are reported in different years for book and tax purposes are temporary and will reverse over time (e.g., the valuation of future policy benefits). These temporary differences are accounted for in the intervening periods as deferred tax assets and liabilities. Deferred tax assets generally represent revenue that is taxable before it is recognized in financial income and expenses that are deductible after they are recognized in financial income. Deferred tax liabilities generally represent revenues that are taxable after they are recognized in financial income or expenses or losses that are deductible before they are recognized in financial income. Components of accumulated other comprehensive income (loss) ("AOCI") are presented net of tax, and it is the Company's policy to use the aggregate portfolio approach to clear the disproportionate tax effects that remain in AOCI as a result of tax rate changes and certain other events. Under the aggregate portfolio approach, disproportionate tax effects are cleared only when the portfolio of investments that gave rise to the deferred tax item is sold or otherwise disposed of in its entirety.

The application of GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance, if necessary, to reduce the Company's deferred tax assets to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company may consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process, the first step being recognition. The Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations expires. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards, the statute of limitations does not close until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 18, Income Taxes, for additional information regarding income taxes.

Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the FASB ASC (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and

compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity ("VIE"). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. For more information on the Company's investment in a VIE refer to Note 5, Investment Operations, to the consolidated financial statements.

Table of Contents

Policyholder Liabilities, Revenues, and Benefits Expense

Future Policy Benefits and Claims

Future policy benefit liabilities for the year indicated are as follows:

	Successor Company		As of December 31,	
	As of December 31, 2017	2016	2017	2016
	Total Policy Liabilities and Accruals		Reinsurance Receivable	
	(Dollars In Thousands)		(Dollars In Thousands)	
Life and annuity benefit reserves	\$29,972,938	\$29,574,479	\$3,898,079	\$4,191,845
Unpaid life claim liabilities	595,188	517,257	362,827	323,630
Life and annuity future policy benefits	30,568,126	30,091,736	4,260,906	4,515,475
Other policy benefits reserves	157,101	170,519	92,330	103,746
Other policy benefits unpaid claim liabilities	232,365	248,830	185,826	200,655
Future policy benefits and claims and associated reinsurance receivable	\$30,957,592	\$30,511,085	\$4,539,062	\$4,819,876
Unearned premiums	875,405	848,495	536,636	503,970
Total policy liabilities and accruals and associated reinsurance receivable	\$31,832,997	\$31,359,580	\$5,075,698	\$5,323,846

Liabilities for life and annuity benefit reserves consist of liabilities for traditional life insurance, cash values associated with universal life insurance, immediate annuity benefit reserves, and other benefits associated with life and annuity benefits. The unpaid life claim liabilities consist of current pending claims as well as an estimate of incurred but not reported life insurance claims.

Other policy benefit reserves consist of certain health insurance policies that are in runoff. The unpaid claim liabilities associated with other policy benefits includes current pending claims, the present value of estimated future claim payments for policies currently receiving benefits and an estimate of claims incurred but not yet reported.

Traditional Life, Health, and Credit Insurance Products

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

Liabilities for future policy benefits on traditional life insurance products have been computed using a net level method including assumptions as to investment yields, mortality, persistency, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Reserve investment yield assumptions on December 31, 2017 (Successor Company), range from approximately 2.75% to 4.50%. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported. Policy claims are charged to expense in the period in which the claims are incurred.

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

Universal Life and Investment Products

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Premiums and policy fees for

universal life and investment products consist of fees that have been assessed against policy account balances for the costs of insurance, policy administration, and surrenders. Such fees are recognized when assessed and earned. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances.

Table of Contents

Interest rates credited to universal life products ranged from 1.0% to 8.75% and investment products ranged from 0.5% to 11.3% in 2017.

The Company establishes liabilities for fixed indexed annuity ("FIA") products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") Topic 815 - Derivatives and Hedging which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The future changes in the fair value of the liability for these FIA products are recorded in Benefit and settlement expenses with the liability being recorded in Annuity account balances. For more information regarding the determination of fair value of annuity account balances please refer to Note 6, Fair Value of Financial Instruments. Premiums and policy fees for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

The Company currently markets a deferred fixed annuity with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB's ASC Topic 815 - Derivatives and Hedging. The Company did not elect to value these FIA products at fair value. As a result, the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in Other liabilities. Changes in the fair value of the embedded derivative are recorded in Realized investment gains (losses) - Derivative financial instruments. For more information regarding the determination of fair value of the FIA embedded derivative refer to Note 6, Fair Value of Financial Instruments. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 -Financial Services—Insurance and is recorded in Annuity account balances with any discount to the minimum account value being accreted using the effective yield method. Benefits and settlement expenses include accreted interest and benefit claims incurred during the period.

The Company markets universal life products with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB's ASC Topic 815 - Derivatives and Hedging. The Company did not elect to value these indexed universal life ("IUL") products at fair value prior to the Merger date. As a result, the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in Other liabilities. Changes in the fair value of the embedded derivative are recorded in Realized investment gains (losses) - Derivative financial instruments. For more information regarding the determination of fair value of the IUL embedded derivative refer to Note 6, Fair Value of Financial Instruments. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 - Financial Services - Insurance and is recorded in Future policy benefits and claims with any discount to the minimum account value being accreted using the effective yield method. Benefits and settlement expenses include accreted interest and benefit claims incurred during the period.

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

The Company establishes liabilities for guaranteed minimum death benefits ("GMDB") on its VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. The Company assumes age-based mortality from the Ruark 2015 ALB table adjusted for company experience. Future declines in the equity market would increase the Company's GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB, as of December 31, 2017 (Successor Company), are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2017 (Successor Company), the GMDB reserve was \$34.0 million.

Property and Casualty Insurance Products

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

Reinsurance

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

Reinsurance Accounting Methodology—Ceded premiums of the Company's traditional life insurance products are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the

Table of Contents

applicable financial reporting period. Expense allowances paid by the assuming companies which are allocable to the current period are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the "ultimate" or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances representing recovery of acquisition costs is treated as an offset to direct amortization of DAC or VOBA. Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest.

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

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

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

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

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

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

The Company determines its "cost of reinsurance" to include amounts paid to the reinsurer (ceded premiums) net of amounts reimbursed by the reinsurer (in the form of allowances). As noted within ASC Financial Services—Insurance Topic, "The difference, if any, between amounts paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts is part of the estimated cost to be amortized." The Company's policy is to amortize the cost of reinsurance over the life of the underlying reinsured contracts (for long-duration policies) in a manner consistent with the way in which benefits and expenses on the underlying contracts are recognized. For the Company's long-duration contracts, it is the Company's practice to defer reinsurance allowances as a component of the cost of reinsurance and recognize the portion related to the recovery of acquisition

costs as a reduction of applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. The remaining balance of reinsurance allowances are included as a component of the cost of reinsurance and those allowances which are allocable to the current period are recorded as an offset to operating expenses in the current period consistent with the recognition of benefits and expenses on the underlying reinsured contracts. This practice is consistent with the Company's practice of capitalizing direct expenses (e.g. commissions), and results in the recognition of reinsurance allowances on a systematic basis over the life of the reinsured policies on a basis consistent with the way in which acquisition costs on the underlying reinsured contracts would be recognized. In some cases reinsurance allowances allocable to the current period may exceed non-deferred direct costs, which may cause net other operating expenses (related to specific contracts) to be negative.

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

Reinsurance Assets and Liabilities—Claim liabilities and policy benefits are calculated consistently for all policies, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the

Table of Contents

reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners and recorded as Reinsurance receivables on the balance sheet. The reinsurance receivables as of the Merger date, were recorded in the balance sheet using current accounting policies and the most current assumptions. As of the Merger date, the Company also calculated the ceded VOBA associated with the reinsured policies. The reinsurance receivables combined with the associated ceded VOBA represent the fair value of the reinsurance assets as of the Merger date.

Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed to ensure that appropriate amounts are ceded.

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

Components of Reinsurance Cost—The following income statement lines are affected by reinsurance cost: Premiums and policy fees ("reinsurance ceded" on the Company's financial statements) represent consideration paid to the assuming company for accepting the ceding company's risks. Ceded premiums and policy fees increase reinsurance cost.

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

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

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

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

Accounting Pronouncements Recently Adopted

Accounting Standards Update ("ASU") 2018-02: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This Update addresses an accounting issue in which previously recorded tax effects are stranded in accumulated other comprehensive income as a result of the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act ("Tax Reform Act"). The Update allows reclassification from accumulated other comprehensive income to retained earnings of such stranded tax effects. The amount of the reclassification is equal to the difference between the historical corporate income tax rate and the newly enacted corporate income tax rate. The Update is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company elected to adopt the amendments in this Update on a retrospective basis, upon issuance, and recorded an entry as of December 31, 2017 to reclassify stranded tax effects from accumulated other comprehensive income to retained earnings in the amount of \$25.8 million.

ASU No. 2017-04-Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Update simplifies the goodwill impairment test by re-defining the concept of goodwill impairment as the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The Update eliminates "Step 2" of the current goodwill impairment test, which requires entities to determine goodwill impairment by calculating the implied fair value of goodwill by remeasuring to fair value the assets and liabilities of a reporting unit as if that reporting unit had been acquired in a business combination. The Company elected to adopt the amendments in the Update in the first quarter of 2017, and applied the revised guidance to impairment tests conducted after January 1, 2017. Application of the revised guidance did not impact the Company's financial position or results of operations. For more details

regarding the Company's goodwill assessment process, please refer to Note 11, Goodwill.

ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The additional disclosures introduced in this Update have not been provided, as the short-duration lines of business to which they apply are not material to the Company's financial statements.

Accounting Pronouncements Not Yet Adopted

ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606). This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount

Table of Contents

that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update was originally effective for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU No. 2015-14 - Revenues from Contracts with Customers: Deferral of the Effective Date, to defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. The Company will adopt this Update using the modified retrospective approach via a cumulative effect adjustment to retained earnings as of January 1, 2018. The amendments in the Update, along with clarifying updates issued subsequent to ASU 2014-09, will impact some of the Company's smaller lines of business, specifically revenues at the Company's affiliated broker dealers and insurance agency, and certain revenues associated with the Company's Asset Protection products. However, the cumulative effect adjustment related to the Company's adoption of the revised guidance is limited to the Company's Asset Protection segment. Specifically, the Company will revise its pattern of recognition of administrative fees associated with certain vehicle service and GAP products. Previously, these fees were recognized based on the work effort involved in satisfying the Company's contract obligations. In consideration of the amendments in ASU 2014-09, the Company will recognize these fees based on expected claim patterns. The cumulative effect adjustment as of January 1, 2018 will result in a decrease in retained earnings of \$92.5 million. The pre-tax cumulative effect adjustment was consistent with the Company's previous estimates, as disclosed in its Form 10-Q for the period ended September 30, 2017. However, the reduction in the federal corporate income tax rate due to the enactment of the Tax Reform Act resulted in an increase in the net impact to retained earnings. The Company will also implement minor changes to its accounting and disclosures with respect to the lines of business referenced above to ensure compliance with the revised guidance.

ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The Update also introduces a single-step impairment model for equity investments without a readily determinable fair value. Additionally, the Update requires changes in instrument-specific credit risk for fair value option liabilities to be recorded in other comprehensive income. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2017 and will be applied on a modified retrospective basis. The Company recorded a cumulative-effect adjustment as of the date of adoption, January 1, 2018, transferring unrealized gains and losses on available-for-sale equity securities to retained earnings from accumulated other comprehensive income. The impact of this adjustment, net of income tax, resulted in a \$10.7 million increase to retained earnings. The Company will make updates to its disclosures in the first quarter in order to comply with the new guidance.

ASU No. 2016-02 - Leases. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of leases. The most significant change will relate to the accounting model used by lessees. The Update will require all leases with terms greater than 12 months to be recorded on the balance sheet in the form of a lease asset and liability. The lease asset and liability will be measured at the present value of the minimum lease payments less any upfront payments or fees. The Update also requires numerous disclosure changes for which the Company is assessing the impact. The amendments in the Update are effective for annual and interim periods beginning after December 15, 2018 on a modified retrospective basis. The Company has completed an inventory of all leases in the organization and is currently assessing the impact of the Update and updating internal processes to ensure compliance with the revised guidance.

ASU No. 2016-13 - Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. The amendments in this Update introduce a new current expected credit loss ("CECL") model for certain financial assets, including mortgage loans and reinsurance receivables. The new model will not apply to debt securities classified as available-for-sale. For assets within the scope of the new model, an entity will recognize as an allowance against earnings its estimate of the contractual cash flows not expected to be collected on day one of the asset's

acquisition. The allowance may be reversed through earnings if a security recovers in value. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred and recognizes a security's subsequent recovery in value in other comprehensive income. The Update also makes targeted changes to the current impairment model for available-for-sale debt securities, which comprise the majority of the Company's invested assets. Similar to the CECL model, credit loss impairments will be recorded in an allowance against earnings that may be reversed for subsequent recoveries in value. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2019 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its operations and financial results.

ASU No. 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update are intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Specific transactions addressed in the new guidance include: Debt prepayment/extinguishment costs, contingent consideration payments, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investments. The Update does not introduce any new accounting or financial reporting requirements, and is effective for annual and interim periods beginning after December 15, 2017 using the retrospective method. There will be no financial impact on adoption while the Company expects a minor operational impact to cash flow statement reporting.

ASU No. 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Task Force). The amendments in this update provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing diversity in practice related to the presentation of these amounts. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Update is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There will be no impact to the Company on adoption.

Table of Contents

ASU No. 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business. The purpose of this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in the Update provide a specific test by which an entity may determine whether an acquisition involves a set of assets or a business. The amendments in the Update are to be applied prospectively for periods beginning after December 15, 2017. The Company has reviewed the revised requirements, and does not anticipate that the changes will impact its policies or recent conclusions related to its acquisition activities.

ASU No. 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require entities to disaggregate the current-service-cost component from other components of net benefit cost and present it with other current compensation costs in the income statement. The other components of net benefit cost must be presented outside of income from operations if that subtotal is presented. In addition, the Update requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendments in this update are effective for interim and annual periods beginning after December 15, 2017. As provided for in the ASU, the Company expects to apply the provisions of the statement retrospectively for components of net periodic pension costs and prospectively for capitalization of the service costs component of net periodic costs and net periodic postretirement benefits. The Update will not impact the Company's financial position, results of operations, or current disclosures.

ASU No. 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this update require that premiums on callable debt securities be amortized to the first call date. This is a change from current guidance, under which premiums are amortized to the maturity date of the security. The amendments are effective for annual and interim periods beginning after December 31, 2018, and early adoption is permitted. Transition will be through a modified retrospective approach in which the cumulative effect of application is recorded to retained earnings at the beginning of the annual period in which an entity adopts the revised guidance. The Company is currently reviewing its systems and processes to determine the financial and operational impact of implementing the Update, as well as to determine whether early adoption of the revised guidance is practicable.

ASU No. 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update are designed to permit hedge accounting to be applied to a broader range of hedging strategies as well as to more closely align hedge accounting and risk management objectives. Specific provisions include requiring changes in the fair value of a hedging instrument be recorded in the same income statement line as the hedged item when it affects earnings. In addition, after a hedge has initially qualified as an effective hedge the Update permits the use of a qualitative hedge effectiveness test in subsequent periods. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact this standard will have on its operations and financial results.

3. SIGNIFICANT TRANSACTIONS

Reinsurance and Financing Transaction

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the "Master Agreement"), with Genworth Life and Annuity Insurance Company ("GLAIC"). Pursuant to the Master Agreement, effective January 1, 2016, PLICO entered into a reinsurance agreement (the "Reinsurance Agreement") under the terms of which PLICO coinsures certain term life insurance business of GLAIC (the "GLAIC Block"). In connection with the reinsurance transaction, on January 15, 2016, Golden Gate Captive Insurance Company ("Golden Gate"), a wholly owned subsidiary of PLICO, and Steel City, LLC ("Steel City"), a newly formed wholly owned

subsidiary of the Company, entered into an 18-year transaction to finance \$2.188 billion of “XXX” reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life Insurance Company (“WCL”), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of \$2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of \$2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the “Risk-Takers”) provide credit enhancement to the Steel City notes for the 18-year term in exchange for credit enhancement fees. The transaction is “non-recourse” to PLICO, WCL and the Company, meaning that none of these companies are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. As a result of the financing transaction described above, the \$800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes. Also on January 15, 2016, Golden Gate paid an extraordinary dividend of \$300 million to PLICO as approved by the Vermont Department of Financial Regulation. The transactions described above resulted in an increase to total assets and total liabilities of approximately \$2.8 billion. Of the approximate \$2.8 billion increase in total assets, \$0.6 billion was the result of the reinsurance transaction with GLAIC which included a \$280 million increase in VOBA. The remaining \$2.2 billion increase to total assets and liabilities is associated with the financing transaction between Golden Gate and Steel City. The Company considered whether the Reinsurance Agreement constituted the purchase of a business for accounting and reporting purposes pursuant to ASC 805, Business Combinations. While the transaction included a continuation of the certain

Table of Contents

revenue-producing activities associated with the reinsured policies, it did not result in the acquisition of a market distribution system, sales force or production techniques. Based on Management's decision not to pursue distribution opportunities or future sales related to the reinsured policies, the Company accounted for the transaction as a reinsurance agreement under ASC 944, Insurance Contracts and asset acquisition under ASC 805. Accordingly, the Company recorded the assets and liabilities acquired under the reinsurance agreement at fair value and recognized an intangible asset, VOBA, equal to the excess of the fair value of assets acquired over liabilities assumed, measured in accordance with the Company's accounting policies for insurance and reinsurance contracts that it issues or holds pursuant to ASC 944.

USWC Holding Company Acquisition

On December 1, 2016, PLICO completed the acquisition of the Pompano Beach, Florida-based USWC Holding Company ("US Warranty") pursuant to a Stock Purchase Agreement. US Warranty's primary operating subsidiary is United States Warranty Corp., which currently markets vehicle service contracts, GAP coverage, and a suite of ancillary automotive maintenance and protection products nationwide. This acquisition has provided the Company's Asset Protection segment and USWC with expanded market reach, enhanced product and operational capabilities, and higher collective growth potential.

The transaction was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. On the acquisition date, goodwill of \$61.0 million represented the cost in excess of the fair value of net assets acquired (including identifiable intangibles), and reflected the US Warranty's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. The Company acquired 100% of voting equity interests. The aggregate purchase price for US Warranty was \$136.1 million.

The amount recorded as the value of business acquired at December 1, 2016, represents the actuarially estimated present value of after-tax future cash flows, adjusted for statutory reserve differences and cost of capital, from the policies acquired through the US Warranty acquisition. This amount will be amortized in proportion with the gross premiums or estimated net profits of the acquired insurance contracts.

The following table summarizes the fair values of the net assets acquired as of the acquisition date:

	Fair Value As of December 1, 2016 (Dollars in Thousands)
Assets	
Fixed maturities	\$ 10,592
Other long-term investments	2,340
Cash	122,167
Accrued investment income	52
Accounts and premiums receivables	18,536
Reinsurance receivable	9,397
Value of businesses acquired	5,079
Goodwill	61,027
Other intangibles	70,400
Property and equipment	390
Accrued income taxes	4,161
Other assets	40
Total assets	304,181
Liabilities	
Unearned premiums	\$ 82,757
Other policyholders' funds	21,483

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Other liabilities	24,951
Deferred income taxes	38,929
Total liabilities	168,120
Net assets acquired	\$ 136,061

121

Table of Contents

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

	Estimated Fair Value on Acquisition Date (Dollars In Thousands)	Estimated Useful Life (In Years)
Distribution relationships	\$ 65,000	13-21
Trade names	1,400	5-6
Technology	4,000	8-11
Total intangible assets	\$ 70,400	

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

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

Year	Amount (Dollars In Thousands)
2017	\$ 4,843
2018	4,843
2019	4,843
2020	4,843
2021	4,843

The following (unaudited) pro forma condensed consolidated results of operations assumes that the acquisition of US Warranty was completed as of January 1, 2015:

	Successor Company For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015
Revenue ⁽¹⁾	\$4,532,292	\$3,753,700
Net income ⁽²⁾	393,277	268,479

(1) Includes \$4.7 million of revenue recognized in the Company's net income for year ended December 31, 2016 (Successor Company).

(2) Includes \$0.2 million of net income recognized in the Company's net income for the year ended December 31, 2016 (Successor Company).

The pro forma information above is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

4. MONY CLOSED BLOCK OF BUSINESS

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

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

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in AOCI) at the acquisition date of October 1, 2013, represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed

Table of Contents

Block remain in force. In connection with the acquisition of MONY, the Company developed an actuarial calculation of the expected timing of MONY's Closed Block's earnings as of October 1, 2013. Pursuant to the acquisition of the Company by Dai-ichi Life, this actuarial calculation of the expected timing of MONY's Closed Block earnings was recalculated and reset as February 1, 2015, along with the establishment of a policyholder dividend obligation as of such date.

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

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

Summarized financial information for the Closed Block as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company) and is as follows:

	Successor Company As of December 31, 2017 2016 (Dollars In Thousands)	
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	\$5,791,867	\$5,896,355
Policyholder dividend obligation	160,712	31,932
Other liabilities	30,764	40,007
Total closed block liabilities	5,983,343	5,968,294
Closed block assets		
Fixed maturities, available-for-sale, at fair value	4,669,856	4,440,105
Mortgage loans on real estate	108,934	201,088
Policy loans	700,769	712,959
Cash and other invested assets	31,182	108,270
Other assets	122,637	135,794
Total closed block assets	5,633,378	5,598,216
Excess of reported closed block liabilities over closed block assets	349,965	370,078
Portion of above representing accumulated other comprehensive income:		
Net unrealized investments gains (losses) net of policyholder dividend obligation: \$(13,429) and \$(197,450); and net of income tax: \$2,820 and \$69,107	—	—
Future earnings to be recognized from closed block assets and closed block liabilities	\$349,965	\$370,078

Reconciliation of the policyholder dividend obligation is as follows:

	Successor Company For The Year Ended December 31	For The Year Ended December 31
--	--	---

	2017	31, 2016
	(Dollars In Thousands)	
Policyholder dividend obligation, beginning balance	\$31,932	\$—
Applicable to net revenue (losses)	(55,241)	(46,557)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	184,021	78,489
Policyholder dividend obligation, ending balance	\$160,712	\$ 31,932

123

Table of Contents

Closed Block revenues and expenses were as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Revenues				
Premiums and other income	\$ 180,097	\$ 189,700	\$ 185,562	\$ 15,065
Net investment income	203,964	211,175	193,203	19,107
Net investment gains	910	1,524	3,333	568
Total revenues	384,971	402,399	382,098	34,740
Benefits and other deductions				
Benefits and settlement expenses	335,200	353,488	336,629	31,152
Other operating expenses	1,940	2,804	1,001	—
Total benefits and other deductions	337,140	356,292	337,630	31,152
Net revenues before income taxes	47,831	46,107	44,468	3,588
Income tax expense	27,718	16,137	14,920	1,256
Net revenues	\$ 20,113	\$ 29,970	\$ 29,548	\$ 2,332

5. INVESTMENT OPERATIONS

Major categories of net investment income are summarized as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Fixed maturities	\$ 1,631,565	\$ 1,552,999	\$ 1,267,900	\$ 140,104
Equity securities	39,806	38,838	40,907	2,572
Mortgage loans	298,387	270,749	252,577	24,977
Investment real estate	2,481	2,153	2,528	112
Short-term investments	108,476	106,828	93,982	9,713
	2,080,715	1,971,567	1,657,894	177,478
Other investment expenses	29,127	29,111	24,946	2,298
Net investment income	\$ 2,051,588	\$ 1,942,456	\$ 1,632,948	\$ 175,180

Table of Contents

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Fixed maturities	\$12,941	\$32,210	\$1,282	\$6,891
Equity securities	(2,330)	92	(1,001)	—
Impairments on securities	(11,742)	(17,748)	(26,993)	(481)
Modco trading portfolio	119,206	67,583	(167,359)	73,062
Other investments	(8,389)	(9,226)	192	1,200
Total realized gains (losses)—investments	\$109,686	\$72,911	\$(193,879)	\$80,672

Gross realized gains and gross realized losses on investments available-for-sale (fixed maturities, equity securities, and short-term investments) are as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Gross realized gains	\$18,868	\$42,085	\$8,745	\$6,920
Gross realized losses:				
Impairments losses	\$(11,742)	\$(17,748)	\$(26,993)	\$(481)
Other realized losses	\$(8,257)	\$(9,783)	\$(8,463)	\$12

The chart below summarizes the fair value (proceeds) and the gains/losses realized on securities the Company sold that were in an unrealized gain position and an unrealized loss position.

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Securities in an unrealized gain position:				
Fair value (proceeds)	\$879,181	\$1,198,333	\$950,874	\$172,551
Gains realized	\$18,868	\$42,085	\$8,745	\$6,920
Securities in an unrealized loss position ⁽¹⁾ :				
Fair value (proceeds)	\$185,157	\$85,835	\$178,415	\$435
Losses realized	\$(8,257)	\$(9,783)	\$(8,463)	\$(29)

⁽¹⁾ The Company made the decision to exit these holdings in conjunction with its overall asset liability management process.

Table of Contents

The amortized cost and fair value of the Company's investments classified as available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI ⁽¹⁾
(Dollars In Thousands)					
Successor Company					
As of December 31, 2017					
Fixed maturities:					
Residential mortgage-backed securities	\$2,330,832	\$ 19,413	\$(23,033)	\$2,327,212	\$ 10
Commercial mortgage-backed securities	1,914,998	5,010	(30,186)	1,889,822	—
Other asset-backed securities	1,234,376	20,936	(5,763)	1,249,549	—
U.S. government-related securities	1,255,244	185	(32,177)	1,223,252	—
Other government-related securities	282,767	9,463	(4,948)	287,282	—
States, municipals, and political subdivisions	1,770,299	16,959	(45,613)	1,741,645	(37)
Corporate securities	29,606,484	623,713	(528,187)	29,702,010	(1)
Redeemable preferred stock	94,362	232	(3,503)	91,091	—
	38,489,362	695,911	(673,410)	38,511,863	(28)
Equity securities	735,569	22,318	(8,771)	749,116	—
Short-term investments	558,949	—	—	558,949	—
	\$39,783,880	\$ 718,229	\$(682,181)	\$39,819,928	\$(28)
As of December 31, 2016					
Fixed maturities:					
Residential mortgage-backed securities	\$1,913,413	\$ 10,737	\$(25,667)	\$1,898,483	\$(9)
Commercial mortgage-backed securities	1,850,620	2,528	(41,678)	1,811,470	—
Other asset-backed securities	1,210,490	21,741	(20,698)	1,211,533	—
U.S. government-related securities	1,308,192	422	(40,455)	1,268,159	—
Other government-related securities	253,182	1,536	(14,797)	239,921	—
States, municipals, and political subdivisions	1,760,837	1,224	(105,558)	1,656,503	—
Corporate securities	28,801,768	153,715	(1,583,918)	27,371,565	(11,030)
Redeemable preferred stock	94,362	—	(8,519)	85,843	—
	37,192,864	191,903	(1,841,290)	35,543,477	(11,039)
Equity securities	761,340	7,751	(21,685)	747,406	—
Short-term investments	279,782	—	—	279,782	—
	\$38,233,986	\$ 199,654	\$(1,862,975)	\$36,570,665	\$(11,039)

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

Table of Contents

The fair value of the Company's investments classified as trading are as follows:

	Successor Company	
	As of December 31,	
	2017	2016
	(Dollars In Thousands)	
Fixed maturities - trading:		
Residential mortgage-backed securities	\$259,694	\$255,027
Commercial mortgage-backed securities	146,804	149,683
Other asset-backed securities	138,097	200,084
U.S. government-related securities	27,234	26,961
Other government-related securities	63,925	63,012
States, municipals, and political subdivisions	326,925	316,519
Corporate securities	1,698,183	1,624,589
Redeemable preferred stock	3,327	3,985
	2,664,189	2,639,860
Equity securities	5,244	7,083
Short-term investments	56,261	52,648
	\$2,725,694	\$2,699,591

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of December 31, 2017 (Successor Company), by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Due in one year or less	\$723,923	\$723,435	\$—	\$—
Due after one year through five years	6,657,059	6,639,380	—	—
Due after five years through ten years	7,475,095	7,481,482	—	—
Due after ten years	23,633,285	23,667,566	2,718,904	2,776,327
	\$38,489,362	\$38,511,863	\$2,718,904	\$2,776,327

Table of Contents

The chart below summarizes the Company's other-than-temporary impairments of investments. All of the impairments were related to fixed maturities or equity securities.

	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)		
For The Year Ended December 31, 2017 (Successor Company)			
Other-than-temporary impairments	\$(1,332)	\$(2,630)	\$(3,962)
Non-credit impairment losses recorded in other comprehensive income	(7,780)	—	(7,780)
Net impairment losses recognized in earnings	\$(9,112)	\$(2,630)	\$(11,742)
For The Year Ended December 31, 2016 (Successor Company)			
Other-than-temporary impairments	\$(32,075)	\$—	\$(32,075)
Non-credit impairment losses recorded in other comprehensive income	14,327	—	14,327
Net impairment losses recognized in earnings	\$(17,748)	\$—	\$(17,748)
For The Period of February 1, 2015 to December 31, 2015 (Successor Company)			
Other-than-temporary impairments	\$(28,659)	\$—	\$(28,659)
Non-credit impairment losses recorded in other comprehensive income	1,666	—	1,666
Net impairment losses recognized in earnings	\$(26,993)	\$—	\$(26,993)
For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)			
Other-than-temporary impairments	\$(636)	\$—	\$(636)
Non-credit impairment losses recorded in other comprehensive income	155	—	155
Net impairment losses recognized in earnings	\$(481)	\$—	\$(481)
There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), for the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).			

Table of Contents

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

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Beginning balance	\$12,685	\$22,761	\$—	\$15,478
Additions for newly impaired securities	734	14,876	22,761	—
Additions for previously impaired securities	3,175	2,063	—	221
Reductions for previously impaired securities due to a change in expected cash flows	(12,726)	(24,396)	—	—
Reductions for previously impaired securities that were sold in the current period	(600)	(2,619)	—	—
Other	—	—	—	—
Ending balance	\$3,268	\$12,685	\$22,761	\$15,699

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, 2017 (Successor Company):

	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	\$766,599	\$(9,671)	\$416,221	\$(13,362)	\$1,182,820	\$(23,033)
Commercial mortgage-backed securities	757,471	(8,592)	796,456	(21,594)	1,553,927	(30,186)
Other asset-backed securities	86,506	(322)	134,316	(5,441)	220,822	(5,763)
U.S. government-related securities	94,110	(688)	1,072,232	(31,489)	1,166,342	(32,177)
Other government-related securities	24,830	(169)	115,294	(4,778)	140,124	(4,947)
States, municipalities, and political subdivisions	170,268	(1,738)	1,027,747	(43,874)	1,198,015	(45,612)
Corporate securities	5,054,316	(55,795)	10,962,689	(472,394)	16,017,005	(528,189)
Redeemable preferred stock	22,048	(1,120)	23,197	(2,383)	45,245	(3,503)
Equities	86,586	(1,401)	91,195	(7,370)	177,781	(8,771)
	\$7,062,734	\$(79,496)	\$14,639,347	\$(602,685)	\$21,702,081	\$(682,181)

RMBS and CMBS had gross unrealized losses greater than twelve months of \$13.4 million and \$21.6 million as of December 31, 2017 (Successor Company), respectively. 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 \$5.4 million as of December 31, 2017 (Successor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The U.S. government-related securities and the other government-related securities had gross unrealized losses greater than twelve months of \$31.5 million and \$4.8 million as of December 31, 2017 (Successor Company), respectively.

These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions categories had gross unrealized losses greater than twelve months of \$43.9 million as of December 31, 2017 (Successor Company). These declines were related to changes in interest rates.

The corporate securities category has gross unrealized losses greater than twelve months of \$472.4 million as of December 31, 2017 (Successor Company). The aggregate decline in market value of these securities was deemed temporary due

Table of Contents

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.

As of December 31, 2017 (Successor Company), the Company had a total of 1,845 positions that were in an unrealized loss position, but the Company does not consider these unrealized loss positions to be other-than-temporary. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and the Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2016 (Successor Company):

	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	\$1,060,569	\$(21,550)	\$170,826	\$(4,117)	\$1,231,395	\$(25,667)
Commercial mortgage-backed securities	1,452,146	(37,665)	100,475	(4,013)	1,552,621	(41,678)
Other asset-backed securities	323,706	(9,291)	176,792	(11,407)	500,498	(20,698)
U.S. government-related securities	1,237,942	(40,454)	3	(1)	1,237,945	(40,455)
Other government-related securities	98,412	(2,907)	79,393	(11,890)	177,805	(14,797)
States, municipalities, and political subdivisions	1,062,368	(63,809)	548,254	(41,749)	1,610,622	(105,558)
Corporate securities	12,553,514	(469,189)	9,793,579	(1,114,729)	22,347,093	(1,583,918)
Redeemable preferred Stock	66,781	(6,642)	19,062	(1,877)	85,843	(8,519)
Equities	411,845	(15,273)	69,497	(6,412)	481,342	(21,685)
	\$18,267,283	\$(666,780)	\$10,957,881	\$(1,196,195)	\$29,225,164	\$(1,862,975)

RMBS and CMBS had gross unrealized losses greater than twelve months of \$4.1 million and \$4.0 million, respectively, as of December 31, 2016 (Successor Company). Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$11.4 million as of December 31, 2016 (Successor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The other government-related securities had gross unrealized losses greater than twelve months of \$11.9 million as of December 31, 2016 (Successor Company). These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions categories had gross unrealized losses greater than twelve months of \$41.7 million as of December 31, 2016 (Successor Company). These declines were related to changes in interest rates.

The corporate securities category has gross unrealized losses greater than twelve months of \$1.1 billion as of December 31, 2016 (Successor Company). The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of December 31, 2017 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade with a fair value of \$1.9 billion and had an amortized cost of \$1.9 billion. In

addition, included in the Company's trading portfolio, the Company held \$229.0 million of securities which were rated below investment grade. Approximately \$311.8 million of the below investment grade securities held by the Company were not publicly traded.

Table of Contents

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:

	Successor Company		Predecessor Company	
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)	
Fixed maturities	\$1,086,727	\$802,368	\$(1,874,469)	\$ 670,229
Equity securities	17,863	(13,463)	4,406	10,226

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), are as follows:

Successor Company	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value	Total OTTI Recognized in OCI
As of December 31, 2017	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	\$704,904	\$ —	\$ (19,163)	\$685,741	\$ —
Steel City LLC	2,014,000	76,586	—	2,090,586	—
	\$2,718,904	\$ 76,586	\$ (19,163)	\$2,776,327	\$ —
Successor Company	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value	Total OTTI Recognized in OCI
As of December 31, 2016	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	\$654,177	\$ —	\$ (67,222)	\$586,955	\$ —
Steel City LLC	2,116,000	30,385	—	2,146,385	—
	\$2,770,177	\$ 30,385	\$ (67,222)	\$2,733,340	\$ —

During the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not record any other-than-temporary impairments on held-to-maturity securities.

The Company's held-to-maturity securities had \$76.6 million of gross unrecognized holding gains and \$19.2 million of gross unrecognized holding losses by maturity as of December 31, 2017 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information. These held-to-maturity securities are issued by affiliates of the Company which are considered VIE's. The Company is not the primary beneficiary of these entities and thus the securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding

obligations issued by captive insurance companies that are affiliates of the Company.

The Company's held-to-maturity securities had \$30.4 million of gross unrecognized holding gains and \$67.2 million of gross unrecognized holding losses by maturity as of December 31, 2016 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information.

The Company held \$17.5 million of non-income producing securities for the year ended December 31, 2017 (Successor Company).

Included in the Company's invested assets are \$1.6 billion of policy loans as of December 31, 2017 (Successor Company). The interest rates on standard policy loans range from 3.0% to 8.0%. The collateral loans on life insurance policies have an interest rate of 13.64%.

Table of Contents

Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC” or “Codification”) (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a VIE. If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in two subsidiaries as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), Red Mountain LLC (“Red Mountain”) and Steel City LLC (“Steel City”), that were determined to be VIEs.

The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (“Golden Gate V”) in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued a note (the “Red Mountain Note”) to Golden Gate V. For details of this transaction, see Note 14, Debt and Other Obligations. The Company has the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company’s risk of loss related to the VIE is limited to its investment, through an affiliate, of \$10,000. Additionally, the Company has guaranteed Red Mountain’s payment obligation for the credit enhancement fee to the unrelated third party provider. As of December 31, 2017 (Successor Company), no payments have been made or required related to this guarantee.

Steel City, a newly formed wholly owned subsidiary of the Company, entered into a financing agreement on January 15, 2016 involving Golden Gate Captive Insurance Company, in which Golden Gate issued non-recourse funding obligations to Steel City and Steel City issued three notes (the “Steel City Notes”) to Golden Gate. Credit enhancement on the Steel City Notes is provided by unrelated third parties. For details of the financing transaction, see Note 14, Debt and Other Obligations. The activity most significant to Steel City is the issuance of the Steel City Notes. The Company had the power, via its 100% ownership, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third parties in their function as providers of credit enhancement on the Steel City Notes.

Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company’s risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the Company has guaranteed Steel City’s payment obligation for the credit enhancement fee to the unrelated third party providers. As of December 31, 2017 (Successor Company), no payments have been made or required related to this guarantee.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to

measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

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

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

- a) Quoted prices for similar assets or liabilities in active markets
- b) Quoted prices for identical or similar assets or liabilities in non-active markets
- c) Inputs other than quoted market prices that are observable
- d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

Table of Contents

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.

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, 2017 (Successor Company):

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities—available-for-sale				
Residential mortgage-backed securities	\$—	\$2,327,212	\$—	\$2,327,212
Commercial mortgage-backed securities	—	1,889,822	—	1,889,822
Other asset-backed securities	—	745,184	504,365	1,249,549
U.S. government-related securities	958,775	264,477	—	1,223,252
State, municipalities, and political subdivisions	—	1,741,645	—	1,741,645
Other government-related securities	—	287,282	—	287,282
Corporate securities	—	29,075,109	626,901	29,702,010
Redeemable preferred stock	72,471	18,620	—	91,091
Total fixed maturity securities—available-for-sale	1,031,246	36,349,351	1,131,266	38,511,863
Fixed maturity securities—trading				
Residential mortgage-backed securities	—	259,694	—	259,694
Commercial mortgage-backed securities	—	146,804	—	146,804
Other asset-backed securities	—	102,875	35,222	138,097
U.S. government-related securities	21,183	6,051	—	27,234
State, municipalities, and political subdivisions	—	326,925	—	326,925
Other government-related securities	—	63,925	—	63,925
Corporate securities	—	1,692,741	5,442	1,698,183
Redeemable preferred stock	3,327	—	—	3,327
Total fixed maturity securities—trading	24,510	2,599,015	40,664	2,664,189
Total fixed maturity securities	1,055,756	38,948,366	1,171,930	41,176,052
Equity securities	688,214	36	66,110	754,360
Other long-term investments ⁽¹⁾	51,102	417,969	136,004	605,075
Short-term investments	482,461	132,749	—	615,210
Total investments	2,277,533	39,499,120	1,374,044	43,150,697
Cash	252,310	—	—	252,310
Other assets	28,771	—	—	28,771
Assets related to separate accounts				
Variable annuity	13,956,071	—	—	13,956,071
Variable universal life	1,035,202	—	—	1,035,202
Total assets measured at fair value on a recurring basis	\$17,549,887	\$39,499,120	\$1,374,044	\$58,423,051
Liabilities:				
Annuity account balances ⁽²⁾	\$—	\$—	\$83,472	\$83,472
Other liabilities ⁽¹⁾	5,755	240,927	760,890	1,007,572
Total liabilities measured at fair value on a recurring basis	\$5,755	\$240,927	\$844,362	\$1,091,044

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

Table of Contents

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, 2016 (Predecessor Company):

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities—available-for-sale				
Residential mortgage-backed securities	\$—	\$ 1,898,480	\$ 3	\$ 1,898,483
Commercial mortgage-backed securities	—	1,811,470	—	1,811,470
Other asset-backed securities	—	648,929	562,604	1,211,533
U.S. government-related securities	1,002,020	266,139	—	1,268,159
State, municipalities, and political subdivisions	—	1,656,503	—	1,656,503
Other government-related securities	—	239,921	—	239,921
Corporate securities	—	26,707,519	664,046	27,371,565
Redeemable preferred stock	66,781	19,062	—	85,843
Total fixed maturity securities—available-for-sale	1,068,801	33,248,023	1,226,653	35,543,477
Fixed maturity securities—trading				
Residential mortgage-backed securities	—	255,027	—	255,027
Commercial mortgage-backed securities	—	149,683	—	149,683
Other asset-backed securities	—	115,521	84,563	200,084
U.S. government-related securities	22,424	4,537	—	26,961
State, municipalities, and political subdivisions	—	316,519	—	316,519
Other government-related securities	—	63,012	—	63,012
Corporate securities	—	1,619,097	5,492	1,624,589
Redeemable preferred stock	3,985	—	—	3,985
Total fixed maturity securities—trading	26,409	2,523,396	90,055	2,639,860
Total fixed maturity securities	1,095,210	35,771,419	1,316,708	38,183,337
Equity securities	685,443	36	69,010	754,489
Other long-term investments ⁽¹⁾	82,420	335,498	124,325	542,243
Short-term investments	328,829	3,602	—	332,431
Total investments	2,191,902	36,110,555	1,510,043	39,812,500
Cash	348,182	—	—	348,182
Other assets	23,830	—	—	23,830
Assets related to separate accounts				
Variable annuity	13,244,252	—	—	13,244,252
Variable universal life	895,925	—	—	895,925
Total assets measured at fair value on a recurring basis	\$ 16,704,091	\$ 36,110,555	\$ 1,510,043	\$ 54,324,689
Liabilities:				
Annuity account balances ⁽²⁾	\$—	\$—	\$ 87,616	\$ 87,616
Other liabilities ⁽¹⁾	13,004	163,974	571,843	748,821
Total liabilities measured at fair value on a recurring basis	\$ 13,004	\$ 163,974	\$ 659,459	\$ 836,437

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed 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

Table of Contents

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 approximately 92.7% of the Company's available-for-sale and trading fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the year ended December 31, 2017 (Successor Company).

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or "ABS"). As of December 31, 2017 (Successor Company), the Company held \$5.5 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation

process they consider the following characteristics of the item being measured to be relevant inputs:

1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

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

As of December 31, 2017 (Successor Company), the Company held \$539.6 million of Level 3 ABS, which included \$504.4 million of other asset-backed securities classified as available-for-sale and \$35.2 million of other asset-backed securities classified as trading. These securities within the available-for-sale portfolio are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate. In periods where market activity increases and there are transactions at a price that is not the result of a distressed or forced sale we

Table of Contents

consider those prices as part of our valuation. If the market activity during a period is solely the result of the issuer redeeming positions we consider those transactions in our valuation, but still consider them to be level three measurements due to the nature of the transaction.

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

As of December 31, 2017 (Successor Company), the Company classified approximately \$33.5 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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

As of December 31, 2017 (Successor Company), the Company classified approximately \$632.3 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of December 31, 2017 (Successor Company), the Company held approximately \$66.1 million of equity securities classified as Level 2 and Level 3. Of this total, \$65.5 million represents FHLB stock. The Company believes that the cost of the FHLB stock approximates fair value.

Other Long-Term Investments and Other Liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 7, Derivative Financial Instruments for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of December 31, 2017 (Successor Company), 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

Derivative instruments classified as Level 2 primarily include swaps, options, and swaptions, which are traded over-the-counter. Level 2 also includes certain centrally cleared derivatives. 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 embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company's consolidated balance sheet. The changes in fair value are recorded in earnings as "Realized investment gains (losses)—Derivative financial instruments". Refer to Note 7, Derivative Financial Instruments for more information related to each embedded derivatives gains and losses.

The fair value of the GLWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the Ruark

Table of Contents

2015 ALB table with attained age factors varying from 91.1% - 106.6%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GLWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 46% - 113%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ("IUL") embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 34% - 152%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as "trading securities"; therefore changes in their fair value are also reported in earnings. As of December 31, 2017 (Successor Company), the fair value of the embedded derivative is based upon the relationship between the statutory policy liabilities (net of policy loans) of \$2.4 billion and the statutory unrealized gain (loss) of the securities of \$226.6 million. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity Account Balances

The Company records a certain legacy block of FIA reserves at fair value. Based on the characteristics of these reserves, the Company believes that the fund value approximates fair value. The fair value measurement of these reserves is considered a Level 3 valuation due to the unobservable nature of the fund values. The Level 3 fair value as of December 31, 2017 (Successor Company) is \$83.5 million.

Separate Accounts

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

Table of Contents

Valuation of Level 3 Financial Instruments

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

	Successor Company Fair Value As of December 31, 2017 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	\$ 504,228	Liquidation	Liquidation value	\$90 - \$97 (\$94.91)
		Discounted cash flow	Liquidity premium	0.06% - 1.17% (0.75%)
			Paydown rate	11.31% - 11.97% (11.54%)
Corporate securities	617,770	Discounted cash flow	Spread over treasury	0.81% - 3.95% (1.06%)
Liabilities:⁽¹⁾				
Embedded derivatives—GLWB	\$ 111,760	Actuarial cash flow model	Mortality	91.1% to 106.6% of Ruark 2015 ALB table
			Lapse	1.0% - 30.0%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.11% - 0.79%
Embedded derivative—FIA	218,676	Actuarial cash flow model	Expenses	\$146 per policy
			Withdrawal rate	1.5% prior to age 70, 100% of the RMD for ages 70+
			Mortality	1994 MGDB table with company experience
			Lapse	1.0% - 30.0%, depending on duration/surrender charge period
			Nonperformance risk	0.11% - 0.79%
Embedded derivative—IUL	80,212	Actuarial cash flow model	Mortality	34% - 152% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.11% - 0.79%

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

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

The Company has considered all reasonably available quantitative inputs as of December 31, 2017 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$50.4 million of financial instruments being classified as Level 3 as of December 31, 2017 (Successor Company). Of the \$50.4 million, \$35.4 million are other asset-backed securities, \$14.6 million are corporate securities, and \$0.4 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2017 (Successor Company), the Company held \$65.7 million of financial instruments where book value approximates fair value which was predominantly FHLB stock.

Table of Contents

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

	Successor Company Fair Value As of December 31, 2016 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	\$ 553,308	Discounted cash flow	Liquidation value	\$88 - \$97.25 (\$95.04)
Corporate securities	638,279	Discounted cash flow	Spread over treasury	0.31% - 4.50% (2.04%)
Liabilities:⁽¹⁾				
Embedded derivatives—GLWB	\$ 115,370	Actuarial cash flow model	Mortality	91.1% to 106.6% of Ruark 2015 ALB table
			Lapse	0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.18% - 1.09%
Embedded derivative—FIA	147,368	Actuarial cash flow model	Expenses	\$126 per policy
			Asset Earned Rate	4.08% - 4.66%
			Withdrawal rate	1% prior to age 70, 100% of the RMD for ages 70+
			Mortality	1994 MGDB table with company experience
			Lapse	2.0% - 40.0%, depending on duration/surrender charge period
			Nonperformance risk	0.18% - 1.09%
Embedded derivative - IUL	46,051	Actuarial cash flow model	Mortality	38% - 153% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.18% - 1.09%

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

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

The Company has considered all reasonably available quantitative inputs as of December 31, 2016 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$128.2 million of financial instruments being classified as Level 3 as of December 31, 2016 (Successor Company). Of the \$128.2 million, \$93.9 million are other asset-backed securities, \$31.3 million are corporate securities, and \$3.1 million are equity securities.

In certain cases the Company determined that book value materially approximates fair value. As of December 31, 2016 (Successor Company), the Company held \$65.9 million of financial instruments where book value approximates fair value, which was predominantly FHLB stock.

The asset-backed securities classified as Level 3 are predominantly ARS. A change in the paydown rate (the projected annual rate of principal reduction) of the ARS can significantly impact the fair value of these securities. A decrease in the paydown rate would increase the projected weighted average life of the ARS and increase the sensitivity of the ARS' fair value to changes in interest rates. An increase in the liquidity premium would result in a decrease in the fair value of the securities, while a decrease in the liquidity premium would increase the fair value of these securities. The liquidation value for these securities are sensitive to the issuer's available cash flows and ability to redeem the securities, as well as the current holders' willingness to liquidate at the specified price.

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

Table of Contents

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

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

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

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2017 (Successor Company), 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 Income	Included in Other Comprehensive Income	Included in Earnings Income	Included in Other Comprehensive Income	Purchases	Sales	Issuance	Settlement	Transfers into/out of Level 3	Other
(Dollars In Thousands)											
Assets:											
Fixed maturity securities available-for-sale Residential mortgage-backed securities	\$3	\$—	\$83	\$—	\$—	\$11,862	\$(3)	\$—	\$—	\$(11,944)	\$(11,944)
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	562,604	1,409	15,136	—	(10,931)	100	(59,175)	—	—	(6,643)	1,409
U.S. government-related securities	—	—	—	—	—	—	—	—	—	—	—
States, municipals, and political subdivisions	—	—	—	—	—	—	—	—	—	—	—
Other government-related securities	—	—	—	—	—	—	—	—	—	—	—
Corporate securities	664,046	—	27,637	—	(13,089)	131,822	(169,002)	—	—	(10,353)	(4,312)
Total fixed maturity securities—available-for-sale	1,226,653	1,409	42,856	—	(24,020)	143,784	(228,180)	—	—	(28,940)	(2,624)
Fixed maturity securities—trading Residential mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
	84,563	3,768	—	(1,157)	—	—	(52,835)	—	—	—	88,406

Other asset-backed securities											
U.S. government-related securities	—	—	—	—	—	—	—	—	—	—	—
States, municipals and political subdivisions	—	—	—	—	—	—	—	—	—	—	—
Other government-related securities	—	—	—	—	—	—	—	—	—	—	—
Corporate securities	5,492	101	—	(58)	—	—	—	—	—	—	(9)
Total fixed maturity securities—trading	90,055	3,869	—	(1,215)	—	—	(52,835)	—	—	—	79)
Total fixed maturity securities	1,316,708	5,278	42,856	(1,215)	(24,020)	143,784	(281,015)	—	—	(28,940)	(1)
Equity securities	69,010	2	52	(2,630)	(53)	—	(274)	—	—	3	—
Other long-term investments ⁽¹⁾	124,325	27,158	—	(15,479)	—	—	—	—	—	—	—
Short-term investments	—	—	—	—	—	—	—	—	—	—	—
Total investments	1,510,043	32,438	42,908	(19,324)	(24,073)	143,784	(281,289)	—	—	(28,937)	(1)
Total assets measured at fair value on a recurring basis	\$1,510,043	\$32,438	\$42,908	\$(19,324)	\$(24,073)	\$143,784	\$(281,289)	\$—	\$—	\$(28,937)	\$(1)
Liabilities:											
Annuity account balances ⁽²⁾	\$87,616	\$—	\$—	\$(4,001)	\$—	\$—	\$—	\$623	\$8,768	\$—	\$—
Other liabilities ⁽¹⁾	571,843	93,071	—	(282,118)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	\$659,459	\$93,071	\$—	\$(286,119)	\$—	\$—	\$—	\$623	\$8,768	\$—	\$—

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the year ended December 31, 2017 (Successor Company), there was an immaterial amount of transfers of securities into Level 3.

For the year ended December 31, 2017 (Successor Company), \$28.9 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of December 31, 2017 (Successor Company).

For the year ended December 31, 2017 (Successor Company), there were no transfers from Level 2 to Level 1.

For the year ended December 31, 2017 (Successor Company), there were no transfers from Level 1 into Level 2.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2016 (Successor Company), 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 into out of Level 3
(Dollars In Thousands)										
Assets:										
Fixed maturity securities available-for-sale Residential mortgage-backed securities	\$3	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Commercial mortgage-backed securities	—	—	7	—	(1,750)	25,607	—	—	—	(23,844)
Other asset-backed securities	587,031	6,859	42,865	—	(29,673)	30,441	(79,314)	—	—	7,457
U.S. government-related securities	—	—	—	—	—	—	—	—	—	—
States, municipals, and political subdivisions	—	—	—	—	—	—	—	—	—	—
Other government-related securities	—	—	—	—	—	—	—	—	—	—
Corporate securities	902,119	925	40,574	(4,135)	(33,151)	102,426	(225,557)	—	—	(109,792)
Total fixed maturity securities—available-for-sale	1,489,153	7,784	83,446	(4,135)	(64,574)	158,474	(304,871)	—	—	(126,179)
Fixed maturity securities—trading Residential mortgage-backed securities	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Commercial mortgage-backed securities										
Other asset-backed securities	152,912	5,386	—	(4,790)	) —	—	(70,270)	) —	—	172
U.S. government-related securities	—	—	—	—	—	—	—	—	—	—
States, municipalities and political subdivisions	—	—	—	—	—	—	—	—	—	—
Other government-related securities	—	—	—	—	—	—	—	—	—	—
Corporate securities	18,225	713	—	(442)	) —	10,906	(4,071)	) —	—	(19,722)
Total fixed maturity securities—trading	171,137	6,099	—	(5,232)	) —	10,906	(74,341)	) —	—	(19,550)
Total fixed maturity securities	1,660,290	13,883	83,446	(9,367)	) (64,574)	169,380	(379,212)	) —	—	(145,729)
Equity securities	69,763	—	—	(740)	) —	23	—	—	—	(36)
Other long-term investments ⁽¹⁾	96,830	77,108	—	(49,613)) —	—	—	—	—	—
Short-term investments	—	—	—	—	—	—	—	—	—	—
Total investments	1,826,883	90,991	83,446	(59,720)	) (64,574)	169,403	(379,212)	) —	—	(145,765)
Total assets measured at fair value on a recurring basis	\$1,826,883	\$90,991	\$83,446	\$(59,720)	) \$(64,574)	\$169,403	\$(379,212)	) \$—	\$—	\$(145,765)
Liabilities:										
Annuity account balances ⁽²⁾	\$92,512	\$—	\$—	\$(3,144)	) \$—	\$—	\$—	\$555	\$9,844	\$—
Other liabilities ⁽¹⁾	585,556	499,894	—	(486,181)) —	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	\$678,068	\$499,894	\$—	\$(489,325)	) \$—	\$—	\$—	\$555	\$9,844	\$—

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the year ended December 31, 2016 (Successor Company), there were \$75.7 million transfers of securities into Level 3.

For the year ended December 31, 2016 (Successor Company), \$221.5 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of December 31, 2016 (Successor Company).

For the year ended December 31, 2016 (Successor Company), there were \$12.2 million transfers from Level 2 to Level 1.

For the year ended December 31, 2016 (Successor Company), there were \$0.1 million transfers from Level 1 into Level 2. In addition, there were transfers of \$169.4 million in other long-term investments and \$120.0 million in other liabilities from Level 1 to Level 2.

Table of Contents

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

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

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

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

Estimated Fair Value of Financial Instruments

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

	Fair Value Level	Successor Company As of December 31,			
		2017 Carrying Amounts (Dollars In Thousands)	Fair Values	2016 Carrying Amounts (Dollars In Thousands)	Fair Values
Assets:					
Mortgage loans on real estate	3	\$6,817,723	\$6,740,177	\$6,132,125	\$5,930,992
Policy loans	3	1,615,615	1,615,615	1,650,240	1,650,240
Fixed maturities, held-to-maturity ⁽¹⁾	3	2,718,904	2,776,327	2,770,177	2,733,340
Liabilities:					
Stable value product account balances	3	\$4,698,371	\$4,698,868	\$3,501,636	\$3,488,877
Future policy benefits and claims ⁽²⁾	3	220,498	220,498	221,634	221,658
Other policyholders' funds ⁽³⁾	3	133,508	134,253	135,367	136,127
Debt:⁽⁴⁾					
Bank borrowings	3	\$—	\$—	\$170,000	\$170,000
Senior Notes	2	943,370	933,926	993,285	937,074
Subordinated debt securities	2	495,289	501,215	441,202	443,355
Non-recourse funding obligations ⁽⁵⁾	3	2,747,477	2,804,983	2,796,474	2,765,558

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

(1) Securities purchased from unconsolidated subsidiaries, Red Mountain LLC and Steel City LLC.

(2) Single premium immediate annuity without life contingencies.

(3) Supplementary contracts without life contingencies.

(4) Excludes capital lease obligations of \$1.7 million.

(5) As of December 31, 2017 (Successor Company), carrying amount of \$2.7 billion and a fair value of \$2.8 billion related to non-recourse funding obligations issued by Golden Gate and Golden Gate V. As of December 31, 2016 (Successor Company), \$2.7 billion in carrying amount and fair value related to non-recourse funding obligations issued by Golden Gate and Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

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

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by the value of the policy. Policy

Table of Contents

loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Fixed maturities, held-to-maturity

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

Stable value product and other investment contract balances

The Company estimates the fair value of stable value product account balances and other investment contract balances (included in Future policy benefits and claims as well as Other policyholder funds line items on our balance sheet) using models based on discounted expected cash flows. The discount rates used in the models are based on a current market rate for similar financial instruments.

Debt

Bank borrowings

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

Non-recourse funding obligations

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

7. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

Derivatives Related to Interest Rate Risk Management

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions.

Derivatives Related to Foreign Currency Exchange Risk Management

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

Derivatives Related to Risk Mitigation of Certain Annuity Contracts

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

Foreign Currency Futures

Variance Swaps

Interest Rate Futures

Equity Options

Equity Futures

Credit Derivatives

Interest Rate Swaps

- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps

144

Table of Contents

Accounting for Derivative Instruments

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

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

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

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

To hedge a fixed rate note denominated in a foreign currency, the Company entered into a fixed-to-fixed foreign currency swap in order to hedge the foreign currency exchange risk associated with the note. The cash flows received on the swap are identical to the cash flow paid on the note.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives Related to Variable Annuity Contracts

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

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

Derivatives Related to Fixed Annuity Contracts

The Company uses equity futures and options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity and overall volatility.

The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

Derivatives Related to Indexed Universal Life Contracts

The Company uses equity futures and options to mitigate the risk within its indexed universal life products. In general, the cost of such benefits varies with the level of equity markets.

The Company markets certain IUL products. The IUL component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

Other Derivatives

The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

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

145

Table of Contents

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

Realized investment gains (losses)—derivative financial instruments

	Successor Company			Predecessor Company
	For The Year Ended December 31, 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Derivatives related to VA contracts:				
Interest rate futures - VA	\$26,015	\$(3,450)	\$(14,818)	\$1,413
Equity futures - VA	(91,776)	(106,431)	(5,033)	9,221
Currency futures - VA	(23,176)	33,836	7,169	7,778
Equity options - VA	(94,791)	(60,962)	(27,733)	3,047
Interest rate swaptions - VA	(2,490)	(1,161)	(13,354)	9,268
Interest rate swaps - VA	27,981	20,420	(85,942)	122,710
Total return swaps - VA	(32,240)	—	—	—
Embedded derivative - GLWB	3,614	68,056	4,412	(207,018)
Total derivatives related to VA contracts	(186,863)	(49,692)	(135,299)	(53,581)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(55,878)	(16,494)	(738)	1,769
Equity futures - FIA	642	4,248	(355)	(184)
Volatility futures - FIA	—	—	5	—
Equity options - FIA	44,585	8,149	1,211	(2,617)
Total derivatives related to FIA contracts	(10,651)	(4,097)	123	(1,032)
Derivatives related to IUL contracts:				
Embedded derivative - IUL	(14,117)	9,529	(614)	(486)
Equity futures - IUL	(818)	129	144	3
Equity options - IUL	9,580	3,477	(540)	(115)
Total derivatives related to IUL contracts	(5,355)	13,135	(1,010)	(598)
Embedded derivative - Modco reinsurance treaties	(103,009)	390	166,092	(68,026)
Other derivatives	50	(24)	91	(37)
Total realized gains (losses)—derivatives	\$(305,828)	\$(40,288)	\$29,997	\$(123,274)

Table of Contents

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

Gain (Loss) on Derivatives in Cash Flow Relationship

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)	Amount and Location of Gains (Losses) Reclassified from accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion)	Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
--	---	--	--

(Dollars In Thousands)

Successor Company

For The Year Ended December 31, 2017

Foreign currency swaps	\$ (867)	\$ (694)	\$ —
Total	\$ (867)	\$ (694)	\$ —

Successor Company

For The Year Ended December 31, 2016

Foreign currency swaps	\$ 1,058	\$ (60)	\$ —
Total	\$ 1,058	\$ (60)	\$ —

February 1, 2015 to December 31, 2015

Inflation	\$ (131)	\$ (131)	\$ 73
Total	\$ (131)	\$ (131)	\$ 73

Predecessor Company

January 1, 2015 to January 31, 2015

Inflation	\$ 13	\$ (36)	\$ (7)
Total	\$ 13	\$ (36)	\$ (7)

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify \$0.6 million out of accumulated other comprehensive income into earnings during the next twelve months.

Table of Contents

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

	Successor Company			
	As of December 31,			
	2017		2016	
	Notional	Fair	Notional	Fair
	Amount	Value	Amount	Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Foreign currency swaps	\$117,178	\$6,016	\$117,178	\$132
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,265,000	55,411	1,135,000	71,644
Total return swaps	190,938	135	—	—
Embedded derivative - Modco reinsurance treaties	64,472	1,009	64,123	2,573
Embedded derivative - GLWB	4,897,069	134,995	4,601,633	121,752
Interest rate futures	1,071,870	3,178	102,587	894
Equity futures	62,266	154	654,113	5,805
Currency futures	1,117	2	340,058	7,883
Equity options	4,436,467	403,961	3,944,444	328,908
Interest rate swaptions	225,000	14	225,000	2,503
Other	157	200	212	149
	\$12,331,534	\$605,075	\$11,184,348	\$542,243
Other liabilities				
Derivatives not designated as hedging instruments:				
Interest rate swaps	\$597,500	\$2,960	\$575,000	\$10,208
Total return swaps	243,388	318	—	—
Embedded derivative - Modco reinsurance treaties	2,390,539	215,247	2,450,692	141,301
Embedded derivative - GLWB	4,718,311	246,755	5,962,044	237,122
Embedded derivative - FIA	1,951,650	218,676	1,496,346	147,368
Embedded derivative - IUL	168,349	80,212	103,838	46,051
Interest rate futures	230,404	917	993,842	6,611
Equity futures	318,795	2,593	102,667	2,907
Currency futures	255,248	2,087	—	—
Equity options	3,112,812	237,807	2,590,160	157,253
	\$13,986,996	\$1,007,572	\$14,274,589	\$748,821

8. OFFSETTING OF ASSETS AND LIABILITIES

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 14, Debt and Other Obligations for details of the Company's repurchase agreement programs.

Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2017 (Successor Company):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Collateral Received	Net Amount
(Dollars In Thousands)						
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	\$468,871	\$	—\$468,871	\$242,105	\$108,830	\$117,936
Total derivatives, subject to a master netting arrangement or similar arrangement	468,871	—	468,871	242,105	108,830	117,936
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,009	—	1,009	—	—	1,009
Embedded derivative - GLWB	134,995	—	134,995	—	—	134,995
Other	200	—	200	—	—	200
Total derivatives, not subject to a master netting arrangement or similar arrangement	136,204	—	136,204	—	—	136,204
Total derivatives	605,075	—	605,075	242,105	108,830	254,140
Total Assets	\$605,075	\$	—\$605,075	\$242,105	\$108,830	\$254,140
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Collateral Posted	Net Amount
(Dollars In Thousands)						
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	\$246,682	\$	—\$246,682	\$242,105	\$4,577	\$—
Total derivatives, subject to a master netting arrangement or similar arrangement	246,682	—	246,682	242,105	4,577	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	215,247	—	215,247	—	—	215,247
Embedded derivative - GLWB	246,755	—	246,755	—	—	246,755
Embedded derivative - FIA	218,676	—	218,676	—	—	218,676

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Embedded derivative - IUL	80,212	—	80,212	—	—	80,212
Total derivatives, not subject to a master netting arrangement or similar arrangement	760,890	—	760,890	—	—	760,890
Total derivatives	1,007,572	—	1,007,572	242,105	4,577	760,890
Repurchase agreements ⁽¹⁾	885,000	—	885,000	—	—	885,000
Total Liabilities	\$1,892,572	\$	—\$1,892,572	\$242,105	\$ 4,577	\$1,645,890

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

Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2016 (Successor Company):

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Collateral Received	Net Amount
(Dollars In Thousands)						
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	\$417,769	\$ —	—\$417,769	\$171,384	\$100,890	\$145,495
Total derivatives, subject to a master netting arrangement or similar arrangement	417,769	—	417,769	171,384	100,890	145,495
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	2,573	—	2,573	—	—	2,573
Embedded derivative - GLWB	121,752	—	121,752	—	—	121,752
Other	149	—	149	—	—	149
Total derivatives, not subject to a master netting arrangement or similar arrangement	124,474	—	124,474	—	—	124,474
Total derivatives	542,243	—	542,243	171,384	100,890	269,969
Total Assets	\$542,243	\$ —	—\$542,243	\$171,384	\$100,890	\$269,969
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position	Collateral Posted	Net Amount
(Dollars In Thousands)						
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	\$176,979	\$ —	—\$176,979	\$171,384	\$5,595	\$—
Total derivatives, subject to a master netting arrangement or similar arrangement	176,979	—	176,979	171,384	5,595	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	141,301	—	141,301	—	—	141,301
Embedded derivative - GLWB	237,122	—	237,122	—	—	237,122
Embedded derivative - FIA	147,368	—	147,368	—	—	147,368

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Embedded derivative - IUL	46,051	—	46,051	—	—	46,051
Total derivatives, not subject to a master netting arrangement or similar arrangement	571,842	—	571,842	—	—	571,842
Total derivatives	748,821	—	748,821	171,384	5,595	571,842
Repurchase agreements ⁽¹⁾	797,721	—	797,721	—	—	797,721
Total Liabilities	\$1,546,542	\$	—\$1,546,542	\$171,384	\$ 5,595	\$1,369,563

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

9. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2017 (Successor Company), the Company's mortgage loan holdings were approximately \$6.8 billion. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, senior living facilities, and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view,

Table of Contents

on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

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

The following table includes a breakdown of the Company's commercial mortgage loan portfolio by property type as of December 31, 2017 (Successor Company):

Type	Percentage of Mortgage Loans on Real Estate
Retail	52.1 %
Office Buildings	10.9
Apartments	8.8
Warehouses	10.4
Senior housing	13.7
Other	4.1
	100.0 %

The Company specializes in originating mortgage loans on either credit-oriented or credit-anchored commercial properties. No single tenant's exposure represents more than 1.5% of mortgage loans. Approximately 64.4% of the mortgage loans are on properties located in the following states:

State	Percentage of Mortgage Loans on Real Estate
Alabama	9.6 %
Florida	9.4
Texas	8.4
Georgia	7.9

Ohio	5.5
Tennessee	5.3
California	5.2
South Carolina	3.3
North Carolina	4.9
Utah	4.9
	64.4 %

During the year ended December 31, 2017 (Successor Company), the Company funded approximately \$1.6 billion of new loans, with an average loan size of \$8.8 million. The average size mortgage loan in the portfolio as of December 31, 2017 (Successor Company), was \$4.0 million and the weighted-average interest rate was 4.8%. The largest single mortgage loan at December 31, 2017 (Successor Company) was \$61.1 million.

Certain of the mortgage loans have call options that occur within the next 11 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options on our existing mortgage loans commensurate with the

Table of Contents

significantly increased market rates. Assuming the loans are called at their next call dates, approximately \$161.2 million would become due in 2018, \$858.6 million in 2019 through 2023, \$105.8 million in 2024 through 2028, and \$2.0 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 December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), approximately \$669.3 million and \$595.2 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 when received. During the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015, (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company recognized \$37.2 million, \$16.7 million, \$29.8 million, and \$0.1 million of participating mortgage loan income, respectively.

As of December 31, 2017 (Successor Company), approximately \$6.5 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2017 (Successor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. During the year ended December 31, 2017 (Successor Company), the Company recognized two troubled debt restructuring transactions as a result of the Company granting a concession to a borrower which included loans terms unavailable from other lenders. These concessions were the result of agreements between the creditor and the debtor. The Company did not identify any loans whose principal was permanently impaired during the year ended December 31, 2017 (Successor Company).

As of December 31, 2016 (Successor Company), approximately \$1.5 million of invested assets consisted of nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2016 (Successor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. During the year ended December 31, 2016 (Successor Company), the Company recognized a troubled debt restructuring as a result of the Company granting a concession to a borrower which included loans terms unavailable from other lenders and reduced the expected cash flows on the loan. This concession was the result of agreements between the creditor and the debtor. The Company did not identify any loans whose principal was permanently impaired during the year ended December 31, 2016 (Successor Company).

As of December 31, 2015 (Successor Company), approximately \$4.7 million of invested assets consisted of non performing, restructured, or mortgage loans that were foreclosed and were converted to real estate properties since February 1, 2015 (Successor Company). The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the period February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company entered into certain mortgage loan transactions that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in the Company's investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included either the acceptance of assets in satisfaction of principal during the respective periods or at a future date and were the result of agreements between the creditor and the debtor. During the period of February 1, 2015 to December 31, 2015 (Successor Company), the Company accepted or agreed to accept assets of \$15.8 million in satisfaction of \$21.1 million of principal and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company accepted or agreed to accept assets of \$11.3 million in satisfaction of \$13.8 million of principal. Of the amounts accepted or agreed to accept in

satisfaction of principal during the period of February 1, 2015 to December 31, 2015 (Successor Company), \$3.7 million related to foreclosures. These transactions resulted in no material realized losses in the Company's investment in mortgage loans net of existing discounts for mortgage loan losses for the period of February 1, 2015 to December 31, 2015 (Successor Company).

The Company's mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of December 31, 2017 (Successor Company), \$6.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate. None of the restructured loans were nonperforming during the year ended December 31, 2017 (Successor Company). The Company foreclosed on \$6.1 million nonperforming loans during the year ended December 31, 2017 (Successor Company).

As of December 31, 2017 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. The Company did not foreclose on any nonperforming loans subject to a pooling and servicing agreement during the year ended December 31, 2017 (Successor Company).

As of December 31, 2017 (Successor Company), there were no allowances for mortgage loan credit losses and as of December 31, 2016 (Successor Company), there was a \$0.7 million allowance for mortgage loan credit losses. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and

Table of Contents

insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

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

	Successor Company	As of December 2017	As of December 31, 2016
Beginning balance	\$724	\$ —	
Charge offs	(6,708)	(4,682)	
Recoveries	(731)	—	
Provision	6,715	5,406	
Ending balance	\$—	\$ 724	

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

	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
(Dollars In Thousands)				
Successor Company				
As of December 31, 2017				
Commercial mortgage loans	\$1,817	\$ —	—\$	—\$ 1,817
Number of delinquent commercial mortgage loans	2	—	—	2
As of December 31, 2016				
Commercial mortgage loans	\$3,669	\$ —	—\$	—\$ 3,669
Number of delinquent commercial mortgage loans	4	—	—	4

Table of Contents

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:

	Unpaid Recorded Principal Investment Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
--	--	----------------------	-----------------------------------	----------------------------------	-------------------------------------

(Dollars In Thousands)

Successor Company

As of December 31, 2017

Commercial mortgage loans:

With no related allowance recorded	\$—	—\$	—\$	—\$	—\$	—
------------------------------------	-----	-----	-----	-----	-----	---

With an allowance recorded	—	—	—	—	—	—
----------------------------	---	---	---	---	---	---

As of December 31, 2016

Commercial mortgage loans:

With no related allowance recorded	\$—	—\$	—\$	—\$	—\$	—
------------------------------------	-----	-----	-----	-----	-----	---

With an allowance recorded	1,819	724	1,819	96	96	
----------------------------	-------	-----	-------	----	----	--

As of December 31, 2016 (Successor Company), the Company did not carry any mortgage loans that have been modified in a troubled debt restructuring. Mortgage loans that were modified in a troubled debt restructuring as of December 31, 2017 (Successor Company) were as follows:

	Pre-Modification Number of Contracts Recorded Investment	Post-Modification Outstanding Recorded Investment
--	--	--

(Dollars In Thousands)

Successor Company

As of December 31, 2017

Troubled debt restructuring:

Commercial mortgage loans 1	\$ 418	\$ 418
-----------------------------	--------	--------

Table of Contents

10. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

Deferred Policy Acquisition Costs

The balances and changes in DAC are as follows:

	Successor Company	
	As of	As of
	December 31,	December 31,
	2017	2016
	(Dollars In Thousands)	
Balance, beginning of period	\$572,328	\$288,611
Capitalization of commissions, sales, and issue expenses	333,250	327,938
Amortization	(52,559)	(48,286)
Change due to unrealized investment gains and losses	(15,234)	4,065
Balance, end of period	\$837,785	\$572,328

Value of Business Acquired

The balances and changes in VOBA are as follows:

	Successor Company	
	As of	As of
	December 31,	December 31,
	2017	2016
	(Dollars In Thousands)	
Balance, beginning of period	\$1,447,501	\$1,270,197
Acquisitions	—	285,092
Amortization	(25,662)	(100,778)
Change due to unrealized investment gains and losses	(60,047)	(7,010)
Balance, end of period	\$1,361,792	\$1,447,501

Based on the balance recorded as of December 31, 2017 (Successor Company), the expected amortization of VOBA for the next five years is as follows:

Years	Expected Amortization (Dollars In Thousands)
2018	\$ 122,802
2019	118,196
2020	103,120
2021	90,544
2022	83,333

11. GOODWILL

During the fourth quarter of 2017, the Company performed its annual qualitative evaluation of goodwill based on the circumstances that existed as of October 1, 2017 (Successor Company) and determined that there was no indication that its segment goodwill was more likely than not impaired, thus no quantitative assessment was performed and no adjustment to impair goodwill was necessary. The Company has assessed whether events have occurred subsequent to October 1, 2017 that would impact the Company's conclusion and no such events were identified. As part of the Company's ongoing assessment of goodwill recoverability, the impact of The Tax Reform Act and the impact that the lower corporate tax rate would have on the carrying value of the reporting units and their associated fair values was assessed in response to potential considerations as outlined under ASC 350-20-35-3C. After consideration of applicable factors and circumstances noted as part of a qualitative assessment, the Company determined that it was more likely than not that the increase in the fair value of the reporting unit would exceed the increase in the carrying value of the reporting units and thus did not consider this to be a triggering event that would require a quantitative

assessment of impairment.

155

Table of Contents

As of December 31, 2016 (Successor Company), the Company increased its goodwill balance by approximately \$61.0 million in the Asset Protection segment, which was attributed to the US Warranty acquisition. Refer to Note 3, Significant Transactions. The balance of goodwill for the Company as of December 31, 2017 (Successor Company) was \$793.5 million.

12. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS

The Company issues variable universal life and VA products through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder. The Company also offers, for our VA products, certain GMDB. The most significant of these guarantees involve 1) return of the highest anniversary date account value, or 2) return of the greater of the highest anniversary date account value or the last anniversary date account value compounded at 5% interest or 3) return of premium. The GLWB rider provides the contract holder with protection against certain adverse market impacts on the amount they can withdraw and is classified as an embedded derivative and is carried at fair value on the Company's balance sheet. The VA separate account balances subject to GLWB were \$9.7 billion as of December 31, 2017 (Successor Company). For more information regarding the valuation of and income impact of GLWB, please refer to Note 2, Summary of Significant Accounting Policies, Note 6, Fair Value of Financial Instruments, and Note 7, Derivative Financial Instruments.

The GMDB reserve is calculated by applying a benefit ratio, equal to the present value of total expected GMDB claims divided by the present value of total expected contract assessments, to cumulative contract assessments. This amount is then adjusted by the amount of cumulative GMDB claims paid and accrued interest. Assumptions used in the calculation of the GMDB reserve were as follows: mean investment performance of 7.01%, age-based mortality from the Ruark 2015 ALB table adjusted for company and industry experience, lapse rates determined by a dynamic formula, and an average discount rate of 4.9%. Changes in the GMDB reserve are included in benefits and settlement expenses in the accompanying consolidated statements of income.

The VA separate account balances subject to GMDB were \$13.1 billion as of December 31, 2017 (Successor Company). The total GMDB amount payable based on VA account balances as of December 31, 2017 (Successor Company), was \$90.5 million (including \$72.8 million in the Annuities segment and \$17.7 million in the Acquisitions segment) with a GMDB reserve of \$30.9 million and \$3.1 million in the Annuities and Acquisitions segment, respectively. The average attained age of contract holders as of December 31, 2017 (Successor Company) for the Company was 73 years.

These amounts exclude certain VA business which has been 100% reinsured to Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC"), under a Modco agreement. The guaranteed amount payable associated with the annuities reinsured to CALIC was \$8.4 million and is included in the Acquisitions segment. The average attained age of contract holders as of December 31, 2017, was 67 years.

Activity relating to GMDB reserves (excluding those 100% reinsured under the Modco agreement) is as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Beginning balance	\$34,796	\$ 36,427	\$ 29,010	\$ 26,251
Incurred guarantee benefits	849	678	10,175	3,073
Less: Paid guarantee benefits	1,615	2,309	2,758	449
Ending balance	\$34,030	\$ 34,796	\$ 36,427	\$ 28,875

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

Successor Company

As of December 31,

2017 2016

(Dollars In Thousands)

Equity mutual funds	\$8,798,847	\$8,071,204
Fixed income mutual funds	5,005,663	5,085,864
Total	\$13,804,510	\$13,157,068

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

Table of Contents

Activity in the Company's deferred sales inducement asset was as follows:

	Successor Company			Predecessor Company
	For The Year Ended December 2017	For The Year Ended December 31, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)			(Dollars In Thousands)
Deferred asset, beginning of period	\$22,497	\$ 11,756	\$—	\$ 155,150
Amounts deferred	14,246	16,212	14,557	82
Amortization	(5,787)	(5,471)	(2,801)	(1,139)
Deferred asset, end of period	\$30,956	\$ 22,497	\$ 11,756	\$ 154,093

13. REINSURANCE

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

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to us under the terms of the reinsurance agreements. The Company monitors the concentration of credit risk the Company has with any reinsurer, as well as the financial condition of its reinsurers. As of December 31, 2017 (Successor Company), the Company had reinsured approximately 38% of the face value of its life insurance in-force. The Company has reinsured approximately 16% of the face value of its life insurance in-force with the following three reinsurers:

• Security Life of Denver Insurance Co. (currently administered by Hannover Re)

• Swiss Re Life & Health America Inc.

• The Lincoln National Life Insurance Co. (currently administered by Swiss Re Life & Health America Inc.)

The Company has not experienced any credit losses for the years ended December 31, 2017 (Successor Company), December 31, 2016 (Successor Company), or December 31, 2015 (Successor Company) related to these reinsurers.

The Company has set limits on the amount of insurance retained on the life of any one person. The amount of insurance retained by the Company on any one life on traditional life insurance was \$500,000 in years prior to mid-2005. In 2005, this retention amount was increased to \$1,000,000 for certain policies, and during 2008 it was increased to \$2,000,000 for certain policies. During 2016, the retention amount was increased to \$5,000,000.

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

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

	Successor Company	
	As of December 31, 2017	2016
	(Dollars In Millions)	
Direct life insurance in-force	\$751,512	\$739,249

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Amounts assumed from other companies	110,205	116,265
Amounts ceded to other companies	(328,377)	(348,995)
Net life insurance in-force	\$533,340	\$506,519
Percentage of amount assumed to net	21	% 23 %

157

Table of Contents

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

	Ceded to Gross Other Amount Companies	Assumed from Other Companies	Net Amount
--	---	---------------------------------------	---------------

(Dollars In Thousands)

Successor Company
For The Year Ended