

PROTECTIVE LIFE CORP
Form 10-K
February 27, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

or

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

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

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

95-2492236
(IRS Employer
Identification Number)

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

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

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

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

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

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

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of June 30, 2008: \$2,607,036,159

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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

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PART I

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

Item 1. Business

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

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

The Company operates several business segments each having a strategic focus. An operating segment is distinguished by products, distribution channels, and/or other strategic distinctions. The Company's operating segments are Life Marketing, Acquisitions, Annuities, Stable Value Products, and Asset Protection. The Company has an additional segment referred to as Corporate and Other which consists of net investment income on unallocated capital, interest on debt, earnings from various investment-related transactions, and the operations of several non-strategic lines of business. The Company periodically evaluates operating segments in light of the segment reporting requirements prescribed by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and makes adjustments to our segment reporting as needed.

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

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

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

Life Marketing

The Life Marketing segment markets level premium term insurance ("traditional"), universal life ("UL"), variable universal life, and bank-owned life insurance ("BOLI") products on a national basis through a variety of distribution channels. The largest distribution system is comprised of brokerage general agencies who recruit a network of independent life agents. The segment also distributes insurance products through a network of experienced independent personal producing general agents who are recruited by regional sales managers and through stockbrokers and banks. The Company markets its BOLI products through independent marketing organizations that specialize in the BOLI market.

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

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

Acquisitions

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

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

The Company believes that its focused and disciplined approach to the acquisition process and its experience in the assimilation, conservation, and servicing of acquired policies provides a significant competitive advantage over other companies that attempt to make similar acquisitions.

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

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

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

Annuities

The Annuities segment manufactures, sells, and supports fixed and variable annuity products. These products are primarily sold through broker-dealers, but are also sold through financial institutions and independent agents and brokers.

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

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

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

Stable Value Products

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

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

Additionally, the segment markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans. GICs are contracts which specify a return on deposits for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan. The demand for GICs is related to the relative attractiveness of the "fixed rate" investment option in a 401(k) plan compared to the equity-based investment options available to plan participants.

The Company's emphasis is on a consistent and disciplined approach to product pricing and asset/liability management, careful underwriting of early withdrawal risks, and maintaining low distribution and administration costs. Most GIC contracts and funding agreements written by the Company have maturities of one to ten years.

The following table shows Stable Value Products sales:

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

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

Asset Protection

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

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

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

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

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

Corporate and Other

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

Investments

As of December 31, 2008, the Company's investment portfolio was approximately \$26.6 billion. The types of assets in which the Company may invest are influenced by various state laws which prescribe qualified investment assets. Within the parameters of these laws, the Company invests in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. For further information regarding the Company's investments, the maturity of and the concentration of risk among the Company's invested assets, derivative financial instruments, and liquidity, see Note 2, *Summary of Significant Accounting Policies* and Note 4, *Investment Operations* to Consolidated Financial Statements, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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

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

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

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

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

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

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

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

A portion of the Company's bond portfolio is invested in residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. These holdings as of December 31, 2008 were approximately \$7.3 billion. Mortgage-backed securities are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Prepayments of principal on the underlying loans

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

The Company obtained ratings of its fixed maturities from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") and Fitch Ratings ("Fitch"). If a bond is not rated by Moody's, S&P, or Fitch, the Company uses ratings from the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC"), or the Company rates the bond based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of December 31, 2008, over 99.0% of the Company's bonds were rated by Moody's, S&P, Fitch, and/or the NAIC.

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

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

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

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

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

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apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based on a conservative, disciplined approach. The Company concentrates its underwriting expertise on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which the Company has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

The following table shows a breakdown of the Company's commercial mortgage loan portfolio by property type as of December 31, 2008:

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

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

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

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

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

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

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

The Company's mortgage lending criteria targets that the loan-to-value ratio on each mortgage be at or less than 75% at the time of origination. Projected rental payments from credit anchors (i.e., excluding rental payments from smaller local tenants) exceed 70% of the property's projected operating expenses and debt service. The Company also offers a commercial loan product under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. Approximately \$746.2 million of the Company's mortgage loans have this participation feature as of December 31, 2008. Exceptions to these loan-to-value measures may be made if the Company believes the mortgage has an acceptable risk profile.

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

As of December 31, 2008, delinquent mortgage loans and foreclosed properties were less than 0.1% of invested assets. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. As of December 31, 2008, \$15.2 million, or 0.4%, of the mortgage loan portfolio was nonperforming. Unless other factors exist that would cause the Company to reach a different conclusion regarding interest collection, it is the Company's policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company's general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place.

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

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

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

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

Ratings

Various Nationally Recognized Statistical Rating Organizations ("rating organizations") review the financial performance and condition of insurers, including the Company's insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in an insurer's products, its ability to market its products and its competitive position. Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access certain types of liquidity. Ratings are not recommendations to buy the Company's securities. The following table summarizes the ratings of the Company and its significant member companies' from the major independent rating organizations as of February 26, 2009:

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance companies financial strength ratings:				
Protective Life Insurance Company	A+	A+	AA-	A2
West Coast Life Insurance Company	A+	A+	AA-	A2
Protective Life and Annuity Insurance Company	A+	A+	AA-	
Lyndon Property Insurance Company	A-			
Other ratings:				
Issuer Credit/Default Rating Protective Life Corporation	a-	A-	A-	
Senior Debt Rating Protective Life Corporation		BBB+		Baa2
Issuer Credit/Default Rating Protective Life Ins. Co.	aa-		AA-	

The Company's ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company's insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. A downgrade or other negative action by a ratings organization with respect to the Company's credit rating could limit its access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require the Company to post collateral.

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

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

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

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

Life Insurance In-Force

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

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

(1) Reinsurance assumed has been included, reinsurance ceded (2008 \$540,561,213; 2007 \$531,984,866; 2006 \$576,790,608; 2005 \$393,605,152; 2004 \$354,015,938) has not been deducted.

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

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

Investment Products In-Force

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

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

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

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

*

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

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

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

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

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Underwriting

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

The Company's insurance subsidiaries generally require blood samples to be drawn with individual insurance applications above certain face amounts based on the applicant's age, except in the worksite and BOLI markets where limited blood testing is required. Blood samples are tested for a wide range of chemical values and are screened for antibodies to the HIV virus. Applications also contain questions permitted by law regarding the HIV virus which must be answered by the proposed insureds.

During the third quarter of 2006, the Company introduced an advanced underwriting system, TeleLife®, through the brokerage agent distribution channel for traditional insurance. TeleLife® streamlines the application process through a telephonic interview of the applicant, schedules medical exams, accelerates the underwriting process and the ultimate issuance of a policy mostly through electronic means, and reduces the number of attending physician statements. The TeleLife® program was expanded to include the stock brokerage channel in 2008.

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

Reinsurance Ceded

The Company's insurance subsidiaries cede insurance to other insurance companies. The ceding insurance company remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed by it. The Company has also used reinsurance to reinsure guaranteed minimum death benefit ("GMDB") claims relative to our variable annuity contracts.

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

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

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

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

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

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

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

Policy Liabilities and Accruals

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

The policy liabilities and accruals carried in the Company's financial reports presented on the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP") differ from those specified by the laws of the various states and carried in the insurance subsidiaries' statutory financial statements (presented on the basis of statutory accounting principles mandated by state insurance regulations). For policy liabilities other than those for universal life policies, annuity contracts, GICs, and funding agreements, these differences arise from the use of mortality and morbidity tables and interest rate assumptions which are deemed to be more appropriate for financial

reporting purposes than those required for statutory accounting purposes; from the introduction of lapse assumptions into the calculation; and from the use of the net level premium method on all business. Policy liabilities for universal life policies, annuity contracts, GICs, and funding agreements are generally carried in the Company's financial reports at the account value of the policy or contract plus accrued interest, with certain exceptions as permitted by actuarial guidelines.

Federal Income Tax Consequences

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

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

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

Additionally, the Company is subject to corporate income tax. The Company cannot predict what changes to tax law or interpretations of existing tax law may ultimately be enacted or adopted or whether such changes will adversely affect the Company.

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

Competition

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

profitability expectations. The Company also faces competition from other providers of financial services. Competition could result in, among other things, lower sales or higher lapses of existing products.

The Company's move away from reliance on reinsurance for newly written traditional life products results in a net reduction of current taxes (but an increase in deferred taxes). The Company allocates the benefits of reduced current taxes to the life marketing segment and the profitability and competitive position of certain products is dependent on the continuation of existing tax rules and interpretations and its ability to generate taxable income.

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

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

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

Risk Management

Risk management is a critical part of the Company's business, and the Company has adopted risk management processes in multiple aspects of its operations, including product development and management, business acquisitions, underwriting, investment management, asset-liability management and technology development projects. Risk management includes the assessment of risk, a decision process to determine which risks are acceptable and the ongoing monitoring and management of those risks. The primary objective of these risk management processes is to determine the acceptable level of variations the Company experiences from its expected results.

Regulation

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

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

The Company cannot predict whether or when regulatory actions may be taken that could adversely affect the Company or its operations. Interpretations of regulations by regulators may change and statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting or reserve requirements. Although the Company and its subsidiaries are subject to state regulation, in many instances the state regulatory models emanate from NAIC. Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Although with respect to some financial regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile, neither the action of the domiciliary state nor the action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. As an example of both retroactive and prospective impacts, in late 2005, the NAIC approved an amendment to AG38, commonly known as AXXX, which interprets the reserve requirements for universal life insurance with secondary guarantees. This amendment retroactively increased the reserve requirements for universal life insurance with secondary guarantee products issued after July 1, 2005. This change to AG38 also affected the profitability of universal life products sold after the adoption date. The NAIC is continuing to study reserving methodology and has issued additional changes to AXXX and Regulation XXX, which have had the effect of modestly decreasing the reserves required for certain traditional and universal life policies that were issued on January 1, 2007 and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

At the federal level, bills are routinely introduced in both chambers of the United States Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter, pre-empting state law in certain respects to the regulation of reinsurance, and other matters. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company or whether any effects will be material.

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

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

insurer's own financial strength. The Company's insurance subsidiaries were assessed immaterial amounts in 2008, which will be partially offset by credits against future state premium taxes.

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

The states in which the Company's insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay dividends to Protective Life Corporation. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts are subject to approval by the insurance commissioner of the state of domicile. The maximum amount that would qualify as ordinary dividends to Protective Life Corporation by its insurance subsidiaries in 2009 is estimated to be \$176.8 million. No assurance can be given that more stringent restrictions will not be adopted from time to time by states in which the Company's insurance subsidiaries are domiciled; such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to the Company by such subsidiaries without affirmative prior approval by state regulatory authorities.

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

Certain policies, contracts, and annuities offered by the Company's subsidiaries are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative and private remedial provisions.

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

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

Employees

At December 31, 2008, the Company had approximately 2,372 employees, including approximately 1,287 employees in Birmingham, Alabama. The Company believes its relations with its employees are satisfactory. Most employees are covered by contributory major medical, dental, vision, group life, and long-term disability insurance plans. The cost of these benefits to the Company in 2008 was approximately \$10.3 million. In addition, substantially all of the employees are covered by a defined benefit pension plan. In 2008 and 2007, the Company also matched employee contributions to its 401(k) Plan and in 2007 made discretionary profit sharing contributions for employees not otherwise covered by a bonus or sales incentive plan. See Note 12, *Shareowners' Equity and Stock-Based Compensation* and Note 13, *Employee Benefit Plans* to Consolidated Financial Statements for additional information.

Executive Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural disaster or pandemic could adversely affect the mortality or morbidity experience of the Company or its reinsurers. A severe pandemic could result in a substantial increase in mortality experience and have a significant negative impact on the Company's surplus capital. A pandemic could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. In addition, a pandemic could result in large areas being subject to quarantine, with the result that economic activity slows or ceases, adversely affecting the marketing or administration of the

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

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

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

The insurance industry is consolidating, with larger, potentially more efficient organizations emerging from consolidation. Participants in certain of the Company's independent distribution channels are also consolidating into larger organizations. Some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of the Company's products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies and other financial service companies with which the Company does business could also have an adverse affect on its financial condition and results of operations if they require more favorable terms than the Company previously offered or if they elect not to continue to do business with the Company following consolidation or expansion.

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

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

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

Various Nationally Recognized Statistical Rating Organizations ("rating organizations") review the financial performance and condition of insurers, including the Company's insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in the Company's products, its ability to market its products and its competitive position. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of the Company's insurance subsidiaries could adversely affect the Company in many ways, including the following: reducing new sales of insurance and investment products; adversely affecting relationships with distributors and sales agents; increasing the number or amount of policy surrenders and withdrawals of funds; requiring a reduction in prices for the Company's insurance products and services in order to remain competitive; and adversely affecting the Company's ability to obtain reinsurance at a reasonable price on reasonable terms or at all. A downgrade of sufficient magnitude could result in the Company, its insurance subsidiaries or both being required to collateralize reserves, balances or

obligations under reinsurance, funding, swap and securitization agreements. A downgrade of sufficient magnitude could also result in the termination of funding and swap agreements.

Rating organizations also publish credit ratings for the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important to the Company's overall ability to access certain types of liquidity. Downgrades of the Company's credit ratings, or an announced potential downgrade, could have a material adverse affect on the Company's financial conditions and results of operations in many ways. These include limiting the Company's access to capital markets, increasing the cost of debt, impairing its ability to raise capital to refinance maturing debt obligations, limiting its capacity to support growth at its insurance subsidiaries, and making it more difficult to maintain or improve the current financial strength ratings of its insurance subsidiaries. A downgrade of sufficient magnitude, in combination with other factors, could require the Company to post collateral.

Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions and circumstances outside the rated company's control. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the rating organizations' judgment of the rating to be assigned to the rated company. The Company cannot predict what actions the rating organizations may take, or what actions the Company may take in response to the actions of the rating organizations, which could adversely affect the Company.

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

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

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

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

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

Company's level of lapses to differ from its assumptions about persistency and lapses, which could negatively impact the Company's performance.

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

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

The Company's valuation of its investments, financial condition or results of operations could be adversely impacted by results that differ from its expectations or assumptions.

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

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

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

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

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

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

experience unexpected withdrawal or surrender activity, the Company or its subsidiaries could exhaust their liquid assets and be forced to liquidate other assets, perhaps at a loss or on other unfavorable terms. If the Company or its subsidiaries are forced to dispose of assets at a loss or on unfavorable terms, it could have an adverse effect on the Company's financial condition. The degree of the adverse effect could vary in relation to the magnitude of the unexpected surrender or withdrawal activity.

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

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

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

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

Higher interest rates may create a less favorable environment for the origination of mortgage loans and decrease the investment income the Company receives in the form of prepayment fees, make-whole payments, and mortgage participation income. Higher interest rates may also increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of variable products. During periods of increasing market interest rates, the Company may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and it may increase crediting rates on in-force products to keep these products competitive. In addition, rapidly rising interest rates may cause increased policy surrenders, withdrawals from life insurance policies and annuity contracts and requests for policy loans, as policyholders and contractholders shift assets into higher yielding investments. Increases in crediting rates, as well as surrenders and withdrawals, could have an adverse effect on the Company's financial condition and results of operations.

Additionally, the Company's asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and other factors. The effectiveness of the Company's asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

In general, the Company's results are improved when the yield curve is positively sloped (i.e., when long-term interest rates are higher than short-term interest rates), and will be adversely affected by a flat or negatively sloped curve.

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

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

Equity market volatility can also affect the profitability of variable products in other ways, in particular as a result of death benefit and withdrawal benefit guarantees in these products. The estimated cost of providing guaranteed minimum death benefits and guaranteed minimum withdrawal benefits incorporate various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income.

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

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

The Company and its subsidiaries are subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. At any given time, a number of financial and/or market conduct examinations of the Company's subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of the Company's subsidiaries that could, if determined adversely, have a material impact on the Company. The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products, and the Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

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

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

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

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

Although the Company and its subsidiaries are subject to state regulation, in many instances the state regulatory models emanate from the National Association of Insurance Commissioners ("NAIC"). State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal issue may change over time to the Company's detriment, or that changes to the overall legal environment, even absent any change of interpretation by a particular regulator, may cause the Company to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to the Company's practices that may, in some cases, limit its ability to grow and improve profitability.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. As an example of both retroactive and prospective impacts, in late 2005, the NAIC approved an amendment to Actuarial Guideline 38, commonly known as AXXX, which interprets the reserve requirements for universal life insurance with secondary guarantees. This amendment retroactively increased the reserve requirements for universal life insurance with secondary guarantee products issued after July 1, 2005. This change to Actuarial Guideline 38 ("AG38") also affected the profitability of universal life products sold after the adoption date. The NAIC is continuing to study reserving methodology and has issued additional changes to AXXX and Regulation XXX, which have had the effect of modestly decreasing the reserves required for certain traditional and universal life policies that were issued on January 1, 2007 and later. In addition, accounting and actuarial groups within the NAIC have studied whether to change the accounting standards that relate to certain reinsurance credits, and if changes were made, whether they should be applied retrospectively, prospectively only, or in a phased-in manner. A requirement to reduce the reserve credits on ceded business, if applied retroactively, would have a negative impact on the statutory capital of the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

At the federal level, bills are routinely introduced in both chambers of the United States Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter, pre-empting state law in certain respects to the regulation of reinsurance, and other matters. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company or whether any effects will be material. Additionally, completion of the Company's proposed conversion into a Bank Holding Company would subject it to additional regulation by federal and state banking regulators and could impose additional capital requirements, restrictions on the Company's business operations, or both.

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

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

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

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

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

Under the Internal Revenue Code of 1986, as amended (the "Code"), income tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company's products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products, or to increase the tax-deferred status of competing products, all life insurance companies, including the Company and its subsidiaries, would be adversely affected with respect to their ability to sell such products, and, depending upon grandfathering provisions, would be affected by the surrenders of existing annuity contracts and life insurance policies. For example, changes in laws or regulations could restrict or eliminate the advantages of certain corporate or bank-owned life insurance products. Changes in tax law, which have reduced the federal income tax rates on corporate dividends in certain circumstances, could make the tax advantages of investing in certain life insurance or annuity products less attractive. Additionally, changes in tax law based on proposals to establish new tax advantaged retirement and life savings plans, if enacted, could reduce the tax advantage of investing in certain life insurance or annuity products. In addition, life insurance products are often used to fund estate tax obligations. Legislation has been enacted that reduces and eventually eliminates the federal estate tax. Under the legislation that has been enacted, the estate tax will be reinstated, in its entirety, in 2011 and thereafter. Members of Congress have expressed a desire to modify the existing legislation, which modification could result in faster or more complete reduction or repeal of the estate tax. If the estate tax is significantly reduced or eliminated, the demand for certain life insurance products could be adversely affected. Additionally, the Company is subject to the federal corporation income tax. The Company cannot predict what changes to tax law or interpretations of existing tax law may ultimately be enacted or adopted or whether such changes could adversely affect the Company.

The Company's move away from relying on reinsurance for newly written traditional life products results in a net reduction of current taxes (but an increase in deferred taxes.) The resulting benefit of reduced current taxes is attributed to the applicable life products and is an important component of the profitability of these products. The profitability and competitive position of these products is dependent on the continuation of current tax law and the ability to generate taxable income.

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

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

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Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize its material deferred tax assets. If future events differ from the Company's current forecasts, a valuation allowance may need to be established, which could have a material adverse effect on the Company's results of operations, financial condition and capital position.

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

A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions, and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments.

Group health coverage issued through associations and credit insurance coverages have received some negative coverage in the media as well as increased regulatory consideration and review and litigation. The Company has a small closed block of group health insurance coverage that was issued to members of an association; a purported class action lawsuit is currently pending against the Company in connection with this business.

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

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

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

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

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

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

The Company's ability to maintain competitive unit costs is dependent upon a number of factors, such as the level of new sales, persistency (continuation or renewal) of existing business, and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher unit costs.

Additionally, a decrease in persistency may result in higher or more rapid amortization of deferred policy acquisition costs and thus higher unit costs, and lower reported earnings. Although many of the Company's products contain surrender charges, the charges decrease over time and may not be sufficient to cover the unamortized deferred policy acquisition costs with respect to the insurance policy or annuity contract being surrendered. Some of the Company's products do not contain surrender charge features and such products can be surrendered or exchanged without penalty. A decrease in persistency may also result in higher claims.

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

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

The value of the Company's commercial mortgage loan portfolio depends in part on the financial condition of the tenants occupying the properties that the Company has financed. Factors that may affect the overall default rate on, and market value of, the Company's invested assets, derivative financial instruments, and mortgage loans include interest rate levels, financial market performance, and general economic conditions as well as particular circumstances affecting the businesses of individual borrowers and tenants.

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

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

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

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

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

Additionally, in connection with its acquisitions, the Company assumes, or otherwise becomes responsible for the obligations of policies and other liabilities of other insurers. Any regulatory, legal, financial, or other adverse development affecting the other insurer could also have an adverse effect on the Company.

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The Company may not be able to achieve the expected results from its recent acquisition.

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

The Company is dependent on the performance of others.

The Company's results may be affected by the performance of others because the Company has entered into various arrangements involving other parties. For example, most of the Company's products are sold through independent distribution channels, and variable annuity deposits are invested in funds managed by third parties. Also, a substantial portion of the Chase Insurance Group acquisition business is being administered by third-party administrators. Additionally, the Company's operations are dependent on various technologies, some of which are provided and/or maintained by other parties. Any of the other parties upon which the Company depends may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, or other reasons. Such defaults could have a material adverse effect on the Company's financial condition and results of operations.

Certain of these other parties may act on behalf of the Company or represent the Company in various capacities. Consequently, the Company may be held responsible for obligations that arise from the acts or omissions of these other parties.

As with all financial services companies, its ability to conduct business is dependent upon consumer confidence in the industry and its products. Actions of competitors and financial difficulties of other companies in the industry could undermine consumer confidence and adversely affect retention of existing business and future sales of the Company's insurance and investment products.

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

The Company and its insurance subsidiaries cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. The Company may enter into third-party reinsurance arrangements under which the Company will rely on the third party to collect premiums, pay claims, and/or perform customer service functions. However, notwithstanding the transfer of related assets or other issues, the Company remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Therefore, the failure, insolvency, or inability or unwillingness to pay under the terms of the reinsurance agreement with the Company of one or more of the Company's reinsurers could negatively impact the Company's earnings and financial position.

The Company's ability to compete is dependent on the availability of reinsurance or other substitute financing solutions. Premium rates charged by the Company are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges the Company for the reinsurance. Therefore, if the cost of reinsurance were to increase or if reinsurance were to become unavailable or if alternatives to reinsurance were not available to the Company, or if a reinsurer should fail to meet its obligations, the Company could be adversely affected.

Recently, access to reinsurance has become more costly for the Company as well as the insurance industry in general. This could have a negative effect on the Company's ability to compete. In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The

decreased number of participants in the life reinsurance market results in increased concentration of risk for insurers, including the Company. If the reinsurance market further contracts, the Company's ability to continue to offer its products on terms favorable to the Company could be adversely impacted.

In addition, reinsurers are facing many challenges regarding illiquid credit and/or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions, and other factors negatively impacting the financial services industry. If such events cause a reinsurer to fail to meet its obligations, the Company would be adversely impacted.

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

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

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

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

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

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

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

Company's future marketing plans are dependent on its ability to access financing solutions. Continuing disruption of the credit markets, or the Company's inability to access capital could have a negative impact on the Company's ability to grow. Although the Company believes it has sufficient capital to fund its immediate capital needs, the amount of capital available can vary significantly from period to period due to a variety of circumstances, some of which are neither predictable nor foreseeable, nor within the Company's control. A lack of sufficient capital could impair the Company's ability to grow.

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

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

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals either are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect the Company, including one that relates to certain reinsurance credits, and some of which could positively impact the Company. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. The Company cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect the Company. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. The Company cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of the Company's insurance subsidiaries. Moreover, although in general with respect to regulations and guidelines, states defer to the interpretation of the insurance department of the state of domicile, neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. The Company can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on the Company.

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

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

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

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

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

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

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

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

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

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

include a variety of short and long-term borrowing arrangements, including issuing debt securities, as well as raising capital by issuing a variety of equity securities.

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

Difficult conditions in the economy generally could adversely affect the Company's business and results from operations.

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

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

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

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

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

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

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

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

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

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

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

The Company relies on its credit facility as a potential source of liquidity. The availability of these funds could be critical to the Company's credit and financial strength ratings and its ability to meet

obligations, particularly in the current market when alternative sources of credit are either difficult to access or costly. The Company's credit facility contains various affirmative and negative covenants and events of default, including covenants requiring the Company to maintain a specified minimum consolidated net worth. The Company's right to make borrowings under these facilities is subject to the fulfillment of certain conditions, including its compliance with all covenants. The Company's failure to comply with the covenants in the credit facilities could restrict its ability to access this credit facility when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

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

The Company primarily conducts business through licensed insurance company subsidiaries. Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital ("RBC") formulas for life and property and casualty companies. The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors the amount of statutory income or losses generated by the Company's insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital its insurance subsidiaries must hold to support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, the credit ratings of investments held in its portfolio, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, credit market volatility, changes in consumer behavior, as well as changes to the NAIC RBC formula. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of its insurance company subsidiaries. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital the Company must hold in order to maintain its current ratings. In addition, ratings agencies may downgrade the investments held in the Company's portfolio, which could result in a reduction of the Company's capital and surplus and/or its RBC ratio. Also, in environments where there is not a correlative relationship between interest rates and spreads, the Company's market value adjusted product can have a material adverse effect on the Company's statutory surplus position.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's home office is located at 2801 Highway 280 South, Birmingham, Alabama. The Company owns two buildings consisting of 310,000 square feet constructed in two phases. Building 1 was constructed in 1974 and Building 2 was constructed in 1982. Additionally, the Company leases a third 310,000 square-foot building constructed in 2004. Parking is provided for approximately 2,594 vehicles.

The Company leases administrative and marketing office space in 23 cities, including 21,667 square feet in Birmingham (excluding the home office building), with most leases being for periods of three to ten years. The aggregate annualized rent is approximately \$6.4 million.

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

Item 3. Legal Proceedings

To the knowledge and in the opinion of management, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company, to which the Company or any of its subsidiaries is a party or of which any of our properties is the subject. For additional information regarding legal proceedings see Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results* included herein.

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

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

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

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

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

The Company (or its predecessor) has paid cash dividends each year since 1926 and each quarter since 1934. The Company expects to continue to pay cash dividends, subject to its earnings and financial condition, regulatory requirements, capital needs, and other relevant factors. The Company's ability to pay cash dividends is dependent in part on cash dividends received by the Company from its life insurance subsidiaries and regulatory requirements. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Liquidity and Capital Resources" included herein. Such subsidiary dividends are restricted by the various insurance laws of the states in which the subsidiaries are incorporated. See Item 1, *Business*, "Regulation".

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

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

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

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

Item 6. Selected Financial Data

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

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

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

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

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

(4)

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

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

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

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

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations including our liquidity and capital resources. Historical information is presented and discussed and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements instead of historical facts and may contain words like "believe," "expect," "estimate," "project," "budget," "forecast," "anticipate," "plan," "will," "shall," "may," and other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. For more information about the risks, uncertainties and other factors that could affect our future results, please refer to Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results* included herein.

OVERVIEW

Our business

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

We operate several business segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments in light of the segment reporting requirements prescribed by the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and make adjustments to our segment reporting as needed.

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

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

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

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acquisitions of blocks of policies or smaller insurance companies. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, and market dynamics. Policies acquired through the Acquisition segment are "closed" blocks of business (no new policies are being marketed). Therefore, earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

Annuities We manufacture, sell, and support fixed and variable annuity products. These products are primarily sold through broker-dealers, but are also sold through financial institutions and independent agents and brokers.

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

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

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

Reinsurance Ceded

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

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

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

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

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments.

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

General

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

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

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

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

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

we are dependent on the performance of others;

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

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Financial environment

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

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

equity market volatility could negatively impact our business;

credit market volatility or disruption could adversely impact our financial condition or results from operations;

our ability to grow depends in large part upon the continued availability of capital;

we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;

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

we could be forced to sell investments at a loss to cover policyholder withdrawals;

disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;

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

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

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

we may be required to establish a valuation allowance against our deferred tax assets, which could materially adversely affect our results of operations, financial condition, and capital position;

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

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

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

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

Industry

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

changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;

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

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

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

reinsurance introduces variability in our statements of income;

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

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

Competition

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Evaluation of Other-Than-Temporary Impairments One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized investment losses equal to the difference between the fair value and cost or amortized cost basis of the security. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. For fixed maturities, we accrete the new cost basis to par or to the estimated future value over the expected remaining life of the security by adjusting the security's yields assuming that the Company has the ability and intent to hold the securities to maturity or recovery and that future expected cash flows on the securities can be properly estimated.

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

For certain securitized financial assets with contractual cash flows including asset-backed securities ("ABS"), Emerging Issues Task Force ("EITF") Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets" ("EITF Issue No. 99-20"), requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial

asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

Securities not subject to EITF Issue No. 99-20 that are in an unrealized loss position, are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures that we consider. Based on our analysis, for the years ended December 31, 2008 and 2007, we concluded that approximately \$311.8 million, excluding \$18.7 million of Modco related impairments, and \$0.1 million, respectively, of pretax unrealized losses were other-than-temporarily impaired. The impairments related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac, resulting in a charge to net realized investment losses.

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

Derivatives We utilize derivative transactions primarily in order to reduce our exposure to interest rate risk, inflation risk, equity market risk, and currency exchange risk. We have also entered into certain credit default swaps to enhance the return on our investment portfolio. Assessing the effectiveness of the hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. We employ a variety of methods for determining the fair value of our derivative instruments. The fair values of swaps, interest rate swaptions, and options are based upon industry standard models which calculate the present-value of the projected cash flows of the derivatives using current and implied future market conditions. These models include estimated volatility and interest rates in the determination of fair value where quoted market values are not available. The use of different assumptions may have a material effect on the estimated fair value amounts, as well as the amount of reported net income (loss). In addition, measurements of ineffectiveness of hedging relationships are subject to interpretations and estimations, and any differences may result in material changes to our results of operations. As of December 31, 2008, the fair value of derivatives reported on our balance sheet in "other long-term investments" and "other liabilities" was \$262.9 million and \$239.5 million, respectively.

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

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

The balance of the reinsurance is due from a diverse group of reinsurers. The collectability of reinsurance is largely a function of the solvency of the individual reinsurers. We perform periodic credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends and commitment to the reinsurance business. We also require assets in trust, letters of credit or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance contract, could have a material adverse effect on our results of operations and financial condition. As of December 31, 2008 our third-party reinsurance receivables amounted to \$5.3 billion. These amounts include ceded reserve balances and ceded benefit payments.

We account for reinsurance as required by FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS No. 113"). In addition to SFAS No. 113, we rely on FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* ("SFAS No. 60") and FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* ("SFAS No. 97") as applicable. In accordance with those pronouncements, costs for reinsurance are amortized as a level percentage of premiums for SFAS No. 60 products and a level percentage of estimated gross profits for SFAS No. 97 products. Accordingly, ceded reserve and deferred acquisition cost balances are established using methodologies consistent with those used in establishing direct policyholder reserves and deferred acquisition costs. Establishing these balances requires the use of various assumptions including investment returns, mortality, persistency, and expenses. The assumptions made for establishing ceded reserves and ceded deferred acquisition costs are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs.

Assumptions are also made regarding future reinsurance premium rates and allowance rates. Assumptions made for mortality, persistency, and expenses are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs. Assumptions made for future reinsurance premium and allowance rates are consistent with rates provided for in our various reinsurance agreements. For certain of our reinsurance agreements, premium and allowance rates may be changed by reinsurers on a prospective basis, assuming certain contractual conditions are met (primarily that rates are changed for all companies with which the reinsurer has similar agreements). We do not anticipate any changes to these rates and, therefore, have assumed continuation of these non-guaranteed rates. To the extent that future rates are modified, these assumptions would be revised and both current and future results would be affected. For products subject to SFAS No. 60, assumptions are not changed unless projected future revenues are expected to be less than future expenses. For products subject to SFAS No. 97, assumptions are periodically updated whenever actual experience and/or expectations for the future differ from that assumed. When assumptions are updated, changes are reflected in the income statement as part of an "unlocking" process. For the year ended December 31, 2008, there were no changes to reinsurance premium and allowance rates that would require an update of assumptions and subsequent unlocking of balances under SFAS No. 97.

Deferred acquisition costs and Value of business acquired We incur significant costs in connection with acquiring new insurance business. These costs, which vary with and are primarily related to the production of new business and coinsurance of blocks of policies, are deferred and amortized over future periods. The recovery of such costs is dependent on the future profitability of the related

policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These costs are amortized over the expected lives of the contracts, based on the level and timing of either gross profits or gross premiums, depending on the type of contract. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts. As of December 31, 2008, we had deferred acquisition costs ("DAC")/value of business acquired ("VOBA") of \$4.2 billion.

We had a DAC/VOBA asset of approximately \$232.4 million related to our variable annuity product line with an account balance of \$4.5 billion as of December 31, 2008. These amounts include \$54.3 million and \$2.3 billion, respectively, of DAC/VOBA asset and account balances associated with the variable annuity business of the Chase Insurance Group which has been 100% reinsured to Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC"), under a modified coinsurance agreement. We monitor the rate of amortization of DAC/VOBA associated with our variable annuity product line. Our monitoring methodologies employ varying assumptions about how much and how quickly the stock markets will appreciate. The primary assumptions used to project future profits as part of the analysis include: a long-term equity market growth rate of 8%, reversion to the mean methodology with a reversion to the mean with no cap, reversion to the mean period of 6 years, and an amortization period of 25 years. A recovery in equity markets, or the use of methodologies and assumptions that anticipate a recovery, results in lower amounts of amortization, and a worsening of equity markets results in higher amounts of amortization. We periodically review and update as appropriate our key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as "unlocking".

Goodwill Accounting for goodwill requires an estimate of the future profitability of the associated lines of business. Goodwill is tested for impairment at least annually. We evaluate the carrying value of goodwill at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, we compare our estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We utilize a discounted cash flows model to assess the fair value of the reporting units. As of December 31, 2008 and 2007, we evaluated our goodwill and determined that the fair value had not decreased below the carrying value and no adjustment to impair goodwill was necessary in accordance with FASB Statement No. 142, *Goodwill and Other Intangible Assets*. As of December 31, 2008, we had goodwill of \$121.0 million.

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

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

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

Insurance liabilities and reserves Establishing an adequate liability for our obligations to policyholders requires the use of assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency and other assumptions based on our historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for our property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments. In addition, effective January 1, 2007, we adopted FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 140 ("SFAS No. 155"), related to our equity indexed annuity product. SFAS No. 155 requires that we fair value the liability related to this block of business at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As a result of the adoption of SFAS No. 157 at January 1, 2008, we made certain modifications to the method used to determine fair value for our liability related to equity indexed annuities to take into consideration factors such as policyholder behavior, our credit rating and other market considerations. As of December 31, 2008, we had total policy liabilities and accruals of \$18.3 billion.

Guaranteed minimum death benefits We also establish liabilities for guaranteed minimum death benefits ("GMDB") on our variable annuity products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. We assume mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. Future declines in the equity market would increase our GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB as of December 31, 2008, are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2008, our net GMDB liability held was \$1.2 million.

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

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

Stock-Based Payments Accounting for other stock-based compensation plans may require the use of option pricing models to estimate our obligations. Assumptions used in such models relate to equity market volatility, the risk-free interest rate at the date of grant, expected dividend rates, as well as expected exercise dates. See Note 12, *Shareowners' Equity and Stock-Based Compensation*, to the Consolidated Financial Statements for further information on this plan.

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Life Marketing*Segment results of operations*

Segment results were as follows:

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

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

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

(1) Amounts are not adjusted for reinsurance ceded.

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

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Operating expenses detail

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

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Insurance Companies:					
First year commissions	\$ 192,773	\$ 262,054	\$ 249,484	(26.4)%	5.0%
Renewal commissions	38,465	37,768	37,308	1.8	1.2
First year ceding allowances	(19,055)	(18,804)	(38,141)	1.3	(50.7)
Renewal ceding allowances	(229,042)	(233,304)	(221,092)	(1.8)	5.5
General & administrative	159,818	180,158	168,413	(11.3)	7.0
Taxes, licenses, and fees	29,803	32,928	27,798	(9.5)	18.5
Other operating expenses incurred	172,762	260,800	223,770	(33.8)	16.5
Less: commissions, allowances & expenses capitalized	(229,671)	(304,494)	(265,533)	(24.6)	14.7
Other insurance company operating expenses	(56,909)	(43,694)	(41,763)	30.2	4.6
Marketing Companies:					
Commissions	74,494	91,377	87,387	(18.5)	4.6
Other operating expenses	17,842	25,225	51,683	(29.3)	(51.2)
Other marketing company operating expenses	92,336	116,602	139,070	(20.8)	(16.2)
Other operating expenses	\$ 35,427	\$ 72,908	\$ 97,307	(51.4)	(25.1)

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

Segment operating income

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

Operating revenues

Total revenues for the year ended December 31, 2008 increased \$20.1 million, or 2.0%, compared to the year ended December 31, 2007. This increase was the result of higher premiums and policy fees in the segment's traditional line and higher investment income due to increases in in-force volume and higher overall yields, which was partially offset by lower other income due to the sale of two non-insurance subsidiaries in late 2007 and lower sales in the segment's remaining marketing companies.

Net premiums and policy fees

Net premiums and policy fees increased by \$36.8 million, or 6.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to an increase in

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retention levels on certain traditional life products. Beginning in the third quarter of 2005, we reduced our reliance on reinsurance by changing from coinsurance to yearly renewable term reinsurance agreements and increased the maximum amount retained on any one life from \$500,000 to \$1,000,000 on certain of our newly written traditional life products (products written during the third quarter of 2005 and later). In addition to increasing net premiums, this change results in higher benefits and settlement expenses, and causes greater variability in financial results due to fluctuations in mortality results. Our maximum retention level for newly issued universal life products is generally \$1,000,000. During 2008, we increased our retention limit to \$2,000,000 on certain of our traditional and universal life products.

Net investment income

Net investment income in the segment increased \$24.9 million, or 7.7%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase reflects the growth related to traditional and universal life liabilities.

Other income

Other income decreased \$41.6 million, or 30.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The decrease relates primarily to the sale of two non-insurance subsidiaries in 2007 and lower broker-dealer revenues compared to 2007 levels due to current negative market conditions.

Benefits and settlement expenses

Benefits and settlement expenses increased by \$69.9 million, or 11.0%, for the year ended December 31, 2008 as compared to the year ended December 31, 2007, due to growth in life insurance in-force, increased retention levels on certain newly written traditional life products and higher credited interest on UL products resulting from increases in account values. Changes to assumptions, from our annual DAC unlocking process, resulted in an adjustment which increased the benefits and settlements expense by \$14.4 million in the third quarter of 2008, which was offset by a decrease of \$23.2 million in the DAC amortization line. The estimated mortality impact to earnings, related to traditional and universal life products, for the year ended December 31, 2008 was favorable by \$18.2 million, and was approximately \$6.1 million more favorable than the estimated mortality impact on earnings for the year ended December 31, 2007.

Amortization of DAC

DAC amortization decreased \$11.7 million, or 11.0%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. We periodically review and update as appropriate our key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as "unlocking". DAC amortization for the Life Marketing segment was reduced by \$23.2 million in the third quarter of 2008 primarily due to favorable DAC unlocking in the universal life block, partially offset by unfavorable unlocking in BOLI.

Other operating expenses

Other operating expenses decreased \$37.5 million, or 51.4%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This decrease primarily relates to the sale of two marketing subsidiaries in 2007 and lower broker dealer sales compared to 2007. The marketing companies contributed approximately \$24.3 million to the decrease in 2008 compared to 2007. In addition, reduced operating expenses in the insurance companies contributed to the overall decrease.

Sales

Sales for the segment decreased \$71.1 million, or 31.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, due to a decline in sales across product lines. Lower sales levels of traditional products were primarily the result of pricing changes implemented on certain of our products at the beginning of 2008 and less favorable market conditions. Universal life sales declined \$22.9 million, or 30.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to competitive pressures in all channels and less favorable market conditions. In addition, BOLI sales are subject to significant fluctuation and were \$10.1 million lower for the year ended December 31, 2008 compared to the year ended December 31, 2007.

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

Segment operating income

Operating income increased \$15.0 million, or 8.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily the result of a gain recognized during the first quarter of 2007 on the sale of the segment's direct marketing subsidiary combined with favorable mortality results, offsetting favorable unlocking in 2006 and reduced investment income allocations associated with the universal life securitization transaction in 2007.

Operating revenues

Excluding the \$15.7 million gain on the sale of a subsidiary which is included in other income, total revenues for the year ended December 31, 2007 increased \$119.9 million, or 13.8%, compared to the year ended December 31, 2006. This increase was the result of growth of life insurance in-force and an increase in the traditional block which continues to grow leading to higher net premiums and policy fees.

Net premiums and policy fees

Net premiums and policy fees grew by \$118.5 million, or 28.1%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, due in part to the growth in both traditional and universal life insurance in-force achieved over the last several quarters combined with an increase in retention levels on certain traditional life products.

Net investment income

Net investment income in the segment increased \$16.6 million, or 5.4%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase reflects the growth of the segment assets caused by growth related to traditional and universal life products.

Other income

Other income increased \$0.5 million, or 0.3%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The slight increase relates primarily to a \$15.7 million gain recognized on the sale of the segment's direct marketing subsidiary which was offset by the loss of revenue from the sale of the subsidiary and a marketing company associated with the segment.

Benefits and settlement expenses

Benefits and settlement expenses were \$99.1 million, or 18.5%, higher for the year ended December 31, 2007 than for the year ended December 31, 2006, due to growth in life insurance in-force, increased retention levels on certain newly written traditional life products and higher credited interest on UL products resulting from increases in account values. The estimated mortality impact on

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earnings for 2007 related to traditional and universal life products was a favorable \$12.2 million, which was approximately \$16.1 million more favorable than estimated mortality impact on earnings for 2006.

Amortization of DAC

The increase in DAC amortization compared to the prior year was primarily due to growth in the block of business and the related impact of a reduced reliance on reinsurance. In addition, during the second quarter of 2006, an evaluation of DAC, including a review of the underlying assumptions of future mortality, expenses, lapses, premium persistency, investment yields, and interest spreads was performed on our West Coast Life UL product. As a result of this review, assumptions were updated based on actual experience and/or expectations for the future. This change in assumptions, and resulting adjustment to DAC, referred to as "unlocking", resulted in a favorable adjustment of approximately \$12.6 million, contributing to the increase in 2007 compared to 2006.

Other operating expenses

Other operating expenses decreased for the year ended December 31, 2007 compared to the year ended December 31, 2006. This decrease related to the impact of the de-emphasis of one and sales of two other marketing subsidiaries during 2007. The impact of these events contributed approximately \$23 million to the decrease in 2007 compared to the prior year.

Sales

Sales for the segment increased \$1.1 million, or 0.5%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to an increase of \$1.2 million in variable universal life sales. This increase in variable universal life sales was primarily related to continued growth in VUL sales through the institutional channel. Strong competition in traditional and universal life products caused sales growth to be flat in 2007.

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 SFAS No. 97 business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore impact SFAS No. 97 DAC amortization. Deferred reinsurance allowances on SFAS No. 60 business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in force. Thus, deferred reinsurance allowances on SFAS No. 60 policies impact SFAS No. 60 DAC amortization. A more detailed discussion of the accounting for reinsurance allowances can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies*.

Table of Contents**Impact of reinsurance**

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

	Life Marketing Segment		
	Line Item Impact of Reinsurance		
	For The Year Ended December 31,		
	2008	2007	2006
	(Dollars In Thousands)		
REVENUES			
Reinsurance ceded	\$ (924,026)	\$ (913,250)	\$ (906,590)
BENEFITS AND EXPENSES			
Benefit and settlement expenses	(981,646)	(985,829)	(958,093)
Amortization of deferred policy acquisition costs	(55,415)	(61,050)	(49,914)
Other operating expenses ⁽¹⁾	(144,003)	(138,730)	(132,775)
Total benefits and expenses	(1,181,064)	(1,185,609)	(1,140,782)
NET IMPACT OF REINSURANCE⁽²⁾	\$ 257,038	\$ 272,359	\$ 234,192
Allowances received	\$ (248,097)	\$ (252,108)	\$ (259,233)
Less: Amount deferred	104,094	113,378	126,458
Allowances recognized (ceded other operating expenses) ⁽¹⁾	\$ (144,003)	\$ (138,730)	\$ (132,775)

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

(2) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance. The Company estimates that the impact of foregone investment income would reduce the net impact of reinsurance by 80% to 120%.

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 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 80% to 120%. 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, 90% of the segment's traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business was ceded due to our change in reinsurance strategy on traditional business discussed previously. 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 year may fluctuate due to variations in mortality and unlocking of balances under SFAS No. 97.

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

Premiums and policy fees ceded had been rising over a number of years with increases in our in-force blocks of traditional and universal life business. Beginning in mid-2005, we changed our reinsurance approach in our traditional life product lines. Instead of generally ceding 90% of new business issued before that date, we began purchasing yearly renewable term on risks in excess of \$1 million (now increased to \$2 million). This had the effect of reducing reinsurance on new policies issued. The increase in ceded premiums above for the year ended December 31, 2008 compared to the year ended December 31, 2007, was caused primarily by growth in ceded universal life premiums and policy fees of \$29.0 million.

Ceded benefits and settlement expenses were lower for the year ended December 31, 2008 compared to the year ended December 31, 2007, as lower increases in ceded reserves more than offset an increase in ceded claims. Traditional ceded benefits decreased \$90.1 million for the year ended December 31, 2008 compared to the year ended December 31, 2007 as a smaller increase in ceded reserves more than offset higher ceded death benefits. Universal life ceded benefits increased \$87.0 million for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to higher ceded claims and a higher change in ceded reserves associated with growth in the business throughout the year and unlocking in the third quarter of 2008. Ceded universal life claims were \$18.5 million higher for the year ended December 31, 2008 compared to the year ended December 31, 2007. Ceded benefits and settlement expenses will fluctuate over time, largely as a function of the segment's overall variations in death benefits incurred.

Ceded amortization of deferred policy acquisitions costs decreased for the year ended December 31, 2008 compared to 2007. For the year ended December 31, 2008, traditional ceded amortization decreased as a result of continued runoff of pre-2005 term business, which had higher capitalized allowances than business currently being sold. This was partially offset by a small amount of increased ceded amortization in universal life.

Ceded other operating expenses are based on allowances received from reinsurers. Total allowances received for the year ended December 31, 2008 increased slightly from 2007 as increases associated with growth in the universal life line more than offset decreases associated with the change in our term life reinsurance strategy. Term allowances have decreased since mid-2005 as new YRT reinsurance replaces the 90% coinsured business. For the year ended December 31, 2008 term allowances received decreased compared to 2007.

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

The increase in ceded premiums for the year ended December 31, 2007 compared to the year ended December 31, 2006, was caused primarily by growth in ceded universal life premiums and policy fees of \$24.7 million.

Ceded benefits and settlement expenses were higher for the year ended December 31, 2007 compared to the year ended December 31, 2006, as higher ceded claims more than offset a lower increase in ceded reserves. Traditional ceded benefits increased \$10.6 million for the year ended December 31, 2007 compared to the year ended December 31, 2006 as higher ceded death benefits more than offset a smaller increase in ceded reserves. Universal life ceded benefits increased \$13.4 million for the year ended December 31, 2007 compared to the year ended December 31, 2006 due to higher ceded claims, more than offsetting a lower change in ceded reserves associated with higher 2006 sales. Ceded universal life claims were \$57.5 million higher for the year ended December 31, 2007 compared to the year ended December 31, 2006.

Ceded amortization of deferred policy acquisitions costs increased for the year ended December 31, 2007 compared to the year ended December 31, 2006. For the year ended December 31,

2007, traditional ceded amortization decreased as a result of continued runoff of pre-2005 term business, which had higher capitalized allowances than business currently being sold. This was more than offset by increased ceded amortization in universal life primarily due to unlocking in 2006.

Total allowances received for the year ended December 31, 2007 increased slightly from 2006 as increases associated with growth in the universal life line more than offset decreases associated with the change in our term life reinsurance strategy. For the year ended December 31, 2007 term allowances received decreased compared to 2006.

Acquisitions**Segment results of operations**

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
REVENUES					
Gross premiums and policy fees	\$ 764,438	\$ 810,696	\$ 514,571	(5.7)%	57.5%
Reinsurance ceded	(487,698)	(510,540)	(256,311)	(4.5)	99.2
Net premiums and policy fees	276,740	300,156	258,260	(7.8)	16.2
Net investment income	530,028	578,965	413,636	(8.5)	40.0
Other income	6,735	9,462	6,038	(28.8)	56.7
Total operating revenues	813,503	888,583	677,934	(8.4)	31.1
Realized gains (losses) investments	(306,581)	(2,772)	73,881		
Realized gains (losses) derivatives	209,800	6,622	(45,165)		
Total revenues	716,722	892,433	706,650		
BENEFITS AND EXPENSES					
Benefits and settlement expenses	580,271	633,971	494,533	(8.5)	28.2
Amortization of deferred policy acquisition costs and value of business acquired	75,608	77,158	52,038	(2.0)	48.3
Other operating expenses	21,145	48,207	26,829	(56.1)	79.7
Operating benefits and expenses	677,024	759,336	573,400	(10.8)	32.4
Amortization of DAC / VOBA related to realized gains (losses) investments	(1,224)	2,081	6,776		
Total benefits and expenses	675,800	761,417	580,176	(11.2)	31.2
INCOME BEFORE INCOME TAX	40,922	131,016	126,474	(68.8)	3.6
Less: realized gains (losses)	(96,781)	3,850	28,716		
Less: related amortization of DAC	1,224	(2,081)	(6,776)		
OPERATING INCOME	\$ 136,479	\$ 129,247	\$ 104,534	5.6	23.6

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The following table summarizes key data for the Acquisitions segment:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Average Life Insurance In-Force⁽¹⁾					
Traditional	\$ 211,085,105	\$ 226,590,927	\$ 235,299,391	(6.8)%	(3.7)%
Universal life	30,142,339	32,026,221	33,241,672	(5.9)	(3.7)
	\$ 241,227,444	\$ 258,617,148	\$ 268,541,063	(6.7)	(3.7)
Average Account Values					
Universal life	\$ 2,942,528	\$ 3,030,836	\$ 3,098,263	(2.9)	(2.2)
Fixed annuity ⁽²⁾	4,422,212	5,186,782	5,419,865	(14.7)	(4.3)
Variable annuity	171,758	195,867	193,616	(12.3)	1.2
	\$ 7,536,498	\$ 8,413,485	\$ 8,711,744	(10.4)	(3.4)
Interest Spread UL & Fixed Annuities					
Net investment income yield ⁽⁴⁾	6.06%	6.08%	6.34%		
Interest credited to policyholders	4.14	4.11	4.11		
Interest spread	1.92%	1.97%	2.23%		
Mortality Experience⁽³⁾	\$ 3,558	\$ 2,936	\$ 3,127		

(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) Represents the estimated pretax earnings impact resulting from mortality variance to pricing. Excludes results related to the Chase Insurance Group related to the Chase Insurance Group, which was acquired in the third quarter of 2006.

(4) Includes available-for-sale and trading portfolios. Available-for-sale portfolio yields were 6.34%, 6.25% and 6.49%, respectively, for the year ended December 31, 2008, December 31, 2007, and December 31, 2006.

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

Segment operating income

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

Revenues

Net premiums and policy fees decreased \$23.4 million, or 7.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to the runoff of the acquired blocks. Net investment income decreased \$48.9 million, or 8.5%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to a decline in annuity account values in the Chase Insurance Group block, resulting in a reduction of invested assets and lower investment income.

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Benefits and expenses

Total benefits and expenses decreased \$85.6 million, or 11.2%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The decrease related primarily to the runoff of the acquired blocks, fluctuations in mortality, and lower operating expenses.

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

Segment operating income

Operating income increased \$24.7 million, or 23.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily the result of the Chase Insurance Group acquisition, which contributed \$58.6 million for the year ended December 31, 2007, compared to \$29.0 million in 2006.

Revenues

Net premiums and policy fees increased \$41.9 million, or 16.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, as a result of the Chase Insurance Group acquisition, which contributed \$122.4 million to net premiums and policy fees in 2007, compared to \$76.2 million in 2006. Investment income increased \$165.3 million, or 40.0%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, as a result of the Chase Insurance group acquisition, which contributed \$371.2 million of investment income in 2007 compared to \$198.3 million for 2006.

Offsetting the impact of the Chase Insurance Group acquisition was the normal, expected runoff of the remaining acquired closed blocks.

Benefits and expenses

Benefits and settlement expenses increased \$139.4 million, or 28.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase related to the Chase Insurance Group acquisition which contributed \$373.8 million to benefits and settlement expenses during 2007, compared to \$228.5 million in the prior year. The Chase Insurance Group acquisition resulted in \$21.8 million of additional DAC/VOBA amortization for the year ended December 31, 2007, driving the increase in this line item. Other operating expense increased \$21.4 million, or 79.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, and related to the Chase Insurance Group acquisition, which contributed \$21.0 million of additional expenses in 2007.

Offsetting the impact of the Chase Insurance Group acquisition was the normal, expected runoff of the remaining acquisition closed blocks.

Reinsurance

The Acquisitions segment currently reinsurers 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.

Table of Contents**Impact of reinsurance**

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

	Acquisitions Segment		
	Line Item Impact of Reinsurance		
	For The Year Ended December 31,		
	2008	2007	2006
	(Dollars In Thousands)		
REVENUES			
Reinsurance ceded	\$(487,698)	\$(510,540)	\$(256,311)
BENEFITS AND EXPENSES			
Benefit and settlement expenses	(410,950)	(424,913)	(123,080)
Amortization of deferred policy acquisition costs	(23,299)	(20,119)	(3,486)
Other operating expenses	(71,057)	(108,735)	(54,096)
Total benefits and expenses	(505,306)	(553,767)	(180,662)
NET IMPACT OF REINSURANCE	\$ 17,608	\$ 43,227	\$ (75,649)

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, it should be noted that 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 decreased \$25.6 million, or 59.3%, for the year ended December 31, 2008, compared to the year ended December 31, 2007, as a result of fluctuations in ceded claim volume, amortization of deferred acquisition costs related to the claim fluctuations, and expenses ceded to reinsurers involved with the Chase Insurance Group acquisition.

The net impact of reinsurance increased \$118.9 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, as a result of the Chase Insurance Group acquisition in 2006.

Annuities

Segment results of operations

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
REVENUES					
Gross premiums and policy fees	\$ 34,538	\$ 34,163	\$ 32,074	1.1%	6.5%
Reinsurance ceded	(206)			n/m	n/m
Net premiums and policy fees	34,332	34,163	32,074	0.5	6.5
Net investment income	347,551	267,308	225,160	30.0	18.7
Realized gains (losses) derivatives	(40,971)	(68)	(2,747)	n/m	(97.5)
Other income	12,761	11,285	10,436	13.1	8.1
Total operating revenues	353,673	312,688	264,923	13.1	18.0
Realized gains (losses) investments	(12,917)	2,008	4,697		
Total revenues	340,756	314,696	269,620	8.3	16.7
BENEFITS AND EXPENSES					
Benefits and settlement expenses	310,800	240,210	191,238	29.4	25.6
Amortization of deferred policy acquisition costs and value of business acquired	(1,456)	26,536	25,444	n/m	4.3
Other operating expenses	25,622	22,891	23,596	11.9	(3.0)
Operating benefits and expenses	334,966	289,637	240,278	15.7	20.5
Amortization of DAC / VOBA related to realized gains (losses) investments	2,072	1,149	2,428		
Total benefits and expenses	337,038	290,786	242,706	15.9	19.8
INCOME BEFORE INCOME TAX	3,718	23,910	26,914	(84.5)	(11.2)
Less: realized gains (losses)	(12,917)	2,008	4,697		
Less: related amortization of DAC	(2,072)	(1,149)	(2,428)		
OPERATING INCOME	\$ 18,707	\$ 23,051	\$ 24,645	(18.8)	(6.5)

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The following table summarizes key data for the Annuities segment:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Sales					
Fixed annuity	\$2,160,156	\$1,193,942	\$ 878,178	80.9%	36.0%
Variable annuity	452,409	472,482	322,762	(4.2)	46.4
	\$2,612,565	\$1,666,424	\$1,200,940	56.8	38.8
Average Account Values					
Fixed annuity ⁽¹⁾	\$5,630,864	\$4,410,821	\$3,608,819	27.7	22.2
Variable annuity	2,378,296	2,677,749	2,399,832	(11.2)	11.6
	\$8,009,160	\$7,088,570	\$6,008,651	13.0	18.0
Interest Spread Fixed Annuities⁽²⁾					
Net investment income yield	6.12%	5.98%	6.17%		
Interest credited to policyholders	4.96	5.34	5.32		
Interest spread	1.16%	0.64%	0.85%		
	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
GMDB Net amount at risk⁽³⁾	\$779,850	\$112,389	\$93,888	n/m%	19.7%
GMDB Reserves	782	291	1,784	n/m	(83.7)
GMWB Reserves	33,415	540		n/m	n/m
Account value subject to GMWB rider	342,675	122,637		n/m	n/m
S&P 500® Index	903	1,468	1,418	(38.5)	3.5

(1) Includes general account balances held within variable annuity products.

(2) Interest spread on average general account values.

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

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

Segment operating income

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

Operating revenues

Segment operating revenues increased \$41.0 million, or 13.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to an increase in net investment income. Average account balances grew 13.0% for the year ended December 31, 2008, resulting in higher investment income. The additional income resulting from the larger account balances was partially reduced for the year ended December 31, 2008 by losses on derivatives. The segment

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continually monitors and adjusts credited rates as appropriate in an effort to maintain and/or improve its interest spread.

Benefits and expenses

Operating benefits and expenses increased \$45.3 million, or 15.7%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase was primarily the result of higher credited interest and unfavorable SPIA mortality fluctuations. Mortality was unfavorable by \$15.1 million for the year ended December 31, 2008 compared to unfavorable mortality of \$10.6 million for the year ended December 31, 2007, an unfavorable change of \$4.5 million. The unfavorable mortality variances primarily relate to sales of large SPIA cases. These amounts were partially offset by a favorable unlocking change of \$2.7 million for the year ended December 31, 2008. Unfavorable unlocking of \$0.2 million was recorded by the segment during the year ended December 31, 2007.

Amortization of DAC

The decrease in DAC amortization (not related to realized capital gains and losses) for the year ended December 31, 2008 compared to the year ended December 31, 2007 was primarily due to fair value losses on the variable annuity line. This was offset by higher DAC amortization in other annuity lines of business. We periodically review and update as appropriate our key assumptions including future mortality, expenses, lapses, premium persistency, investment yields and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization. The periodic review and updating of assumptions is referred to as "unlocking". DAC amortization for the Annuities segment decreased by \$28.0 million primarily due to negative fair value changes in the variable annuity line which resulted in a favorable change in DAC amortization of \$35.7 million. Favorable DAC unlocking of \$8.2 million was recorded in the MVA annuity line and \$0.9 million of favorable unlocking was recorded in the SPDA line, which were partially offset by unfavorable unlocking of \$8.8 million in the variable annuity line. Favorable DAC unlocking of \$2.9 million was recorded by the segment for the year ended December 31, 2007.

Sales

Total sales increased \$946.1 million, or 56.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Sales of fixed annuities increased \$966.2 million, or 80.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in fixed annuity sales was driven by increased sales in the SPDA, MVA, and immediate annuity lines. The increase in SPDA sales primarily reflects our favorable competitive positioning versus our competitors pricing in the bank channel. MVA sales continued to be strong in 2008 primarily due to the higher interest rate environment. The continuation of new annuity sales through the Chase distribution system contributed \$574.3 million in fixed annuity sales for the year ended December 31, 2008 compared to \$379.5 million for the year ended December 31, 2007. Sales of variable annuities decreased \$20.1 million, or 4.2% for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to weaker demand caused by unfavorable equity markets.

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

Segment operating income

Operating income declined \$1.6 million, or 6.5%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 primarily due to unfavorable mortality results and a tightening of spreads in the immediate annuity line. Offsetting these unfavorable results were increases in operating income in the market value adjusted annuity line and the single premium deferred annuity line. The

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increase in the market value adjusted annuity line was due to favorable DAC unlocking, slightly offset by a decline in spread. The single premium deferred annuity line of business was added in the third quarter of 2006 and only had two quarters of results in the prior year compared to a full year in 2007. Operating income was also favorably impacted in 2007 compared to the prior year by increasing account values.

Operating revenues

Segment operating revenues increased \$47.8 million, or 18.0%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 primarily due to an increase in net investment income. Average account balances grew 18.0% in 2007, resulting in higher investment income. The additional income resulting from the larger account balances was partially reduced in 2007 by a 21 basis point decline in interest spreads.

Benefits and expenses

Operating benefits and expenses increased \$49.4 million, or 20.5%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. This increase was primarily the result of higher credited interest and unfavorable mortality fluctuations. Mortality was unfavorable by \$10.6 million compared to unfavorable mortality of \$5.0 million in 2006, an unfavorable change of \$5.6 million. The unfavorable mortality variances partially related to the nonrecurring sale of \$122 million of single premium immediate annuities on 28 lives sold in the fourth quarter of 2004 in a structured transaction.

The increase in DAC amortization for the year ended December 31, 2007 compared to the year ended December 31, 2006 was primarily the result of DAC unlocking in various lines. The increase in DAC amortization (not related to Realized capital gains and losses) for the year ended December 31, 2007 compared to the year ended December 31, 2006 was primarily the result of increased earnings in the single premium deferred annuity line. This increase was partially offset as a result of DAC unlocking in various lines.

For the year ended December 31, 2007, DAC amortization for the Annuities segment was reduced by \$4.5 million due to favorable DAC unlocking in the market value adjusted annuity line. Favorable DAC unlocking of \$2.9 million was recorded by the segment during 2007.

Sales

Total sales increased \$465.5 million, or 38.8%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. Sales of fixed annuities increased \$315.8 million, or 36.0%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The continuation of new annuity sales through the former Chase distribution system contributed \$379.5 million in fixed annuity sales in 2007. Sales of variable annuities increased \$149.7 million, or 46.4%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase in variable annuity sales is primarily due to the addition of a new guaranteed minimum withdrawal benefit rider to our variable annuity product, which was launched in May 2007, and our continued efforts to increase wholesaling distribution. A general decline in the equity markets has increased the net amount at risk with respect to guaranteed minimum death benefits by 19.7% as of December 31, 2007 compared to December 31, 2006.

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Stable Value Products

Segment results of operations

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
REVENUES					
Net investment income	\$ 328,353	\$ 300,201	\$ 325,653	9.4%	(7.8)%
Other income	9,360			n/m	
Realized gains (losses)	(6,427)	1,394	1,161	n/m	
Total revenues	331,286	301,595	326,814	9.8	(7.7)
BENEFITS AND EXPENSES					
Benefits and settlement expenses	237,608	241,460	269,851	(1.6)	(10.5)
Amortization of deferred policy acquisition costs	4,467	4,199	4,438	6.4	(5.4)
Other operating expenses	5,827	4,311	4,291	35.2	0.5
Total benefits and expenses	247,902	249,970	278,580	(0.8)	(10.3)
INCOME BEFORE INCOME TAX	83,384	51,625	48,234	61.5	7.0
Less: realized gains (losses)	(6,427)	1,394	1,161		
OPERATING INCOME	\$ 89,811	\$ 50,231	\$ 47,073	78.8	6.7

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

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Sales					
GIC	\$ 166,284	\$ 132,800	\$ 294,100	25.2%	(54.8)%
GFA Direct Institutional	1,061,651	182,179		n/m	n/m
GFA Registered Notes Institutional	450,000	525,000		(14.3)	n/m
GFA Registered Notes Retail	290,848	86,666	139,826	n/m	(38.0)
	\$ 1,968,783	\$ 926,645	\$ 433,926	n/m	n/m
Average Account Values					
	\$ 5,443,382	\$ 5,006,929	\$ 5,751,796	8.7	(13.0)
Operating Spread					
Net investment income yield	5.98%	6.04%	5.78%		
Interest credited	4.33	4.86	4.79		
Operating expenses	0.18	0.17	0.15		
Operating spread	1.47%	1.01%	0.84%		

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

Segment operating income

Operating income increased \$39.6 million, or 78.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in operating earnings resulted from the combination of higher average balances, a higher operating spread and lower liability costs. In addition, \$9.4 million in other income was generated from the early retirement of funding agreements backing medium-term notes.

Higher operating spreads and lower liability costs resulted from increased sales of

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attractively priced institutional funding agreements. As a result, the operating spread increased 46 basis points to 147 basis points during the year ended December 31, 2008, compared to an operating spread of 101 basis points during the year ended December 31, 2007.

Sales

Total sales increased \$1.0 billion for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase was primarily due to increased sales in the institutional market during the first half of 2008.

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

Segment operating income

Operating income increased \$3.2 million, or 6.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase in operating earnings resulted from a higher operating spread, which was partially offset by a decline in average account values. The operating spread increased 17 basis points for 2007 due to the scheduled maturity of several, large high-coupon contracts and an improvement in portfolio asset yields.

Sales

Total sales increased \$492.7 million, or 113.5%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was the result of our reentrance into the institutional funding agreement-backed note market. These sales accounted for 56.7% of the segment's sales.

Asset Protection*Segment results of operations*

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
	(Dollars In Thousands)				
REVENUES					
Gross premiums and policy fees	\$ 363,169	\$ 395,112	\$ 404,524	(8.1)%	(2.3)%
Reinsurance ceded	(170,875)	(176,879)	(208,291)	(3.4)	(15.1)
Net premiums and policy fees	192,294	218,233	196,233	(11.9)	11.2
Net investment income	38,656	39,100	33,345	(1.1)	17.3
Other income	62,271	72,054	66,749	(13.6)	7.9
Total operating revenues	293,221	329,387	296,327	(11.0)	11.2
BENEFITS AND EXPENSES					
Benefits and settlement expenses	106,737	106,812	98,418	(0.1)	8.5
Amortization of deferred policy acquisition costs	57,704	82,280	71,065	(29.9)	15.8
Other operating expenses	97,991	98,736	117,033	(0.8)	(15.6)
Total benefits and expenses	262,432	287,828	286,516	(8.8)	0.5
INCOME BEFORE INCOME TAX	30,789	41,559	9,811	(25.9)	323.6
OPERATING INCOME	\$ 30,789	\$ 41,559	\$ 9,811	(25.9)	323.6

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

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
Sales					
Credit insurance	\$ 67,317	\$ 113,618	\$ 140,769	(40.8)%	(19.3)%
Service contracts	279,862	341,356	279,781	(18.0)	22.0
Other products	63,468	97,342	115,069	(34.8)	(15.4)
	\$410,647	\$552,316	\$535,619	(25.6)	3.1
Loss Ratios⁽¹⁾					
Credit insurance	32.8%	28.1%	35.5%		
Service contracts	70.7	66.4	66.7		
Other products	36.8	33.3	29.2		

(1) Incurred claims as a percentage of earned premiums

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

Segment operating income

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

Net premiums and policy fees

Net premiums and policy fees decreased \$25.9 million, or 11.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Credit insurance premiums decreased \$29.3 million, or 49.1%, due to the sale of a small insurance subsidiary and its related operations during the first quarter of 2008 and the impact of lower auto sales. Net premiums in the service contract line decreased \$2.8 million, or 2.5%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 resulting from weak auto and marine sales. Within the other product lines, net premiums increased \$6.2 million, or 13.4%, compared to the prior year due to an increase in the GAP product line related to growth in in-force contracts during the past few years, partially offset by declines in the IPP line.

Other income

Other income decreased \$9.8 million, or 13.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, primarily due to a decline in service contract volume.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$0.1 million, or 0.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Credit insurance claims for the year ended December 31, 2008 compared to the prior year decreased \$6.9 million, or 40.9%, due to lower volume and a \$3.0 million decrease related to the sale of a small insurance subsidiary and its

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related operations. Service contract claims increased \$2.9 million, or 3.8%, due to higher loss ratios in some product lines. Other products claims increased \$3.9 million, or 25.6%, primarily due to higher claims in the GAP lines.

Amortization of DAC and Other Operating Expenses

Amortization of DAC was \$24.6 million, or 29.9%, lower for the year ended December 31, 2008 compared to the year ended December 31, 2007, mainly due to lower premium in the credit insurance lines and a \$12.7 million decrease resulting from the sale of a small insurance subsidiary and its related operations during the first quarter of 2008. Other operating expenses decreased \$0.7 million, or 0.8%, for the year ended December 31, 2008.

Sales

Total segment sales decreased \$141.7 million, or 25.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The decreases in credit insurance and service contract sales were primarily due to declines in auto and marine sales. The decline in the other products line is primarily the result of lower GAP sales, which was primarily due to lower auto sales, price increases, and tighter underwriting controls.

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

Segment operating income

Operating income increased \$31.7 million, or 323.6%, for the year ended December 31, 2007 compared to December 31, 2006, primarily as a result of bad debt charges of \$27.1 million that occurred during 2006. These charges were incurred on a line of business that we are no longer marketing.

Earnings from core product lines increased \$4.7 million, or 12%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. Within the segment's core product lines, service contract earnings improved \$7.5 million, or 25.3%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The service contract line was favorably impacted by higher volume and improved loss ratios. Credit insurance earnings increased \$4.0 million, or 285.7%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, while earnings from other products declined \$6.8 million, or 62.4%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase in Credit insurance earnings related primarily to lower expenses and improved loss ratios in the Dealer Credit line. The decline in other products related primarily to lower volume and higher loss ratios the IPP line, resulting from the loss of a significant customer.

Net premiums and policy fees

Net premiums and policy fees increased \$22.0 million, or 11.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 due to an increase in the service contracts and other product lines. Net premiums in the service contract line increased \$14.0 million, or 14.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily as a result of the Western General acquisition. Within the other product lines, net premiums increased \$10.3 million for the year ended December 31, 2007 compared to the year ended December 31, 2006, primarily due to an increase in the GAP product line, partially offset by declines in the IPP line. Credit and related earned premiums decreased \$1.2 million.

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Other income

Other income increased \$5.3 million, or 7.9%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was primarily due to an increase in service contract volume. The Western General acquisition contributed to the increase, adding \$5.6 million to other income for 2007.

Benefits and settlement expenses

Benefits and settlement expenses increased \$8.4 million, or 8.5%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, as a result of higher GAP claims of \$7.8 million and additional service contract claims of \$9.0 million, of which \$6.2 million was related to Western General. The increase was partially offset by a decrease of \$6.7 million in the credit and related product lines for the year ended December 31, 2007 compared to the year ended December 31, 2006.

Amortization of DAC and Other Operating Expenses

Amortization of DAC was \$11.2 million higher for the year ended December 31, 2007 compared to the year ended December 31, 2006, reflecting an increase in earned premiums in the GAP line. The decrease in other operating expenses was primarily due to bad debt charges of \$27.1 million that occurred during 2006. These charges related to the bankruptcy filing of CENTRIX Financial LLC ("CENTRIX") and were based on our assessment of the inability of CENTRIX and an affiliated reinsurer to meet their obligations as a part of the Lenders Indemnity product line. Offsetting the impact of these charges was, the Western General acquisition, which contributed \$7.4 million of additional operating expense in 2007, higher general and administrative expenses, higher retrospective commissions resulting from improvements in loss ratios and higher interest expense on funds withheld.

Sales

Total segment sales increased \$16.7 million, or 3.1%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. Service contract sales continue to improve, exceeding the prior year by 22%. The decline in credit insurance sales was due to a significant decrease in sales through financial institutions. The bulk of these sales were derived from a third party administrator relationship which is in runoff. The decrease in other product sales for the year ended December 31, 2007 compared to the year ended December 31, 2006, was related to the GAP line and the IPP line which lost a significant customer.

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, credit property, vehicle service contracts and guaranteed asset protection insurance to producer affiliated reinsurance companies ("PARC's"). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at levels ranging from 50% to 100% to limit our exposure and allow the PARC's to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. Failure of reinsurers to honor their obligations could result in losses to us or our affiliates. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies*.

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

Asset Protection Segment			
Line Item Impact of Reinsurance			
For The Year Ended December 31,			
	2008	2007	2006
(Dollars In Thousands)			
REVENUES			
Reinsurance ceded	\$(170,875)	\$(176,879)	\$(208,291)
BENEFITS AND EXPENSES			
Benefit and settlement expenses	(85,900)	(84,518)	(121,790)
Amortization of deferred policy acquisition costs	(28,394)	(13,700)	(24,179)
Other operating expenses	(3,357)	(21,238)	(3,878)
Total benefits and expenses	(117,651)	(119,456)	(149,847)
NET IMPACT OF REINSURANCE	\$ (53,224)	\$ (57,423)	\$ (58,444)

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

Reinsurance premiums ceded decreased \$6.0 million, or 3.4%, for the year ended December 31, 2008, compared to the year ended December 31, 2007. The decrease was primarily due to the discontinuation of marketing credit insurance products through financial institutions in 2005, in which a majority of this business was ceded to PARC's, lower ceded premiums related to the Lender's Indemnity program in runoff, and lower dealer credit ceded premiums due to a decline in auto sales. This was partially offset by an increase in ceded premiums in the service contract line. Ceded unearned premium reserves and claim reserves with PARC's are generally secured by trust accounts, letters of credit or on a funds withheld basis.

Benefits and settlement expenses ceded increased \$1.4 million, or 1.6%, for the year ended December 31, 2008, compared to 2007. The increase was mainly due to increases in losses ceded related to the Lender's Indemnity program in runoff and in the service contract line, partially offset by decreases in the credit insurance products sold through financial institutions.

Amortization of DAC ceded increased \$14.7 million for the year ended December 31, 2008, compared to the year ended December 31, 2007, mainly as the result of increases in the credit insurance line. Other operating expenses ceded decreased \$17.9 million, or 84.2%, for the year ended December 31, 2008, compared to the year ended December 31, 2007. The fluctuation is partly attributable to the decline in credit insurance products sold through financial institutions and an overall decline in credit insurance sales.

Net investment income has no direct impact on reinsurance cost. However, it should be noted that 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. 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.

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

Reinsurance premiums ceded decreased \$31.4 million, or 15.1%, for the year ended December 31, 2007, compared to the year ended December 31, 2006. The decrease was primarily due to the discontinuation of marketing credit insurance products through financial institutions in 2005 in which a majority of this business was ceded to PARC's, and a decrease in ceded premiums related to the Lender's Indemnity program in runoff.

Benefits and settlement expenses ceded decreased \$37.3 million, or 30.6%, for the year ended December 31, 2007, compared to 2006. The decrease was mainly due to losses in the Lender's Indemnity product line in 2006.

Amortization of DAC ceded decreased \$10.5 million for the year ended December 31, 2007, compared to the year ended December 31, 2006, partly reflecting changes in the mix of business ceded. Other operating expenses ceded increased \$17.4 million, for the year ended December 31, 2007, compared to the year ended December 31, 2006. The fluctuation is partly attributable to the Lender's Indemnity bad debt charges of \$27.1 million in 2006, resulting from our assessment of a reinsurer's inability to meet their obligations under the reinsurance agreement somewhat offset by the reduction in ceded credit insurance premiums sold through financial institutions.

Corporate and Other*Segment results of operations*

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
(Dollars In Thousands)					
REVENUES					
Gross premiums and policy fees	\$ 29,842	\$ 34,025	\$ 38,303	(12.3)%	(11.2)%
Reinsurance ceded	(5)	(15)	(23)	(66.7)	(34.8)
Net premiums and policy fees	29,837	34,010	38,280	(12.3)	(11.2)
Net investment income	80,523	165,242	113,487	(51.3)	45.6
Realized gains (losses) investments		6,857	13,494		
Realized gains (losses) derivatives	5,754	822	2,737		
Other income	619	1,200	9,551	(48.4)	(87.4)
Total operating revenues	116,733	208,131	177,549	(43.9)	17.2
Realized gains (losses) investments	(262,640)	5,370	11,458		
Realized gains (losses) derivatives	(53,853)	(3,162)	23,052		
Total revenues	(199,760)	210,339	212,059	n/m	(0.8)
BENEFITS AND EXPENSES					
Benefits and settlement expenses	36,170	36,191	47,235	(0.1)	(23.4)
Amortization of deferred policy acquisition costs	2,149	773	3,388	n/m	(77.2)
Other operating expenses	184,400	174,583	115,150	5.6	51.6
Total benefits and expenses	222,719	211,547	165,773	5.3	27.6
INCOME (LOSS) BEFORE INCOME TAX	(422,479)	(1,208)	46,286	n/m	n/m
Less: realized gains (losses) investments	(262,640)	5,370	11,458		
Less: realized gains (losses) derivatives	(53,853)	(3,162)	23,052		
OPERATING INCOME (LOSS)	\$(105,986)	\$ (3,416)	\$ 11,776	n/m	n/m

*For The Year Ended December 31, 2008 compared to The Year Ended December 31, 2007**Segment operating income (loss)*

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

Operating revenues

Operating revenues for the Corporate and Other segment are primarily comprised of net investment income on capital and net premiums and policy fees related to several non-strategic lines of business. Net investment income for this segment decreased \$84.7 million, or 51.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007, and net premiums and policy fees declined \$4.2 million, or 12.3%. The decrease in net investment income was primarily the result of mark-to-market changes on the trading portfolio and a decline in participating mortgage income and prepayment fee income in the securities and mortgage investment portfolios caused by unfavorable

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market conditions, partially offset by an increase in yields on unallocated capital and additional investments related to issuances of non-recourse funding obligations.

Benefits and settlement expenses

Benefits and expenses increased \$11.2 million, or 5.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase was primarily due to an increase in interest expense of \$12.7 million, or 10.2%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. Of this increase in interest expense, approximately \$12.2 million relates to additional issuances of non-recourse funding obligations.

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

Segment operating income (loss)

Operating income declined \$15.2 million, or 129.0%, for the year ended December 31, 2007 compared to the year ended December 31, 2006 due primarily to the mark-to-market on a \$422 million portfolio of securities designated for trading. This trading portfolio negatively impacted full year 2007 by \$10.2 million. In addition, the segment experienced lower investment income resulting from lower levels of unallocated capital and higher interest expense.

Operating revenues

Net investment income for this segment increased \$51.8 million, or 45.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006, while net premiums and policy fees declined \$4.3 million, or 11.2%. The increase in net investment income was primarily the result of increases in unallocated capital and investment income from proceeds of non-recourse funding obligations compared to the prior year. The decline in net premiums and policy fees was the expected result of the runoff of business in the non-strategic lines of business which is no longer being marketed.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$11.0 million, or 23.4%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The decrease was primarily the result of a \$9.0 million reserve strengthening recorded during 2006. The additional decline was expected as the non-strategic lines of business are no longer being marketed and correspond to the declines in net premiums and policy fees.

Other operating expenses

Other operating expenses increased \$59.4 million, or 51.6%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. The increase was primarily due to an increase in interest expense of \$53.3 million, or 75.2%, for the year ended December 31, 2007 compared to the year ended December 31, 2006. Of this increase in interest expense, approximately \$41.6 million relates to additional issuances of non-recourse funding obligations.

CONSOLIDATED INVESTMENTS**Portfolio Description**

As of December 31, 2008, our investment portfolio was approximately \$26.6 billion. The types of assets in which we may invest are influenced by various state laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

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

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

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

Fixed Maturity Investments

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

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

Declines in fair value, net of related DAC and VOBA, are charged or credited directly to shareowners' equity. Declines in fair value that are other-than-temporary are recorded as realized losses

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in the Consolidated Statements of Income (Loss). The increase in BBB and below investment grade assets, as shown in the preceding table, is primarily a result of ratings downgrades related to our corporate credit and residential mortgage-backed securities holdings. For more information regarding our evaluation of other-than-temporary losses, refer to "Critical Accounting Policies".

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

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

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

Our trading portfolio accounts for \$3.2 billion, or 16.1%, of our fixed maturities as of December 31, 2008. Of this balance, fixed maturities with a market value of \$2.9 billion and short-term investments with a market value of \$80.4 million were added as part of the Chase Insurance Group acquisition. Investment results for the Chase Insurance Group portfolios, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

	As of December 31,	
	2008	2007
	(Dollars In Thousands)	
AAA	\$ 1,357,132	\$ 1,631,208
AA	147,305	344,930
A	591,482	800,531
BBB	743,529	789,000
Below investment grade	55,607	38,966
Total Modco trading fixed maturities	\$ 2,895,055	\$ 3,604,635

A portion of our bond portfolio is invested in residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities. These holdings as of December 31, 2008 were approximately \$7.3 billion. Mortgage-backed securities are constructed from pools of mortgages and

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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. In addition, we have entered into derivative contracts at times to partially offset the volatility in the market value of these securities.

Residential mortgage-backed securities The tables below show a breakdown of our residential mortgage-backed securities portfolio by type and rating as of December 31, 2008. As of December 31, 2008, these holdings were approximately \$5.0 billion. Planned amortization class securities ("PACs") pay down according to a schedule. Sequentials receive payments in order until each class is paid off. Pass through securities receive principal as principal of the underlying mortgages is received.

Type	Percentage of Residential Mortgage-Backed Securities
Sequential	67.9%
PAC	14.5
Pass Through	5.4
Other	12.2
	100.0%

Rating	Percentage of Residential Mortgage-Backed Securities
AAA	82.2%
AA	2.9
A	4.6
BBB	5.4
Below investment grade	4.9
	100.0%

As of December 31, 2008, we held \$543.5 million, or 2.1% of invested assets, of securities supported by collateral classified as Alt-A. As of December 31, 2007, we held securities with a market value of \$274.5 million of securities supported by collateral classified as Alt-A.

The following table shows the percentage of our collateral classified as Alt-A grouped by rating category as of December 31, 2008:

Rating	Percentage of Alt-A Securities
AAA	50.3%
AA	0.0
A	15.2
BBB	0.2
Below investment grade	34.3
	100.0%

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The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of December 31, 2008:

Alt-A Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ 7.9	\$70.6	\$ 87.9	\$107.2	\$	\$273.6
AA						
Subtotal	\$ 7.9	\$70.6	\$ 87.9	\$107.2	\$	\$273.6
A		5.2	22.0	55.2		82.4
BBB		0.9				0.9
Below investment grade			143.2	43.4		186.6
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 7.9	\$76.7	\$253.1	\$205.8	\$	\$543.5

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ (1.0)	\$(11.8)	\$(11.1)	\$(11.6)	\$	\$(35.5)
AA						
Subtotal	\$ (1.0)	\$(11.8)	\$(11.1)	\$(11.6)	\$	\$(35.5)
A		(3.5)	(7.0)	(3.2)		(13.7)
BBB		(6.8)				(6.8)
Below investment grade			(81.0)	(54.4)		(135.4)
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ (1.0)	\$(22.1)	\$(99.1)	\$(69.2)	\$	\$(191.4)

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As of December 31, 2008, we had residential mortgage-backed securities with a total fair market value of \$46.6 million, or 0.2% of total invested assets, that were supported by collateral classified as sub-prime. \$11.9 million, or 25.6%, of these securities were rated AAA. As of December 31, 2007, we held securities with a fair market value of \$89.9 million of securities supported by collateral classified as sub-prime. The following tables categorize the estimated fair value and unrealized gain/ (loss) of our mortgage-backed securities collateralized by sub-prime mortgage loans by rating as of December 31, 2008:

Sub-prime Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ 1.0	\$ 3.0	\$ 8.0	\$	\$	\$ 12.0
AA	0.9		3.8	4.4		9.1
Subtotal	\$ 1.9	\$ 3.0	\$ 11.8	\$ 4.4	\$	\$ 21.1
A			3.7			3.7
BBB	0.2		9.2	10.7		20.1
Below investment grade	1.2			0.5		1.7
Total mortgage-backed securities collateralized by sub-prime mortgage loans	\$ 3.3	\$ 3.0	\$ 24.7	\$ 15.6	\$	\$ 46.6

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ (0.2)	\$ (0.7)	\$ (1.5)	\$	\$	\$ (2.4)
AA	(0.7)		(1.2)	(5.7)		(7.6)
Subtotal	\$ (0.9)	\$ (0.7)	\$ (2.7)	\$ (5.7)	\$	\$ (10.0)
A			(0.4)			(0.4)
BBB	(0.1)		(4.7)	(13.7)		(18.5)
Below investment grade	(1.5)					(1.5)
Total mortgage-backed securities collateralized by sub-prime mortgage loans	\$ (2.5)	\$ (0.7)	\$ (7.8)	\$ (19.4)	\$	\$ (30.4)

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The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of December 31, 2008:

Prime Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
(Dollars In Millions)						
AAA	\$ 1,453.4	\$ 1,337.7	\$ 724.9	\$ 272.5	\$ 4.0	\$ 3,792.5
AA	3.1	3.0	72.2	55.3		133.6
Subtotal	\$ 1,456.5	\$ 1,340.7	\$ 797.1	\$ 327.8	\$ 4.0	\$ 3,926.1
A		2.7	132.7	7.3		142.7
BBB			193.3			193.3
Below investment grade	0.1	1.5	55.0	51.4		108.0
Total mortgage-backed securities collateralized by prime mortgage loans	\$ 1,456.6	\$ 1,344.9	\$ 1,178.1	\$ 386.5	\$ 4.0	\$ 4,370.1

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
(Dollars In Millions)						
AAA	\$ (52.3)	\$ (237.4)	\$ (102.3)	\$ (55.7)	\$ 0.1	\$ (447.6)
AA	(1.5)	(10.2)	(30.5)	(14.5)		(56.7)
Subtotal	\$ (53.8)	\$ (247.6)	\$ (132.8)	\$ (70.2)	\$ 0.1	\$ (504.3)
A		(0.1)	(30.1)	(1.5)		(31.7)
BBB			(44.7)	(11.1)		(55.8)
Below investment grade	(0.7)	0.1	(20.5)			(21.1)
Total mortgage-backed securities collateralized by prime mortgage loans	\$ (54.5)	\$ (247.6)	\$ (228.1)	\$ (82.8)	\$ 0.1	\$ (612.9)

Commercial mortgage-backed securities Our commercial mortgage-backed security ("CMBS") portfolio consists of commercial mortgage-backed securities issued in securitization transactions. Portions of the CMBS are sponsored by us, in which we securitized portions of our mortgage loan portfolio. As of December 31, 2008, the CMBS holdings were approximately \$1.2 billion. Of this amount, \$855.8 million related to retained beneficial interests of commercial mortgage loan

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securitizations we completed. The following table shows the percentages of our CMBS holdings grouped by rating category as of December 31, 2008:

Rating	Percentage of Commercial Mortgage-Backed Securities
AAA	83.8%
AA	7.8
A	4.8
BBB	1.1
Below investment grade	2.5
	100.0%

The following tables show external commercial mortgage-backed securities as of December 31, 2008:

External Commercial Mortgage-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ 231.4	\$ 44.3	\$ 11.0	\$	\$ 37.7	\$ 324.4
BBB	4.6					4.6
Total external commercial mortgage-backed securities	\$ 236.0	\$ 44.3	\$ 11.0	\$	\$ 37.7	\$ 329.0

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ (6.3)	\$ (6.5)	\$ (2.7)	\$	\$ (6.6)	\$ (22.1)
BBB	(2.4)					(2.4)
Total external commercial mortgage-backed securities	\$ (8.7)	\$ (6.5)	\$ (2.7)	\$	\$ (6.6)	\$ (24.5)

Asset-backed securities ABS pay down based on cash flow received from the underlying pool of assets, such as receivables on auto loans, student loans, credit cards, etc. As of December 31, 2008, these holdings were approximately \$1.1 billion. The following table shows the percentages of our ABS holdings grouped by rating category as of December 31, 2008:

Rating	Percentage of Asset-Backed Securities
AAA	90.8%
AA	0.8
A	1.0
BBB	5.9
Below investment grade	1.5

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The following tables show our asset-backed securities as of December 31, 2008:

Asset-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ 620.9	\$ 30.9	\$ 22.7	\$ 309.5	\$ 45.0	\$ 1,029.0
AA	8.6					8.6
Subtotal	\$ 629.5	\$ 30.9	\$ 22.7	\$ 309.5	\$ 45.0	\$ 1,037.6
A	0.4	2.1	8.4			10.9
BBB	1.7		28.3	36.2		66.2
Below investment grade			10.9	7.1		18.0
Total asset-backed securities	\$ 631.6	\$ 33.0	\$ 70.3	\$ 352.8	\$ 45.0	\$ 1,132.7

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2004 and Prior	2005	2006	2007	2008	Total
	(Dollars In Millions)					
AAA	\$ (60.4)	\$ (2.1)	\$ (1.1)	\$ (37.6)	\$ (5.0)	\$ (106.2)
AA	(0.5)					(0.5)
Subtotal	\$ (60.9)	\$ (2.1)	\$ (1.1)	\$ (37.6)	\$ (5.0)	\$ (106.7)
A	(0.1)	(0.2)	(1.6)			(1.9)
BBB	(1.1)		(27.9)	(5.1)		(34.1)
Below investment grade			(0.7)	(1.7)		(2.4)
Total asset-backed securities	\$ (62.1)	\$ (2.3)	\$ (31.3)	\$ (44.4)	\$ (5.0)	\$ (145.1)

We obtained ratings of our fixed maturities from Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") and Fitch Ratings ("Fitch"). If a bond is not rated by Moody's, S&P, or Fitch, we use ratings from the NAIC, or we rate the bond based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of December 31, 2008, over 99.0% of our bonds were rated by Moody's, S&P, Fitch, and/or the NAIC.

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

	As of December 31, 2008	% Market Value	As of December 31, 2007	% Market Value
(Dollars In Thousands)				
Non-Agency Mortgages	\$ 4,313,994	21.5%	\$ 5,543,339	23.7%
Banking	2,175,197	10.8	2,123,100	9.1
Other Finance	2,297,420	11.4	2,114,596	9.0
Electric	2,060,367	10.3	1,971,961	8.4
Agency Mortgages	1,120,446	5.6	2,441,993	10.4
Natural Gas	1,318,538	6.6	1,185,115	5.1
Insurance	862,639	4.3	992,470	4.2
Energy	1,033,064	5.1	907,093	3.9
Communications	878,837	4.4	973,607	4.2
Basic Industrial	635,213	3.2	692,937	3.0
Consumer Noncyclical	695,816	3.5	668,293	2.9
Consumer Cyclical	445,229	2.2	625,923	2.7
Finance Companies	438,767	2.2	616,278	2.6
Capital Goods	339,279	1.7	437,013	1.9
Transportation	417,876	2.1	446,264	1.9
U.S. Govt Agencies	234,104	1.2	190,430	0.7
Other Industrial	189,256	0.9	157,582	0.7
U.S. Government	265,126	1.3	165,527	0.7
Brokerage	118,758	0.6	768,656	3.3
Technology	113,471	0.6	152,491	0.7
Real Estate	34,673	0.2	55,371	0.2
Canadian Governments	46,723	0.2	108,006	0.5
Other Utility	20,637	0.1	19,796	0.1
Other Government Agencies	22,707	0.0		0.0
Municipal Agencies	17,871	0.0	25,427	0.1
Foreign Governments	2,972	0.0	5,801	0.0
Total	\$ 20,098,980	100.0%	\$ 23,389,069	100.0%

Our investments in debt and equity securities are reported at market value, and investments in mortgage loans are reported at amortized cost. As of December 31, 2008, our fixed maturity investments (bonds and redeemable preferred stocks) had a market value of \$20.1 billion, which was 13.0% below amortized cost of \$23.1 billion. We had \$3.8 billion in mortgage loans as of December 31, 2008. While our mortgage loans do not have quoted market values, as of December 31, 2008, we estimated the market value of our mortgage loans to be \$4.6 billion (using discounted cash flows from the next call date), which was 17.9% greater than the amortized cost. Most of our mortgage loans have significant prepayment fees. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

Market values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate market 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. For retained beneficial interests in our sponsored commercial mortgage loan securitizations as of December 31, 2008, we used an internally developed model that includes discount rates based on our current mortgage loan lending rate and expected cash flows based on a review of the commercial mortgage loans underlying the securities. Upon obtaining this information related to market value, management makes a determination as to the appropriate valuation amount.

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Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of December 31, 2008, our mortgage loan holdings were approximately \$3.8 billion. We do not lend on what we consider to be speculative properties and 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 on a conservative, disciplined approach. We concentrate our underwriting expertise on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). We believe 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.

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, 2008 and 2007, our allowance for mortgage loan credit losses was \$2.2 million and \$0.5 million, respectively.

Our mortgage lending criteria require that the loan-to-value ratio on each mortgage be at or less than 75% at the time of origination. 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. We also offer a commercial loan product 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, 2008 approximately \$746.2 million of our mortgage loans had this participation feature. Exceptions to these loan-to-value measures may be made if we believe the mortgage has an acceptable risk profile.

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

As of December 31, 2008, delinquent mortgage loans and foreclosed properties were less than 0.1% of invested assets. 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, 2008, \$15.2 million, or 0.4%, of the mortgage loan portfolio was nonperforming. 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.

Between 1996 and 1999, we securitized \$1.4 billion of our mortgage loans. We sold the senior tranches while retaining the subordinate tranches. We continue to service the securitized mortgage loans. During 2007, we securitized an additional \$1.0 billion of our mortgage loans. We sold the highest rated tranche for approximately \$218.3 million, while retaining the remaining tranches. We continue to service the securitized mortgage loans. As of December 31, 2008, we had investments related to retained beneficial interests of mortgage loan securitizations of \$855.8 million.

Securities Lending

We participate in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned 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

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loaned securities' market value is monitored on a daily basis. As of December 31, 2008, securities with a market value of \$120.5 million were loaned under these agreements. As collateral for the loaned securities, we receive short-term investments, which are recorded in "short-term investments" with a corresponding liability recorded in "other liabilities" to account for our obligation to return the collateral. As of December 31, 2008, the fair market value of the collateral related to this program was \$116.7 million and we have an obligation to return \$124.5 million of collateral to the securities borrower.

Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table shows our available-for-sale fixed maturities by credit rating as of December 31, 2008:

S&P or Equivalent Designation	Market Value (Dollars In Thousands)	Percent of Market Value
AAA	\$ 5,574,734	33.1%
AA	1,168,474	6.9
A	3,324,672	19.7
BBB	5,763,114	34.2
Investment grade	15,830,994	93.9
BB	615,835	3.7
B	170,030	1.0
CCC or lower	245,628	1.4
In or near default		0.0
Below investment grade	1,031,493	6.1
Redeemable preferred stock		0.0
Total	\$ 16,862,487	100.0%

Not included in the table above are \$3.2 billion of investment grade and \$55.6 million of below investment grade fixed maturities classified as trading securities.

Limiting bond exposure to any creditor group is another way we manage credit risk. The following table includes securities held in our Modco portfolio and summarizes our ten largest fixed maturity exposures to an individual creditor group as of December 31, 2008:

Creditor	Market Value (Dollars In Millions)
Wells Fargo & Company	\$ 218.8
AT&T Corp	140.6
Toyota Motor Credit	138.1
PNC Financial Services	131.8
Citigroup Inc.	124.0
Federal Farm Credit Bank	121.5
JP Morgan Chase & Co.	119.5
Bank of America Corp	117.3
Metlife Inc.	113.0
Verizon Communications	112.9

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. 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 ABS, EITF Issue No. 99-20 requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the estimated cash flows since the last revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

On October 10, 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, ("FSP FAS No.157-3"), to clarify the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. FSP FAS No. 157-3 was effective upon issuance, including prior periods for which the financial statements have not been issued. Based on the guidance in FSP FAS No. 157-3, we utilized internal models that incorporated assumptions of delinquency rates, prepayment assumptions, liquidity, and other market based assumptions to determine the fair value of retained beneficial interests of our sponsored commercial mortgage loan securitizations and auction rate securities for which there was no active market as of December 31, 2008.

Securities not subject to EITF Issue No. 99-20 that are in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered. Based on our analysis, during the year ended December 31, 2008, we concluded that approximately \$311.8 million of pre-tax unrealized losses were other-than-temporarily impaired resulting in a charge to net realized investment losses.

There are certain risks and uncertainties associated with determining whether declines in market 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.

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Realized Gains and Losses

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

	For The Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
	(Dollars In Thousands)				
Fixed maturity gains sales	\$ 51,895	\$ 12,451	\$ 57,024	\$ 39,444	\$(44,573)
Fixed maturity losses sales	(36,791)	(12,279)	(34,196)	(24,512)	21,917
Equity gains sales	114	5,912	296	(5,798)	5,616
Equity losses sales	(51)	(12)	(7)	(39)	(5)
Impairments on fixed maturity securities	(311,798)	(48)	(5,689)	(311,750)	5,641
Impairments on equity securities					
Modco trading portfolio trading activity	(290,831)	(989)	66,363	(289,842)	(67,352)
Other	2,970	3,567	20,293	(597)	(16,726)
Total realized gains (losses) investments	\$(584,492)	\$ 8,602	\$ 104,084	\$(593,094)	\$(95,482)
Foreign currency swaps	\$ (10,993)	\$ 7,657	\$ 3,765	\$ (18,650)	\$ 3,892
Foreign currency adjustments on stable value contracts	10,984	(3,518)	(3,389)	14,502	(129)
Derivatives related to mortgage loan commitments	(25,782)	(3,746)	26,712	(22,036)	(30,458)
Embedded derivatives related to reinsurance	212,937	10,679	(44,491)	202,258	55,170
Derivatives related to corporate debt	15,206	5,288	771	9,918	4,517
Other interest rate swaps	(24,924)			(24,924)	
Credit default swaps	(13,232)	3,285		(16,517)	3,285
Other derivatives	(47,539)	(11,176)	(4,884)	(36,363)	(6,292)
Total realized gains (losses) derivatives	\$ 116,657	\$ 8,469	\$ (21,516)	\$ 108,188	\$ 29,985

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, Modco trading portfolio activity, and related embedded derivatives related to corporate debt, during the year ended December 31, 2008 primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment.

Realized losses are comprised of both write-downs on other-than-temporary impairments and actual sales of investments. For the year ended December 31, 2008, there were pre-tax other-than-temporary impairments of \$311.8 million, excluding \$18.7 million of Modco related impairments, in our investments compared to \$0.1 million for the year ended December 31, 2007. The impairments related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac. The decline in the estimated fair value of these securities resulted from factors including distressed credit markets, the failure or near failure of a number of large financial service companies resulting in intervention by the United States Federal Government, downgrades in rating, and interest rate changes. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead

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to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments, net of Modco, are presented in the chart below:

	Pre-Tax Impairments (Net of Modco) For The Year Ended December 31, 2008 2007	
	(Dollars In Millions)	
Freddie Mac	\$ 7.1	\$
Fannie Mae	21.9	
Lehman	93.6	
Washington Mutual	45.3	
Alt-A Bonds	143.9	
Other		0.1
Total	\$ 311.8	\$ 0.1

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold securities 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, 2008, we sold securities in an unrealized loss position with a market value of \$250.7 million resulting in a realized loss of \$36.8 million. Of this total, approximately \$33.8 million related to the sale of Washington Mutual debt obligations. These obligations were sold subsequent to the takeover of Washington Mutual by the Office of Thrift Supervision. 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:

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 173,795	69.3%	\$ (491)	1.3%
>90 days but <= 180 days	32,930	13.1	(1,077)	2.9
>180 days but <= 270 days	8,002	3.2	(309)	0.8
>270 days but <= 1 year	22,696	9.1	(6,206)	16.8
>1 year	13,273	5.3	(28,759)	78.2
Total	\$ 250,696	100.0%	\$ (36,842)	100.0%

The \$3.0 million of other realized gains recognized for the year ended December 31, 2008 includes foreign exchange gains of \$6.0 million and other losses totaling \$3.0 million. As of December 31, 2008, net losses of \$290.8 million primarily related to mark-to-market changes on our Modco trading portfolios associated with the Chase Insurance Group acquisition were also included in realized gains and losses. Of this amount, approximately \$63.6 million of losses were realized through the sale of certain securities, which will be reimbursed to us over time through the reinsurance settlement process for this block of business. Additional details on our investment performance and evaluation are provided in the sections below.

Realized investment gains and losses related to derivatives represent changes in the fair value of derivative financial instruments and gains (losses) on derivative contracts closed during the period. In January 2000, we entered into foreign currency swaps to mitigate the risk of changes in the value of principal and interest payments to be made on certain of our foreign currency denominated stable value contracts. These swaps and related stable value contracts matured in November 2008.

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We have taken short positions in U.S. Treasury futures to mitigate interest rate risk related to our mortgage loan commitments. The net losses for the year ended December 31, 2008 were the result of \$23.0 million of losses related to closed positions and \$2.8 million of mark-to-market losses.

We also have in place various modified coinsurance and funds withheld arrangements that, in accordance with DIG B36 ("Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments"), contain embedded derivatives. The \$212.9 million of gains on these embedded derivatives for the year ended December 31, 2008 were a result of spread widening, partially offset by lower interest rates. In 2008, the investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market losses that offset the gains on these embedded derivatives.

We use certain interest rate swaps to mitigate interest rate risk related to certain Senior Notes, Medium-Term Notes, and subordinated debt securities. These positions resulted in a gain of \$15.2 million for year ended December 31, 2008.

We use other interest rate swaps to mitigate interest rate risk related to floating rate exposures. We realized a loss of \$24.9 million on interest rate swaps for the year ended December 31, 2008. These losses were primarily the result of \$24.6 million in mark-to-market losses including a \$2.4 million loss resulting from the termination of a hedging relationship related to the early retirement of a funding agreement backed-note.

We reported a net loss of \$13.2 million related to credit default swaps for the year ended December 31, 2008. The net loss for the year ended December 31, 2008 was primarily the result of \$19.7 million of mark-to-market losses, partially offset by \$4.2 million of gains related to closed positions and \$2.3 million in premium income. We entered into these credit default swaps to enhance the return on our investment portfolio.

We also use various swaps, options, and swaptions to mitigate risk related to other exposures. Swaptions realized a net loss of \$4.2 million for the year ended December 31, 2008. Equity call options generated a loss of \$7.9 million for the year ended December 31, 2008. The GMWB rider embedded derivatives on certain variable deferred annuities had a realized loss of \$33.1 million for the year ended December 31, 2008. Other derivative contracts generated a net loss of \$2.3 million for the year ended December 31, 2008.

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, 2008, 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. As indicated above, management considers a number of factors in determining if an unrealized loss is other-than-temporary, including our ability and intent to hold the security until recovery. 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. As of December 31, 2008, we had an overall pre-tax net unrealized loss of \$3.0 billion.

Credit markets have experienced reduced liquidity, higher volatility and widening credit spreads across numerous asset classes over the past several quarters, primarily as a result of marketplace uncertainty arising from the failure or near failure of a number of large financial service companies resulting in intervention by the United States Federal Government, downgrades in rating, interest rate changes, higher defaults in sub-prime and Alt-A residential mortgage loans and a weakening of the overall economy. In connection with this uncertainty, we believe investors have departed from many

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investments in asset-backed securities including those associated with sub-prime and Alt-A residential mortgage loans, as well as types of debt investments with fewer lender protections or those with reduced transparency and/or complex features which may hinder investor understanding. We believe these factors have contributed to an increase in our net unrealized investment losses through declines in market values. We expect to experience continued volatility in connection with the valuation of our fixed maturity investments.

For fixed maturity and equity securities held that are in an unrealized loss position as of December 31, 2008, the estimated market 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:

	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
<= 90 days	\$ 1,386,104	9.8%	\$ 1,547,156	8.9%	\$ (161,052)	5.1%
>90 days but <= 180 days	2,497,388	17.6	2,822,549	16.2	(325,161)	10.2
>180 days but <= 270 days	2,481,670	17.5	3,018,001	17.4	(536,331)	16.9
>270 days but <= 1 year	4,099,659	28.9	4,990,904	28.7	(891,245)	28.0
>1 year but <= 2 years	2,601,351	18.3	3,460,832	19.9	(859,481)	27.0
>2 years but <= 3 years	329,035	2.3	451,765	2.6	(122,730)	3.9
>3 years but <= 4 years	629,363	4.4	844,096	4.9	(214,733)	6.7
>4 years but <= 5 years	122,146	0.9	178,285	1.0	(56,139)	1.8
>5 years	59,902	0.3	74,364	0.4	(14,462)	0.4
Total	\$ 14,206,618	100.0%	\$ 17,387,952	100.0%	\$ (3,181,334)	100.0%

The unrealized losses as of December 31, 2008, primarily relate to the widening of credit spreads and fluctuations in treasury rates.

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 and because we have the ability and intent to hold these investments until maturity or until the fair values of the investments have recovered, 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 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 events 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 market movements in our financial statements.

As of December 31, 2008, there were estimated gross unrealized losses of \$191.4 million and \$30.4 million, related to our mortgage-backed securities collateralized by Alt-A mortgage loans and

sub-prime mortgage loans, respectively. Gross unrealized losses in our securities collateralized by sub-prime and Alt-A residential mortgage loans as of December 31, 2008, were primarily the result of continued widening spreads during 2008, representing marketplace uncertainty arising from higher defaults in sub-prime and Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by sub-prime and Alt-A residential mortgage loans. For the year ended December 31, 2008, we recorded \$143.9 million of pre-tax other-than-temporary impairments on residential mortgage-backed securities collateralized by Alt-A mortgages. The decline in the estimated fair value of these securities resulted from factors including downgrades in rating, interest rate changes, and the current distressed credit markets. 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. Excluding the securities on which other-than-temporary impairments were recorded, we expect these investments to continue to perform in accordance with their original contractual terms. We have the ability and intent to hold these investments until maturity or until the fair values of the investments have recovered, which may be at maturity. Additionally, 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, 2008, securities with a market value of \$712.1 million and unrealized losses of \$95.6 million were issued in commercial mortgage loan securitizations that we sponsored, with no unrealized losses greater than five years. We do not consider these unrealized positions to be other-than-temporary because the underlying mortgage loans continue to perform consistently with our original expectations. Our underwriting procedures relative to our commercial loan portfolio are based on a conservative, disciplined approach. We concentrate our underwriting expertise on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). We believe these asset types tend to weather economic downturns better than other commercial asset classes that we have chosen to avoid. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history.

In assessing whether or not these unrealized positions should be considered other-than-temporary, we review the underlying cash flows, as well as the associated values of the real estate collateral for those loans included in our commercial mortgage loan securitizations.

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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, 2008, is presented in the following table:

	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
Agency Mortgages	\$ 119,350	0.8%	\$ 123,183	0.7%	\$ (3,833)	0.1%
Banking	1,657,075	11.7	2,117,599	12.2	(460,524)	14.5
Basic Industrial	535,057	3.8	726,363	4.2	(191,306)	6.0
Brokerage	101,873	0.7	126,879	0.7	(25,006)	0.8
Capital Goods	219,148	1.5	296,256	1.7	(77,108)	2.4
Communications	499,268	3.5	628,991	3.6	(129,723)	4.1
Consumer Cyclical	330,367	2.3	466,237	2.7	(135,870)	4.3
Consumer Noncyclical	409,944	2.9	466,183	2.7	(56,239)	1.8
Electric	1,474,701	10.4	1,694,547	9.7	(219,846)	6.9
Energy	769,630	5.4	879,967	5.1	(110,337)	3.5
Finance Companies	315,975	2.2	390,731	2.2	(74,756)	2.3
Insurance	722,456	5.1	1,025,158	5.9	(302,702)	9.5
Municipal Agencies	1,575	0.0	1,705	0.0	(130)	0.0
Natural Gas	1,027,413	7.2	1,227,318	7.1	(199,905)	6.3
Non-Agency Mortgages	3,774,938	26.6	4,586,360	26.4	(811,422)	25.5
Other Finance	1,644,917	11.6	1,906,311	11.0	(261,394)	8.2
Other Industrial	130,027	0.9	154,118	0.9	(24,091)	0.8
Other Utility	15,342	0.1	19,044	0.1	(3,702)	0.1
Real Estate	13,627	0.1	19,244	0.1	(5,617)	0.2
Technology	73,693	0.5	97,655	0.6	(23,962)	0.8
Transportation	276,025	1.9	317,084	1.8	(41,059)	1.3
Canadian Government Agencies	17,150	0.2	18,676	0.1	(1,526)	0.0
U.S. Govt Agencies	77,067	0.6	98,343	0.5	(21,276)	0.6
Total	\$ 14,206,618	100.0%	\$ 17,387,952	100.0%	\$ (3,181,334)	100.0%

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The percentage of our unrealized loss positions, segregated by industry segment, is presented in the following table as of December 31:

	% Unrealized Loss	
	2008	2007
Agency Mortgages	0.1%	4.0%
Banking	14.5	21.2
Basic Industrial	6.0	4.4
Brokerage	0.8	4.0
Capital Goods	2.4	1.1
Communications	4.1	6.6
Consumer Cyclical	4.3	7.7
Consumer Noncyclical	1.8	1.9
Electric	6.9	8.0
Energy	3.5	1.0
Finance Companies	2.3	3.5
Insurance	9.5	5.6
Municipal Agencies	0.0	0.0
Natural Gas	6.3	5.4
Non-Agency Mortgages	25.5	13.8
Other Finance	8.2	9.3
Other Industrial	0.8	0.4
Other Utility	0.1	0.2
Real Estate	0.2	0.0
Technology	0.8	0.6
Transportation	1.3	1.3
Canadian Government Agencies	0.0	0.0
U.S. Govt Agencies	0.6	0.0
Total	100.0%	100.0%

The range of maturity dates for securities in an unrealized loss position as of December 31, 2008, varies, with 22.5% maturing in less than 5 years, 19.7% maturing between 5 and 10 years, and 57.8% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of December 31, 2008.

S&P or Equivalent Designation	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
AAA/AA/A	\$ 8,081,388	56.9%	\$ 9,555,803	55.0%	\$(1,474,415)	46.3%
BBB	5,100,164	35.9	6,221,876	35.7	(1,121,712)	35.3
Investment grade	13,181,552	92.8	15,777,679	90.7	(2,596,127)	81.6
BB	616,004	4.3	844,413	4.9	(228,409)	7.2
B	170,102	1.2	303,518	1.7	(133,416)	4.2
CCC or lower	238,960	1.7	462,342	2.7	(223,382)	7.0
Below investment grade	1,025,066	7.2	1,610,273	9.3	(585,207)	18.4
Total	\$ 14,206,618	100.0%	\$ 17,387,952	100.0%	\$(3,181,334)	100.0%

As of December 31, 2008, securities in an unrealized loss position that were rated as below investment grade represented 7.2% of the total market value and 18.4% of the total unrealized loss. Unrealized losses related to below investment grade securities that had been in an unrealized loss position for more than twelve months were \$276.5 million. Securities in an unrealized loss position

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rated below investment grade were 3.9% of invested assets. We primarily purchase our investments with the intent to hold to maturity. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities.

The following table shows the estimated market 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, 2008:

	Estimated Market Value	% Market Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
(Dollars In Thousands)						
<= 90 days	\$ 90,208	8.8	\$ 116,885	7.3%	\$ (26,677)	4.6%
>90 days but <= 180 days	158,974	15.5	215,685	13.4	(56,711)	9.7
>180 days but <= 270 days	221,187	21.6	312,038	19.4	(90,851)	15.5
>270 days but <= 1 year	197,989	19.3	332,428	20.6	(134,439)	23.0
>1 year but <= 2 years	237,667	23.2	368,184	22.9	(130,517)	22.3
>2 years but <= 3 years	15,817	1.5	30,202	1.9	(14,385)	2.5
>3 years but <= 4 years	87,510	8.5	176,705	11.0	(89,195)	15.2
>4 years but <= 5 years	15,337	1.6	55,658	3.5	(40,321)	6.9
>5 years	377	0.0	2,488	0.0	(2,111)	0.3
Total	\$ 1,025,066	100.0%	\$ 1,610,273	100.0%	\$ (585,207)	100.0%

Of the total below investment grade securities, approximately \$637.6 million and \$103.6 million, respectively, relate to corporate securities and public utility securities.

LIQUIDITY AND CAPITAL RESOURCES

2008 was a year of tremendous challenge in the financial services industry. A number of large financial institutions came close to failure or failed during the second half of 2008. The banking and financial services industry continues to experience deterioration and a significant amount of multiple notch downgrades, including downgrades to below investment grade status. Accordingly, mortgage-backed and corporate debt securities have experienced significant loss in value. As a result of these events, management significantly increased our liquid holdings as of December 31, 2008. These events also had a material impact on our capital position during 2008, and additional downgrades could continue to negatively impact our capital position. In order to counteract some of this impact, we have engaged in several capital initiatives during the year. Additional information is included in the following sections.

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 for the operating subsidiaries include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, and other operating expenses. We believe that we have sufficient liquidity to fund our cash needs under normal operating scenarios.

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In light of the events noted above and uncertain capital and credit market conditions, we have strategically positioned ourselves to have ample liquidity to meet our projected outflows from currently available sources. We have increased our short-term investments; we have \$345 million available capacity on our existing credit facility; we have access to the FHLB for short-term borrowing; we have temporarily suspended offering new mortgage loan commitments; we have eliminated purchases of below investment grade assets; and we have discontinued the active pursuit of repurchasing shares of our common stock under our share repurchase program.

In the event of additional future significant unanticipated cash requirements beyond normal liquidity, we have multiple alternatives available based on market conditions and the amount and timing of the liquidity need. These options include cash flows from operations, the sale of liquid assets, various credit facilities, and other sources described herein.

Our ability to sell investment assets could be limited by accounting rules, including rules relating to the intent and ability to hold securities in an unrealized loss position until the market value of those securities recovers. Under stressful market and economic conditions, liquidity broadly deteriorates, which could negatively impact our ability to sell investment assets. If we require significant amounts of cash on short notice in excess of normal cash requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

While we anticipate that the cash flow 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 our investments will equal or exceed our borrowing rate. As of December 31, 2008, we had no outstanding balance related to such borrowings. Additionally, we may, from time to time, sell short-duration stable value products to complement our cash management practices. Depending on market conditions, we may also use securitization transactions involving our commercial mortgage loans to increase liquidity for the operating subsidiaries.

Credit Facility

Under a revolving line of credit arrangement, we have the ability to borrow on an unsecured basis up to a maximum principal amount of \$500 million (the "Credit Facility"). This replaced our previously existing \$200 million revolving line of credit. 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 \$600 million. Balances outstanding under the Credit Facility accrue interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that we are liable for the full amount of any obligations for borrowings or letters of credit, including those of Protective Life Insurance Company, under the Credit Facility. The maturity date on the Credit Facility is April 16, 2013. There was an outstanding balance of \$155.0 million at an interest rate of LIBOR plus 0.30% under the Credit Facility as of December 31, 2008. Of this amount, \$130.0 million was used to purchase non-recourse funding obligations issued by an indirect, wholly owned special-purpose financial captive insurance company. For additional information related to special purpose financial captives, see "Capital Resources". We were in compliance with all financial debt covenants of the Credit Facility as of December 31, 2008.

Sources and Use of Cash

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

During the second quarter of 2008, we joined the FHLB of Cincinnati. 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. We held \$58.1 million of common stock as of December 31, 2008, which is included in equity securities. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of December 31, 2008, we had \$976.0 million of funding agreement-related advances outstanding under the FHLB program.

As of December 31, 2008, we reported approximately \$678.5 million (fair value) of Auction Rate Securities (ARSs), which were all rated AAA. These holdings are student loan-backed auction rate securities, for which the underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program. While the auction rate market has experienced liquidity constraints, we believe that based on our current liquidity position and our operating cash flows, any lack of liquidity in the ARS market will not have a material impact on our liquidity, financial condition, or cash flows. Refer to Note Note 19, *Fair Value of Financial Instruments* for additional information regarding the valuation of these securities.

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 have used cash flows from operations and investment activities as a primary source to fund their liquidity requirements. Our insurance subsidiaries' primary cash inflows from operating activities are derived from premiums, annuity deposits, stable value contract deposits, and insurance and investment product fees and other income, including cost of insurance and surrender charges, contract underwriting fees, and intercompany dividends or distributions. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

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, 2008, our total cash, cash equivalents and invested assets were \$26.6 billion.

Our positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. The life insurance subsidiaries were committed as of December 31, 2008, to fund mortgage loans in the amount of \$525.2 million.

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In response to the volatility and disruption in the credit markets, during the third quarter of 2008 we increased our cash and short-term investment balances to provide liquidity for cash outflows projected for the coming months. Our subsidiaries held approximately \$1.2 billion in cash and short-term investments as of December 31, 2008, and we held an additional \$6.0 million in cash and short-term investments available for general corporate purposes.

The following chart shows the cash flows provided by or used in operating, investing, and financing activities for the year ended December 31:

	For The Year Ended December 31,		
	2008	2007	2006
	(Dollars In Thousands)		
Net cash provided by operating activities	\$ 1,243,620	\$ 861,215	\$ 488,723
Net cash used in investing activities	(1,571,644)	(1,556,503)	(616,375)
Net cash provided by financing activities	331,230	771,924	113,498
Total	\$ 3,206	\$ 76,636	\$ (14,154)

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

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. As an insurance business, we typically generate positive cash flows from operating activities, as premiums and deposits collected from our insurance and investment products exceed benefits paid and redemptions, and we invest the excess. Accordingly, in analyzing our cash flows we focus on the change in the amount of cash available and used in investing activities.

Net cash used in investing activities The amount of net cash used in investing activities for the year ended December 31, 2008 compared to December 31, 2007 was relatively stable. The amounts represent activity related to our investment portfolio.

Net cash provided by financing activities Changes in cash from financing activities primarily relate to the issuance and repayment of borrowings, dividends to our stockholders and other capital transactions, as well as the issuance of, and redemptions and benefit payments on, investment contracts. The decrease in 2008 compared to 2007 was primarily the result of outflows related to the termination of a variable interest entity and a reduction of non recourse funding obligations issued, offset by an increase in net investment product deposits.

Capital Resources

In an effort to offset some of the events previously noted that had a negative impact on our capital position, during the year ended December 31, 2008, we engaged in several capital initiatives. Certain noninsurance subsidiaries loaned securities with a fair value amount of \$105.7 million, including accrued interest, to PLC. PLC then transferred these securities to PLICO through a capital contribution. In addition, during 2008, Golden Gate issued surplus notes to PLC; we have entered into intercompany reinsurance agreements that provide for a more balanced mix of business at various insurance entities; and we have changed the reserve methodology being used on a certain block of business from a mean to a mid-terminal basis, which had a pretax positive impact of \$131.7 million to our statutory capital.

To give us flexibility in connection with future acquisitions and other funding needs, we have registered debt securities, preferred and common stock, and stock purchase contracts of Protective Life

Corporation, and additional preferred securities of special purpose finance subsidiaries under the Securities Act of 1933 on a delayed (or shelf) basis.

As of December 31, 2008, our capital structure consisted of Medium-Term Notes, Senior Notes, Subordinated Debentures, and shareowners' equity. We also have a \$500 million revolving line of credit (the "Credit Facility"), under which we could borrow funds with balances due April 16, 2013. The line of credit arrangement contains, among other provisions, requirements for maintaining certain financial ratios and restrictions on the indebtedness that we and our subsidiaries can incur. Additionally, the line of credit arrangement precludes us, on a consolidated basis, from incurring debt in excess of 40% of our total capital. There was a \$155.0 million outstanding balance as of December 31, 2008 under the Credit Facility at an interest rate of LIBOR plus 0.30%. Of this amount, \$130.0 million was utilized to purchase non-recourse funding obligations issued by Golden Gate Captive Insurance Company ("Golden Gate") an indirect wholly owned special-purpose financial captive insurance company. As the need arises and in light of the current credit market environment, we may utilize the Credit Facility to purchase additional non-recourse funding obligations from this indirect wholly owned special-purpose financial captive insurance company in future quarters.

During 2008, Golden Gate, which is wholly owned by Protective Life, our largest operating subsidiary, issued \$130.0 million in aggregate principal amount of floating rate surplus notes, series B, due August 15, 2037 (the "Series B Notes") to us under its surplus notes facility (the "Facility") through which Golden Gate may issue floating rate surplus notes up to \$1 billion of aggregate principal amount. As of December 31, 2008, the outstanding balance under the Facility was an aggregate principal amount of \$930.0 million, consisting of \$130.0 million in aggregate principal amount of Series B Notes and \$800.0 million in aggregate principal amount of floating rate surplus notes previously issued under the Facility (the "Series A Notes" and together with the Series B Notes, the "Notes"). Of this amount, \$130.0 million is eliminated at the consolidated level. The Series B Notes accrue interest at the rate of LIBOR plus 30 basis points. The Notes are direct financial obligations of Golden Gate and are not guaranteed by us or Protective Life. The Notes were issued in order to provide financing for a portion of the statutory reserves associated with a block of life insurance policies. As the block of business ages, unless additional funding mechanisms are put into place, reserving increases will reduce our available statutory capital and surplus. We have experienced higher borrowing costs associated with the Series A Surplus Notes. The current rate on the Series A Notes is LIBOR plus 275 basis points; the maximum rate we could be required to pay is LIBOR plus 425 basis points.

Golden Gate II Captive Insurance Company ("Golden Gate II"), a special purpose financial captive insurance company wholly owned by Protective Life, had \$575.0 million of non-recourse funding obligations outstanding as of December 31, 2008. These non-recourse funding obligations mature in 2052. We do not anticipate having to pursue additional funding related to this block of business; however, we have contingent approval to issue an additional \$100 million of obligations if necessary. \$275 million of this amount is currently accruing interest at a rate of LIBOR plus 30 basis points. We have experienced higher proportional borrowing costs associated with \$300 million of our non-recourse funding obligations supporting the business reinsured to Golden Gate II. These higher costs are the result of higher interest costs associated with the illiquidity of the current market for auction rate securities, as well as a rating downgrade of our guarantor by certain rating agencies. The current rate associated with these obligations is LIBOR plus 200 basis points, which is the maximum rate we can be required to pay under these obligations. These costs have partially been mitigated by a decrease in LIBOR during the year ended December 31, 2008.

These non-recourse funding obligations are direct financial obligations of Golden Gate and Golden Gate II, respectively, and are not guaranteed by us or Protective Life. These non-recourse obligations are represented by surplus notes that were issued to fund a portion of the statutory reserves required by Regulation XXX. Under the terms of the surplus notes, the holders of the surplus notes cannot

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require repayment from us or any of our subsidiaries, other than Golden Gate and Golden Gate II, respectively, the direct issuers of the surplus notes, although we have agreed to indemnify Golden Gate and Golden Gate II for certain costs and obligations (which obligations do not include payment of principal and interest on the surplus notes). In addition, we have entered into certain support agreements with Golden Gate and Golden Gate II obligating us to make capital contributions to Golden Gate and Golden Gate II or provide support related to certain of Golden Gate's and Golden Gate II's expenses and in certain circumstances, to collateralize certain of our obligations to Golden Gate and Golden Gate II.

Our total debt (consisting of long-term debt and subordinated debt securities) increased \$155.0 million as of December 31, 2008 compared to an increase of \$85.4 million as of December 31, 2007. Debt issuances of \$155.0 million and \$150.0 million in 2008 and 2007, respectively, are detailed below:

Description	Amount	Interest Rate
	(Dollars In Thousands)	
2008		
Revolving line of credit	\$ 155,000	LIBOR + .30%
2007		
2007 Senior Notes	\$ 150,000	6.40%

Debt reductions, including the net decrease in the revolving line of credit, totaled \$64.6 million, during 2007, is shown below:

Description	Amount	Interest Rate
	(Dollars In Thousands)	
2007		
Revolving line of credit	\$ 64,600	LIBOR + .30%

On May 7, 2007, our Board of Directors extended our previously authorized \$100 million share repurchase program. During the first three months of 2008, we repurchased approximately 450,800 shares, at a total cost of approximately \$17.1 million. We did not repurchase any additional shares during the months of April through December, 2008. The current authorization extends through May 6, 2010. In light of recent credit market disruption, extraordinary events and developments affecting financial markets, and a specific focus on capital preservation and liquidity, we do not have intentions to purchase shares of our common stock under the existing share repurchase program in the near term. Future activity will be dependent upon many factors, including capital levels, liquidity needs, rating agency expectations, and the relative attractiveness of alternative uses for capital.

A life insurance company's statutory capital is computed according to rules prescribed by 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 law. Statutory accounting rules are different from U.S. GAAP and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as ordinary dividends to us from our insurance subsidiaries in 2009 is estimated to be \$176.8 million.

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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 the RBC. Under RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2008 our total adjusted capital and company action level RBC was \$1,981.8 million and \$665.4 million, respectively, providing an RBC ratio of approximately 298%.

Our statutory surplus is also impacted by widening credit spreads as a result of accounting for the assets and liabilities on our 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, 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, such as those we are now experiencing, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in current crediting rates based on U.S. Treasuries, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in a reduction in statutory surplus. As a result of this mismatch, our statutory surplus was negatively impacted by approximately \$295.2 million on a pretax basis, for the year ended December 31, 2008.

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 such reinsurer assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. During the year ended December 31, 2008, we ceded premiums to third-party reinsurers amounting to \$1.6 billion. In addition, we had receivables from reinsurers amounting to \$5.3 billion as of December 31, 2008. We review reinsurance receivable amounts for collectability and establish appropriate bad debt reserves if deemed appropriate.

As of December 31, 2008, we no longer held liabilities related to variable interest entities. During June 2008, we received notification of the intent to terminate the notes in existence under a trust facility that was previously consolidated on our financial statements in accordance with FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* ("FIN No. 46(R)"). As of December 31, 2008, we no longer had a beneficial interest in the trust. The termination of the notes did not have a material impact on our liquidity, financial condition, or cash flows.

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

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ability to market its products and its competitive position. Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access certain types of liquidity. Ratings are not recommendations to buy our securities. The following table summarizes the ratings of our significant member companies' from the major independent rating organizations as of February 26, 2009:

Ratings	A.M. Best	Fitch	Standard & Poor's	Moody's
Insurance companies financial strength ratings:				
Protective Life Insurance Company	A+	A+	AA-	A2
West Coast Life Insurance Company	A+	A+	AA-	A2
Protective Life and Annuity Insurance Company	A+	A+	AA-	
Lyndon Property Insurance Company	A-			
Other ratings:				
Issuer Credit/Default Rating Protective Life Corporation	a-	A-	A-	
Senior Debt Rating Protective Life Corporation		BBB+		Baa2
Issuer Credit/Default Rating Protective Life Ins. Co.	aa-		AA-	

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. 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.

During September of 2008, Fitch revised its outlook for the U.S. life insurance sector to negative from stable. Fitch stated that this revision reflected the significant deterioration in the credit and equity markets, and the expected impact of realized and unrealized investment losses on life insurers' capital levels and profitability. In addition, during October of 2008, S&P and Moody's each revised their outlook for the U.S. Life Insurance sector to negative. S&P stated that it expected to revise the ratings or outlooks on several life insurers in the next few months because of the impact of challenging macroeconomic conditions. Moody's said it expected to take negative rating actions on life insurers that are "weakly positioned at their rating levels" and are most exposed and vulnerable to current negative trends, including rising investment losses and weakening economic conditions.

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

On February 11, 2009 A.M. Best Co. affirmed the financial strength ratings of our primary life/health subsidiaries at A+, and announced a one-step downgrade of the debt ratings of Protective Life Corporation to a- from a, and a one-step downgrade of the issuer credit ratings ("ICR") to aa- from aa of our primary life/health subsidiaries. A.M. Best stated that the outlook for all ratings has been revised to negative from stable. On February 12, 2009, Moody's Investors Service downgraded the senior debt rating of Protective Life Corporation to Baa2 from Baa1. The insurance financial strength ("IFS")

ratings of our life insurance subsidiaries, including Protective Life Insurance Company, were downgraded to A2 from A1. The outlook for the ratings has been changed to negative. On February 26, 2009, Standard & Poor's Rating Services lowered both the IFS ratings and the ICR of our life insurance subsidiaries, including Protective Life Insurance Company, to AA- from AA. In addition, Standard & Poor's downgraded the ICR for Protective Life Corporation to A- from A. The outlook for the ratings was affirmed as stable.

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, 2008, we had policy liabilities and accruals of approximately \$18.3 billion. Our interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.7%.

Contractual Obligations

The table below sets forth future maturities of debt, non-recourse funding obligations, subordinated debt securities, stable value products, notes payable, operating lease obligations, other property lease obligations, mortgage loan commitments, policyholder obligations, and defined benefit pension 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 based upon an analysis of these obligations. The most significant factor affecting our future cash flows is our ability to earn and collect cash from our customers. Future cash outflows, whether they are contractual obligations or not, also will 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 commitments. These include expenditures for income taxes and payroll.

As of December 31, 2008, in accordance with FIN No. 48, we carried a \$31.7 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

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	Total	Payments due by period			More than 5 years
		Less than 1 year	1 3 years	3 5 years	
(Dollars In Thousands)					
Long-term debt ⁽¹⁾	\$ 892,318	\$ 29,537	\$ 68,805	\$ 455,576	\$ 338,400
Non-recourse funding obligations ⁽²⁾	3,706,099	72,412	144,823	144,823	3,344,041
Subordinated debt securities ⁽³⁾	1,901,241	37,147	74,294	74,294	1,715,506
Stable value products ⁽⁴⁾	5,705,080	1,490,879	2,075,034	1,224,840	914,327
Operating leases ⁽⁵⁾	27,124	6,375	10,475	6,026	4,248
Home office lease ⁽⁶⁾	79,257	856	1,697	76,704	
Mortgage loan commitments	461,963	461,963			
Policyholder obligations ⁽⁷⁾	21,937,212	1,409,216	2,961,335	2,792,147	14,774,514
Total⁽⁸⁾	\$34,710,294	\$3,508,385	\$5,336,463	\$4,774,410	\$21,091,036

- (1) Long-term debt includes all principal amounts owed on note agreements and expected interest payments due over the term of notes.
- (2) Non-recourse funding obligations include all principal amounts owed on note agreements and expected interest payments due over the term of the notes.
- (3) Subordinated debt securities includes all principal amounts owed to our non-consolidated special purpose finance subsidiaries and interest payments due over the term of the obligations.
- (4) Anticipated stable value products cash flows including interest.
- (5) Includes all lease payments required under operating lease agreements.
- (6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term, as if we decided to exercise that option. Additionally, the payments due by period above were computed based on the terms of the renegotiated lease agreement, which was entered in January 2007.
- (7) 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) This total does not take into account estimated payments related to our qualified or unfunded excess benefit plans in future periods.

FAIR VALUE OF FINANCIAL INSTRUMENTS

On January 1, 2008, we adopted SFAS No. 157. This standard defines fair value, establishes a framework for measuring fair value, establishes 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" as used in this document is defined in accordance with SFAS No. 157. The cumulative effect of adopting this standard resulted in an increase to January 1, 2008 retained earnings of \$1.5 million and a decrease in income before income taxes of \$0.4 million for the year ended December 31, 2008. 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 19, *Fair Value of Financial Instruments*.

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, 2008, \$1.7 billion of available-for-sale and trading account assets were classified as level three fair value assets.

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, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources. Estimation risk is greater for derivative asset and liability positions 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, 2008, the level three fair values of derivative assets and liabilities determined by these quantitative models were \$257.0 million and \$113.3 million. These amounts reflect the full fair value of the derivatives as defined in accordance with SFAS No. 157 and do not isolate the discrete value associated with the specific subjective valuation variable.

The liabilities of certain of our annuity account balances are calculated at fair value using actuarial valuation models. These models use various observable and unobservable inputs including projected future cash flows, policyholder behavior, our credit rating and other market conditions. As of December 31, 2008, the level three fair value of these liabilities was \$152.8 million. This amount reflects the full fair value of the liabilities as defined in accordance with SFAS No. 157 and does not isolate the discrete value associated with the specific subjective valuation variable.

During 2008, we changed certain assumptions used in our methodology for determining the fair value for retained beneficial interests in CMBS holdings related to our sponsored commercial mortgage loan securitizations. Prior to the third quarter, we used external broker valuations to determine the fair value of these positions. These valuations were based on the cash flows of the commercial mortgages underlying the notes, as well as observable market spread assumptions for investments with similar coupons and/or characteristics based on the fair value hierarchy criteria, and non-observable assumptions and factors utilizing general market information available as of the valuation date. As of December 31, 2008, we still believe that little or no secondary market existed for CMBS holdings similar to those in our portfolio, and additionally, certain of the tranches within our holdings fell below the collapse provision levels in the underlying security agreements. Therefore, the relevant observable inputs from CMBS sales activity could not be obtained for what we considered a supportable or appropriate calculation of fair value based on our previous methodology.

As a result of the factors noted and in accordance with the clarifying guidance issued in SFAS No. 157-3, during 2008, we determined the fair value of these CMBS holdings using a combination of external broker valuations and an internally developed model. This model includes inputs derived based on assumed discount rates relative to our current mortgage loan lending rate and an expected cash flow analysis based on a review of the commercial mortgage loans underlying the notes. The model also contains our determined representative risk adjustment assumptions related to nonperformance and liquidity risks. The retained interest in the securitized mortgage loans may be subject to prepayment and interest rate risks. We believe that this valuation approach provides a more accurate calculation of the fair value of these securities under the fair value hierarchy guidance and given the current inactive market conditions.

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MARKET RISK EXPOSURES AND OFF-BALANCE SHEET ARRANGEMENTS

Our financial position and earnings are subject to various market risks including changes in interest rates, changes in the yield curve, changes in spreads between risk-adjusted and risk-free interest rates, changes in foreign currency rates, changes in 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, 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, and equity market risk.

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-half 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 based upon current market conditions and potential payment obligations between us and our counterparties. We minimize the credit risk in derivative instruments by entering into transactions with high quality counterparties rated AA or higher at the time we enter into the contract.

Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate options 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"). We use foreign currency swaps to manage our exposure to changes in the value of foreign currency denominated stable value contracts. No foreign currency swaps remain outstanding. We also use S&P 500® options to mitigate our exposure to the value of equity indexed annuity contracts.

We have sold credit default protection on liquid traded indices to enhance the return on our investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments. The credit default swaps relate to the High Yield Series 8 Index and the Investment Grade Series 9 Index and have terms to June 2014 and December 2017, respectively. Defaults within the High Yield Series 8 Index that exceeded the 25% attachment point would require us to perform under the credit default swaps, up to the 35% exhaustion point. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require us to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that we could be required to make under the credit derivatives is \$65.0 million. As of December 31, 2008, the fair value of the credit derivatives was a liability of \$19.4 million.

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

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Derivative instruments expose us to credit and market risk and could result in material changes from quarter-to-quarter. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk associated with interest rate and foreign exchange contracts 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.

We believe 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 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 one percentage point increase in interest rates from levels prevailing as of December 31, 2008, and the percent change in market value the following estimated market values would represent:

As of December 31,	Amount (Dollars In Millions)	Percent Change
2008		
Fixed maturities	\$ 19,120.1	(4.9)%
Mortgage loans	4,347.7	(4.9)
2007		
Fixed maturities	\$ 22,275.7	(4.8)%
Mortgage loans	3,310.7	(5.1)

Estimated market values were derived from the durations of our fixed maturities and mortgage loans. Duration measures the change in market value resulting from a change in interest rates. While these estimated market values provide an indication of how sensitive the market values of our fixed maturities and mortgage loans are to changes in interest rates, they do not represent management's view of future market changes or the potential impact of fluctuations in credit spreads. Actual market results may differ from these estimates.

In the ordinary course of our commercial mortgage lending operations, we will 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, 2008 and 2007, we had outstanding mortgage loan commitments of \$525.2 million at an average rate of 6.43%, and \$861.7 million, at an average rate of 6.31%, respectively, with estimated fair values of \$623.7 million and \$915.6 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 one percentage point increase

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in interest rate levels prevailing at December 31, 2008, and the percent change in fair value the following estimated fair values would represent:

As of December 31,	Amount (Dollars In Millions)	Percent Change
2008	\$ 597.0	(4.3)%
2007	870.4	(4.9)

The estimated fair values were derived from the durations of our outstanding mortgage loan commitments. While these estimated fair values provide an indication of how sensitive the fair value of our outstanding commitments are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

As previously discussed, we utilize a risk management strategy that involves the use of derivative financial instruments. Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk associated with interest rate and foreign exchange contracts 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, 2008, derivative contracts with a notional amount of \$1.6 billion were in a \$125.1 million net loss position. As of December 31, 2007, derivative contracts with a notional amount of \$5.4 billion were in a \$27.5 million net loss position. We recognized gains of \$116.7 million and \$8.5 million and incurred a loss of \$21.5 million related to derivative financial instruments for the years ended December 31, 2008, 2007, and 2006, respectively.

The following table sets forth the December 31, 2008 and 2007, 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 one percentage point change in interest rates from levels prevailing at December 31, 2008 and 2007:

	Notional Amount	Fair Value at December 31,	Fair Value Resulting From an Immediate +/- 1% Change in Interest Rates	
			+1%	-1%
(Dollars In Millions)				
2008				
Futures	\$ 150.0	\$ (3.2)	\$ 8.3	\$ (15.1)
Fixed to floating Swaps	310.0	2.3	(0.1)	2.3
Floating to fixed Swaps	958.5	(101.1)	(62.1)	(144.6)
Total	\$ 1,418.5	\$ (102.0)	\$ (53.9)	\$ (157.4)
2007				
Futures	\$ 150.0	\$ (0.4)	\$ 10.1	\$ (10.6)
Fixed to floating Swaps	343.2	(6.7)	(26.0)	2.3
Floating to fixed Swaps	1,704.6	(28.5)	2.0	(60.8)
Swaptions	2,050.0	4.2	41.6	0.1
Floating to floating Swaps	800.0			
Total	\$ 5,047.8	\$ (31.4)	\$ 27.7	\$ (69.0)

As of December 31, 2007, we were also subject to foreign exchange risk arising from stable value contracts denominated in foreign currencies and related foreign currency swaps. As of December 31,

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2007, stable value contracts of \$25.5 million had a foreign exchange loss of approximately \$11.0 million and the related foreign currency swaps had a net unrealized gain of approximately \$11.0 million.

The following table sets forth the December 31, 2008 and 2007 notional amount and fair value of our credit default swaps, and the estimated fair value resulting from a hypothetical immediate plus and minus one percentage point change in investment grade and high yield credit spreads from levels prevailing at December 31:

	Notional Amount	Fair Value at December 31,	Fair Value Resulting From an Immediate +/- 1% Change in Credit Spreads	
			+1%	-1%
(Dollars In Millions)				
2008				
Credit default swaps	\$ 65.0	\$ (19.4)	\$ (20.0)	\$ (18.8)
2007				
Credit default swaps	\$ 115.0	\$ (0.3)	\$ (5.3)	\$ 5.9

The following table sets forth the notional amount and fair value of the funding agreements and related foreign currency swaps as of December 31, 2007 and the estimated fair value resulting from a hypothetical 10% change in quoted foreign currency exchange rates from levels prevailing at December 31, 2007:

	Notional Amount	Fair Value at December 31,	Fair Value Resulting From an Immediate +/- 10% Change in Foreign Currency Exchange Rate	
			+10%	-10%
(Dollars In Millions)				
2007				
Stable value contracts	\$ 25.5	\$ (11.0)	\$ (14.6)	\$ (7.3)
Foreign currency swap	25.5	11.0	12.4	9.5
	\$ 51.0	\$	\$ (2.2)	\$ 2.2

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 and foreign currency exchange rates, 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 \$4.6 billion of our stable value contracts have no early termination rights.

As of December 31, 2008, we had \$5.0 billion of stable value product account balances with an estimated fair value of \$5.1 billion (using discounted cash flows), and \$9.4 billion of annuity account balances with an estimated fair value of \$9.0 billion (using discounted cash flows). As of December 31, 2007, we had \$5.0 billion of stable value product account balances with an estimated fair value of \$5.1 billion (using discounted cash flows), and \$8.7 billion of annuity account balances with an estimated fair value of \$8.5 billion (using surrender values).

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The following table sets forth the estimated fair values of our stable value and annuity account balances resulting from a hypothetical immediate one percentage point decrease in interest rates from levels prevailing as of December 31, 2008, and the percent change in fair value the following estimated fair values would represent:

As of December 31,	Amount (Dollars In Millions)	Percent Change
2008		
Stable value product account balances	\$ 5,211.5	2.1%
Annuity account balances	9,058.7	0.9
2007		
Stable value product account balances	\$ 5,248.7	2.4%
Annuity account balances	8,820.2	4.5

Estimated fair values were derived from the durations of our stable value and annuity account balances. While these estimated fair values provide an indication of how sensitive the fair values of our stable value and annuity account balances are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

A relatively immaterial amount of our liabilities relate to products (primarily whole life and term insurance), the profitability of which could be affected by changes in interest rates. The effect of such changes in any one year is not expected to be material.

As of December 31, 2008, we held retained beneficial interests of the commercial mortgage loan securitization completed during 2007 with a fair value of \$705.9 million. See Note 10, *Commercial Mortgage Securitizations*, for more information on this commercial mortgage loan securitization we completed during 2007. The sensitivity of the fair value to adverse changes of 10% and 20% in the discount rate is as follows:

	Increase in Discount Rate	
	10%	20%
	(Dollars In Thousands)	
Fair Value Change	\$ (25,123)	\$ (49,640)

As of December 31, 2008, we held retained beneficial interests of the commercial mortgage loan securitizations completed during 1996 and 1999 with a fair value of \$149.9 million. The sensitivity of the fair value to adverse changes of 10% and 20% in the discount rate is as follows:

	Increase in Discount Rate	
	10%	20%
	(Dollars In Thousands)	
Fair Value Change	\$ (2,882)	\$ (5,765)

The sensitivities in the preceding table are hypothetical and should be used with caution. As the amounts indicate, changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value of an interest that continues to be held is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which could magnify or counteract the sensitivities.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2, *Summary of Significant Accounting Policies*, to the Consolidated Financial Statements for information regarding recently issued accounting standards.

RECENT DEVELOPMENTS

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was signed into law. Pursuant to EESA, the U.S. Treasury has the authority to, among other things, purchase up to \$700 billion of securities from financial institutions for the purpose of stabilizing the financial markets. Under EESA and the TARP CPP, the U.S. Treasury has begun making equity investments in U.S. banks. Treasury has the authority to expand its investments to include insurers under the program. There are reports that the Treasury is considering such action, but the action may be limited to insurers that own or are owned by a federally-regulated bank or thrift institution. On January 15, 2009, the Fed announced its approval of our application to become a bank holding company by acquiring Bonifay Holding Company ("BHC") and its subsidiary, The Bank of Bonifay ("the Bank"). Our acquisition of BHC and the Bank are contingent on, among other things, the receipt of all required regulatory and third-party approvals, our completion of satisfactory due diligence, the approval of the transaction by the stockholders of BHC, and our participation in the Treasury Department's CPP. Completion of our acquisition of BHC and the Bank would subject the Company to additional regulation by federal and state banking regulators and could impose restrictions on the Company's business operations. We cannot predict whether Treasury will include insurers in its program or, if it does, the criteria it will use in selecting participants and whether participation, or lack thereof, would be viewed positively or negatively. We also cannot predict what legal, regulatory or business restrictions Treasury may impose upon CPP participants. Further, we cannot predict what other actions Treasury or other governmental and regulatory bodies may take in an effort to address the ongoing deterioration of economic conditions, nor can there be any assurance as to the impact any governmental or regulatory actions will have on the financial markets, the economy or our consolidated results of operations and financial position.

During the third quarter of 2008, Scottish Re US ("SRUS") received a statutory accounting permitted practice from the Delaware Department of Insurance ("the Department"). The fair value of the securities in SRUS's qualifying reserve credit trust accounts had declined significantly due to the continued market value degradation in the U.S. capital markets. SRUS estimated a shortfall in reserve credit of approximately \$132 million. This shortfall in reserve credit would have placed significant financial stress upon the statutory capital position of SRUS. As a result, SRUS requested and received approval from the Department for a permitted practice (the "Permitted Practice") with effect beginning as of September 30, 2008 related to SRUS' ongoing ability to take reserve credit for reinsurance ceded to certain securitization companies. The Permitted Practice relieved SRUS of the need to receive an additional \$104 million in capital contributions. On January 5, 2009, the Delaware Department of Insurance ("the Department") issued an order of supervision (the "Order of Supervision") against Scottish Re US ("SRUS"), in accordance with 18 Del. C. §5942, which, among other things, requires the Department's consent to any transaction outside the ordinary course of business, and which, in large part, formalized certain reporting and processes already informally in place between SRUS and the Department. We cannot predict what changes in the status of SRUS's financial condition may have on its ability to take reserve credit for the business ceded to SRUS. If we were unable to take reserve credit for the business ceded to SRUS, it could have a material adverse impact on our financial condition and results of operation. As of December 31, 2008, we had approximately \$175.2 million of GAAP recoverable from SRUS. In addition, we had \$456.8 million of ceded statutory reserves related to SRUS.

Credit markets have experienced reduced liquidity, higher volatility and widening credit spreads across numerous asset classes over the past several quarters, primarily as a result of marketplace

uncertainty arising from higher defaults in sub-prime and Alt-A residential mortgage loans and a weakening of the overall economy. In connection with this uncertainty, we believe investors and lenders have retreated from many investments in asset-backed securities including those associated with sub-prime and Alt-A residential mortgage loans, as well as types of debt investments with weak lender protections or those with limited transparency and/or complex features which hinder investor understanding. We believe such uncertainty has contributed to an increase in our net unrealized investment losses through declines in market values. We expect to experience continued volatility in connection with the valuation of our fixed maturity investments. However, we believe that the current credit environment also provides us with opportunities to invest in select asset classes and sectors that may enhance our investment yields over time.

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

Accounting and actuarial groups within the NAIC are studying whether to change the accounting standards that relate to certain reinsurance credits, and whether, if changes are made, they are to be applied retrospectively, prospectively only, or in a phased-in manner; a requirement to reduce the reserve credit on ceded business, if applied retroactively, would have a negative impact on our statutory capital. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves.

Our ability to implement financing solutions designed to fund a portion of our statutory reserves on both the traditional and universal life blocks of business is dependent on factors such as our ratings, the size of the blocks of business affected, our mortality experience, credit market guarantors, and other factors. We cannot predict the continued availability of such solutions or the form that the solution may take. To the extent that such solutions are not available, our financial position could be adversely affected through impacts including, but not limited to, higher borrowing costs, surplus strain, lower sales capacity and possible reduced earnings expectations. Management continues to monitor options related to these financing solutions.

During 2006, the NAIC made the determination that certain securities previously classified as "preferred securities" had both debt and equity characteristics and because of this, required unique reporting treatment. Under a "short-term solution", NAIC guidance mandated that certain of these securities may have to carry a lower rating for asset valuation reserve and risk-based capital calculations. As a result, certain securities receive a lower rating classification for asset valuation reserve and risk-based capital calculations. Our insurance subsidiaries currently invest in hybrid securities. As of December 31, 2008, we (including both insurance and non-insurance subsidiaries) held approximately \$1.5 billion (statutory carrying value) in securities that meet the aforementioned "notch-down" criteria, based on evaluation of the underlying characteristics of the securities. The NAIC

has since established a long-term solution, which effective January 1, 2009, provides for the classification of these hybrid securities as debt securities.

During 2006, the NAIC's Reinsurance Task Force adopted a proposal suggesting broad changes to the United States reinsurance market, with the stated intent to establish a regulatory system that distinguishes financially strong reinsurers from weak reinsurers, without relying exclusively on their state or country of domicile, with collateral to be determined as appropriate. The task force recommended that regulation of reinsurance procedures be amended to focus on broad based risk and credit criteria and not solely on U.S. licensure status. Evaluation of this reinsurance regulatory modernization Framework was taken under consideration by the NAIC's Financial Condition (E) Committee, the Reinsurance Task Force's parent committee, as one of its charges. In December 2008, the NAIC adopted the Framework. We cannot provide any assurance as to what impact such changes to the United States reinsurance industry will have on the availability, cost, or collateral restrictions associated with ongoing or future reinsurance transactions.

The NAIC adopted amendment(s) to the Unfair Trade Practices Act regarding the use of travel in insurance underwriting. The amendment states that the denial of life insurance based upon an individual's past lawful travel experiences or future lawful travel plans, is prohibited unless (i) the risk of loss for individuals traveling to a specified destination at a specified time is reasonably anticipated to be greater than if the individuals did not travel to that destination at that time, and (ii) the risk of traveling to a specific destination is based on sound actuarial principles and actual or reasonably anticipated experience. We cannot predict at this time what impact, if any, such changes would have on us.

On November 11, 2008, the American Council of Life Insurers ("ACLI") submitted to the NAIC a proposal to implement capital and surplus relief for life insurers. The ACLI's proposal contained nine elements, which were subsequently assigned to four of the NAIC's technical committees. Of the nine elements proposed by the ACLI, the technical committees rejected three, approved three, and indicated that the remaining three would be acceptable given certain amendments. In January 2009, the NAIC Executive Committee voted not to approve any of the elements of the ACLI proposal. However, numerous life insurers have received various permitted accounting practices from their domiciliary state insurance departments that effectively implement certain of the elements. Protective Life Insurance Company received a permitted accounting practice related to the calculation of deficiency reserves from its domiciliary state regulator in Tennessee. As of December 31, 2008, the permitted accounting practice impact was approximately \$17.6 million.

The California Department of Insurance has promulgated proposed regulations that would characterize some life insurance agents as brokers and impose certain obligations on those agents that may conflict with the interests of insurance carriers or require the agent to, among other things, advise the client with respect to the best available insurer. We cannot predict the outcome of this regulatory proposal or whether any other state will propose or adopt similar actions.

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

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On February 27, 2009, Citigroup ("Citi") announced it will issue common stock in exchange for preferred securities in an effort to increase its tangible common equity without any additional U.S. government investment. Citi stated that it will offer to exchange common stock for up to \$27.5 billion of its existing preferred securities. Furthermore, Citi stated that the U.S. government will match this exchange up to a maximum of \$25 billion face value of its preferred stock at the same conversion price. As of December 31, 2008, our preferred holdings in Citi had a GAAP amortized cost of \$50.0 million and a market value of approximately \$31.9 million.

IMPACT OF INFLATION

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of its 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.

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* and Item 8, *Financial Statements and Supplementary Data*.

Table of Contents**Item 8. Financial Statements and Supplementary Data**

Index to Consolidated Financial Statements

The following financial statements are located in this report on the pages indicated.

	Page
<u>Consolidated Statements of Income (Loss) for the years ended December 31, 2008, 2007, and 2006</u>	<u>126</u>
<u>Consolidated Balance Sheets as of December 31, 2008 and 2007</u>	<u>127</u>
<u>Consolidated Statements of Shareowners' Equity for the years ended December 31, 2008, 2007, and 2006</u>	<u>129</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007, and 2006</u>	<u>131</u>
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<u>Report of Independent Registered Public Accounting Firm</u>	<u>197</u>

For supplemental quarterly financial information, please see Note 21, *Consolidated Quarterly Results Unaudited* of the Notes to Consolidated Financial Statements included herein.

PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	For The Year Ended December 31,		
	2008	2007	2006
	(Dollars In Thousands, Except Per Share Amounts)		
Revenues			
Premiums and policy fees	\$ 2,692,553	\$ 2,727,023	\$ 2,317,337
Reinsurance ceded	(1,582,810)	(1,600,684)	(1,371,215)
Net of reinsurance ceded	1,109,743	1,126,339	946,122
Net investment income	1,675,164	1,675,934	1,419,778
Realized investment (losses) gains:			
Derivative financial instruments	116,657	8,469	(21,516)
All other investments	(584,492)	8,602	104,084
Other income	188,492	232,357	230,665
 Total revenues	 2,505,564	 3,051,701	 2,679,133
Benefits and expenses			
Benefits and settlement expenses, net of reinsurance ceded:			
(2008 \$1,483,010; 2007 \$1,531,556; 2006 \$1,196,416)	1,976,541	1,893,707	1,637,215
Amortization of deferred policy acquisition costs and value of business acquired	233,742	300,270	225,804
Other operating expenses, net of reinsurance ceded:			
(2008 \$217,335; 2007 \$272,305; 2006 \$244,935)	370,412	421,636	384,206
 Total benefits and expenses	 2,580,695	 2,615,613	 2,247,225
 Income (loss) before income tax	 (75,131)	 436,088	 431,908
Income tax (benefit) expense			
Current	7,566	(52,337)	25,767
Deferred	(40,842)	198,859	124,580
 Total income tax (benefit) expense	 (33,276)	 146,522	 150,347
 Net income (loss)	 \$ (41,855)	 \$ 289,566	 \$ 281,561
 Net income (loss) per share basic	 \$ (0.59)	 \$ 4.07	 \$ 3.98
Net income (loss) per share diluted	\$ (0.59)	\$ 4.05	\$ 3.94
Cash dividends paid per share	\$ 0.815	\$ 0.890	\$ 0.840
Average share outstanding basic	71,108,961	71,061,152	70,795,453
 Average share outstanding diluted	 71,108,961	 71,478,021	 71,390,513

See Notes to Consolidated Financial Statements

**PROTECTIVE LIFE CORPORATION
CONSOLIDATED BALANCE SHEETS**

	As of December 31,	
	2008	2007
	(Dollars In Thousands)	
Assets		
Investments:		
Fixed maturities, at fair market value (amortized cost: 2008 \$23,091,708; 2007 \$23,448,784)	\$20,098,980	\$23,389,069
Equity securities, at fair market value (cost: 2008 \$358,159; 2007 \$112,406)	302,132	117,037
Mortgage loans	3,848,288	3,284,326
Investment real estate, net of accumulated depreciation (2008 \$453; 2007 \$283)	14,810	8,026
Policy loans	810,933	818,280
Other long-term investments	432,137	185,892
Short-term investments	1,059,506	1,236,443
 Total investments	 26,566,786	 29,039,073
Cash	149,358	146,152
Accrued investment income	287,543	291,734
Accounts and premiums receivable, net of allowance for uncollectible amounts (2008 \$5,177; 2007 \$3,587)	55,017	87,883
Reinsurance receivables	5,254,788	5,089,100
Deferred policy acquisition costs and value of business acquired	4,200,321	3,400,493
Goodwill	120,954	117,366
Property and equipment, net of accumulated depreciation (2008 \$117,948; 2007 \$111,213)	39,707	42,795
Other assets	174,035	144,296
Income tax receivable	73,457	165,741
Deferred income tax	380,069	
Assets related to separate accounts		
Variable annuity	2,027,470	2,910,606
Variable universal life	242,944	350,802
 Total Assets	 \$39,572,449	 \$41,786,041

See Notes to Consolidated Financial Statements

PROTECTIVE LIFE CORPORATION
CONSOLIDATED BALANCE SHEETS
(continued)

	As of December 31,	
	2008	2007
	(Dollars In Thousands)	
Liabilities		
Policy liabilities and accruals		
Future policy benefits and claims	\$ 17,008,524	\$ 16,249,495
Unearned premiums	1,251,855	1,179,812
Total policy liabilities and accruals	18,260,379	17,429,307
Stable value product account balances	4,960,405	5,046,463
Annuity account balances	9,357,427	8,708,383
Other policyholders' funds	421,313	307,950
Other liabilities	926,821	1,204,018
Deferred income taxes		512,156
Non-recourse funding obligations	1,375,000	1,375,000
Liabilities related to variable interest entities		400,000
Long-term debt	714,852	559,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	2,027,470	2,910,606
Variable universal life	242,944	350,802
Total liabilities	38,811,354	39,329,280
Commitments and contingencies Note 11		
Shareowners' equity		
Preferred Stock; \$1 par value, shares authorized: 4,000,000; Issued:		
None Common Stock, \$.50 par value, shares authorized: 2008 and		
2007 160,000,000 shares issued: 2008 and 2007 73,251,960	36,626	36,626
Additional paid-in-capital	448,481	444,765
Treasury stock, at cost (2008 3,346,153 shares; 2007 3,102,898		
shares)	(26,978)	(11,140)
Unallocated stock in Employee Stock Ownership Plan (2008 128,995		
shares ; 2007 251,231 shares)	(474)	(852)
Retained earnings (includes SFAS No. 157 cumulative effect		
adjustment \$1,470)	1,970,496	2,067,891
Accumulated other comprehensive income (loss):		
Net unrealized (losses) on investments, net of income tax:		
(2008 \$(863,520); 2007 \$(26,675))	(1,575,028)	(45,339)
Accumulated (loss) hedging, net of income tax: (2008 \$(25,980);		
2007 \$(6,185))	(46,762)	(12,222)
Postretirement benefits liability adjustment, net of income tax:		
(2008 \$(24,374); 2007 \$(11,622))	(45,266)	(22,968)
Total shareowners' equity	761,095	2,456,761
Total liabilities and shareowners' equity	\$ 39,572,449	\$ 41,786,041

See Notes to Consolidated Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Stock Held In Trust	Unallocated Stock in ESOP	Retained Earnings	Net Unrealized Gains/ Losses) on Investments	Accumulated Gain/ (Loss) Hedging	Minimum Pension Liability Adjustments	Total Share Owners' Equity
(Dollars In Thousands)										
Balance, December 31, 2005	\$ 36,626	\$ 440,475	\$ (12,765)	\$	\$ (1,610)	\$ 1,615,714	\$ 104,489	\$ 731	\$	\$ 2,183,660
Net income for 2006						281,561				281,561
Change in net unrealized gains/losses on investments (net of income tax \$(4,856))							(8,620)			(8,620)
Reclassification adjustment for amounts included in net income (net of income tax \$(30,684))							(54,464)			(54,464)
Change in accumulated gain (loss) hedging (net of income tax \$(3,573))								(6,685)		(6,685)
Change in minimum pension liability adjustment (net of income tax \$(1,349))									(2,471)	(2,471)
Comprehensive income for 2006										209,321
Cash dividends (\$0.84 per share)						(58,715)				(58,715)
Stock-based compensation		(3,999)	810							(3,189)
Reissuance of treasury stock to ESOP		2,009	159		(2,168)					
Allocation of stock to employee accounts					2,547					2,547
Adjustment to initially apply SFAS No 158 (net of income tax \$(11,219))									(20,549)	(20,549)
Balance, December 31, 2006	\$ 36,626	\$ 438,485	\$ (11,796)	\$	\$ (1,231)	\$ 1,838,560	\$ 41,405	\$ (5,954)	\$ (23,020)	\$ 2,313,075
Net income for 2007						289,566				289,566
Change in net unrealized gains/losses on investments (net of income tax \$(46,131))							(82,874)			(82,874)
Reclassification adjustment for investment amounts included in net income (net of income tax \$(2,154))							(3,870)			(3,870)
Change in accumulated gain (loss) hedging (net of income								(4,778)		(4,778)

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tax \$(2,650))										
Reclassification adjustment for hedging amounts included in net income (net of income tax \$(828))							(1,490)			(1,490)
Change in minimum pension liability adjustment (net of income tax \$(28))								52		52
Comprehensive income for 2007										196,606
Cash dividends (\$0.89 per share)							(62,380)			(62,380)
Cumulative effect adjustments (FIN No. 48 and SFAS No. 155)							2,145			2,145
Stock-based compensation	5,553	596								6,149
Reissuance of treasury stock to ESOP	727	60				(787)				
Allocation of stock to employee accounts						1,166				1,166
Balance, December 31, 2007	\$ 36,626	\$ 444,765	\$ (11,140)	\$	\$ (852)	\$ 2,067,891	\$ (45,339)	\$ (12,222)	\$ (22,968)	\$ 2,456,761

See Notes to Consolidated Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY

(continued)

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Stock Held In Trust	Unallocated Stock in ESOP	Retained Earnings	Net Unrealized Gains/(Losses) on Investments	Accumulated Gain/(Loss) Hedging	Minimum Pension Liability Adjustments	Total Share Owners' Equity
(Dollars In Thousands)										
Net loss for 2008						(41,855)				(41,855)
Change in net unrealized gains/losses on investments (net of income tax \$(941,799))							(1,721,366)			(1,721,366)
Reclassification adjustment for investment amounts included in net income (net of income tax \$104,955)							191,677			191,677
Change in accumulated gain (loss) hedging (net of income tax \$(20,085))								(36,135)		(36,135)
Reclassification adjustment for hedging amounts included in net income (net of income tax \$887)								1,595		1,595
Change in minimum pension liability adjustment (net of income tax \$(12,007))									(22,298)	(22,298)
Comprehensive loss for 2008										(1,628,382)
Cash dividends (\$0.815 per share)						(57,010)				(57,010)
Cumulative effect adjustments (SFAS No. 157)						1,470				1,470
Share repurchases			(17,143)							(17,143)
Stock-based compensation		2,189	957							3,146
Reissuance of treasury stock to ESOP		1,527	348		(1,874)					1
Allocation of stock to employee accounts					2,252					2,252
Balance, December 31, 2008	\$ 36,626	\$ 448,481	\$ (26,978)	\$	(474)	\$ 1,970,496	\$ (1,575,028)	\$ (46,762)	\$ (45,266)	\$ 761,095

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Year Ended December 31,		
	2008	2007	2006
	(Dollars In Thousands)		
Cash flows from operating activities			
Net income (loss)	\$ (41,855)	\$ 289,566	\$ 281,561
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment losses (gains)	467,835	(17,071)	(82,568)
Amortization of deferred policy acquisition costs and value of business acquired	233,742	300,270	225,804
Capitalization of deferred policy acquisition costs	(403,364)	(452,434)	(426,074)
Depreciation expense	10,511	10,980	11,960
Deferred income tax	54,814	173,709	83,637
Accrued income tax	91,517	(31,715)	(43,717)
Interest credited to universal life and investment products	1,043,676	1,010,944	891,627
Policy fees assessed on universal life and investment products	(575,128)	(570,420)	(507,391)
Change in reinsurance receivables	(165,688)	(470,978)	(503,804)
Change in accrued investment income and other receivables	37,057	99,359	(88,409)
Change in policy liabilities and other policyholders' funds of traditional life and health products	361,825	418,083	615,026
Trading securities:			
Maturities and principal reductions of investments	460,185	407,971	229,030
Sale of investments	1,790,869	1,842,115	2,990,191
Cost of investments acquired	(1,852,868)	(2,315,951)	(2,983,471)
Other net change in trading securities	(17,646)	236,893	(317,004)
Change in other liabilities	(68,301)	(26,908)	108,278
Other, net	(183,561)	(43,198)	4,047
Net cash provided by operating activities	1,243,620	861,215	488,723
Cash flows from investing activities			
Investments available-for-sale:			
Maturities and principal reductions of investments	1,878,832	1,378,040	1,177,543
Sale of investments	2,886,728	2,283,659	5,036,279
Cost of investments acquired	(5,708,018)	(4,693,821)	(5,804,076)
Mortgage loans:			
New borrowings	(901,424)	(909,384)	(1,055,998)
Repayments	328,476	484,513	452,697
Change in investment real estate, net	506	37,348	64,611
Change in policy loans, net	7,347	21,222	(69)
Change in other long-term investments, net	(30,764)	(28,165)	14,338
Change in short-term investments, net	(28,562)	(119,911)	42,324
Purchase of property and equipment	(5,552)	(14,098)	(4,806)
Sales of property and equipment	787	4,094	
Payments for business acquisitions, net of cash acquired of \$394,364 (2006)			(539,218)
Net cash used in investing activities	(1,571,644)	(1,556,503)	(616,375)
Cash flows from financing activities			
Borrowings under line of credit arrangements and long-term debt	155,000	248,500	166,600
Principal payments on line of credit arrangement and long-term debt		(167,780)	(170,000)
Net proceeds from securities sold under repurchase agreements		(16,949)	16,949
Payments on liabilities related to variable interest entities	(400,000)	(20,395)	(27,698)
Issuance of non-recourse funding obligations		950,000	300,000
Dividends to shareowners	(57,010)	(62,381)	(58,715)
Issuance of subordinated debt securities			200,000
Investments product deposits and change in universal life deposits	5,287,343	3,429,793	2,419,734

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Investment product withdrawals	(4,588,354)	(3,555,442)	(2,640,427)
Excess tax benefits on stock based compensation		1,712	3,382
Other financing activities, net	(65,749)	(35,134)	(96,327)
Net cash provided by financing activities	331,230	771,924	113,498
Change in cash	3,206	76,636	(14,154)
Cash at beginning of period	146,152	69,516	83,670
Cash at end of period	\$ 149,358	\$ 146,152	\$ 69,516

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**PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. BUSINESS

Nature of Operations

Protective Life Corporation 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 division devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company ("Protective Life") is the Company's largest operating subsidiary.

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 its wholly owned subsidiaries. The Company's consolidated financial statements also include the accounts of certain variable interest entities in which the Company is considered the primary beneficiary. Intercompany balances and transactions have been eliminated. During 2007, the Company sold one of its direct marketing subsidiaries and recognized a pretax gain of \$15.7 million on the sale. This gain was recorded as a part of the Company's Life Marketing segment's results.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities (see also Note 18, *Statutory Reporting Practices and Other Regulatory Matters*).

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 amortization periods, goodwill recoverability, value of business acquired ("VOBA"), investment fair values and other-than-temporary impairments, future policy benefits, pension and other postretirement benefits, provision for income taxes, reserves for contingent liabilities, reinsurance risk transfer assessments and reserves for losses in connection with unresolved legal matters.

Significant Accounting Policies

Valuation of investment securities

The fair value for fixed maturity, short term, and equity securities, is determined by management after considering and evaluating one of three primary sources of information: third party pricing services, 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 prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and rates of prepayments. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services will normally derive the security prices through 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. Included in the pricing of asset-backed securities ("ABS"), collateralized mortgage obligations ("CMOs"), and mortgage-backed securities ("MBS") are estimates of the rate of future prepayments of principal 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.

Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. For example, assessing the value of certain investments requires that we perform an analysis of expected future cash flows or rates of prepayments. Other investments, such as collateralized mortgage or bond obligations, represent selected tranches of a structured transaction, supported in the aggregate by underlying investments in a wide variety of issuers. Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Although it is possible for the impairment of one investment to affect other investments, The Company engages in ongoing risk management to safeguard against and limit any further risk to its investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets. The Company considers 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 in fair value, 4) the intent and ability to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered.

For the year ended December 31, 2008, the Company recorded pre-tax other-than-temporary impairments, excluding \$18.7 million of modified coinsurance ("Modco") related impairments, of \$311.8 million in its investments compared to \$0.1 million for the year ended December 31, 2007. The impairments related to debt obligations and preferred stock holdings in Lehman Brothers and Washington Mutual, residential mortgage-backed securities collateralized by Alt-A mortgages, and preferred stock holdings in Fannie Mae and Freddie Mac. The decline in the estimated fair value of these securities resulted from factors including distressed credit markets, the failure or near failure of a number of large financial service companies resulting in intervention by the United States Federal Government, downgrades in rating, and interest rate changes. These other-than-temporary impairments resulted from the Company's analysis of circumstances and its 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. For more information on impairments, refer to Note 4, *Investment Operations*.

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 but not presented to banks for payment may create negative book cash balances. Such negative balances are included in other liabilities and were \$21.3 million and \$89.8 million as of December 31, 2008 and 2007, 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 costs that vary with and are primarily related to the production of new business 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.

Under Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* ("SFAS No. 97"), 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 2.7% to 12.6%) the Company expects to experience in future periods. These assumptions are to be best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, relating to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* ("SFAS No. 115"), these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

Value of Businesses Acquired

In conjunction with the acquisition of a block of insurance policies or investment contracts, a portion of the purchase price is assigned to the right to receive future gross profits from the acquired insurance policies or investment contracts. This intangible asset, called VOBA, represents the actuarially estimated present value of future cash flows from the acquired policies. The Company amortizes VOBA in proportion to gross premiums for FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises* ("SFAS No. 60") products and in proportion to expected gross profits ("EGPs") for FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* ("SFAS No. 97") products, including accrued interest credited to account balances of up to approximately 11%.

Property and Equipment

Property and equipment are reported at cost, including interest capitalized during any acquisition or development period, less accumulated depreciation. The Company primarily uses the straight-line method of depreciation based upon the estimated useful lives of the assets. The Company's home office

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

Property and equipment consisted of the following as of December 31:

	2008	2007
	(Dollars In Thousands)	
Home office building	\$ 56,278	\$ 56,108
Data processing equipment	49,368	45,665
Other, principally furniture and equipment	52,009	52,235
	157,655	154,008
Accumulated depreciation	(117,948)	(111,213)
	\$ 39,707	\$ 42,795

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. 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 (Loss).

Stable Value Product Account Balances

The Company sells guaranteed funding agreements ("GFAs") to special purpose entities that in turn issue notes or certificates in smaller, transferable denominations. During 2003, the Company registered a funding agreement-backed notes program with the United States Securities and Exchange Commission (the "SEC"). Through this program, the Company was able to offer notes to both institutional and retail investors. As a result of the strong sales of these notes since their introduction in 2003, the amount available under this program was increased by \$4 billion in 2005 through a second registration. The segment's funding agreement-backed notes complement the Company's overall asset/liability management in that the terms of the funding agreements may be tailored to the needs of Protective Life as the seller of the funding agreements, as opposed to solely meeting the needs of the buyer.

In addition, the Company markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans, and fixed and floating rate funding agreements to the trustees of municipal bond proceeds, institutional investors, bank trust departments, and money market funds. Through the Company's registered funding agreement-backed note program, the Company is able to offer secured notes to both institutional and retail investors. GICs are contracts that 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. Stable value product account balances include GICs and funding agreements the Company has issued. At December 31, 2008 and 2007, the Company had \$3.1 billion and \$3.7 billion, respectively, of stable value product account balances marketed through structured programs. Most GICs and funding agreements the Company has written have maturities of three to

ten years. At December 31, 2008, future maturities of stable value products, excluding interest, were \$1.4 billion in 2009, \$1.8 billion in 2010-2011, \$1.1 billion in 2012-2013, and \$0.7 billion after 2013.

Derivative Financial Instruments

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to interest rate risk, inflation risk, currency exchange risk, and equity market risk. These strategies are developed through the asset/liability committee'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 minimizes its credit risk by entering into transactions with highly rated counterparties. The Company manages the market risk associated with interest rate and foreign exchange contracts 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 strategies.

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 options, and interest rate swaptions. The Company's inflation risk management strategy involves the use of swaps that requires the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index ("CPI"). The Company uses foreign currency swaps to manage its exposure to changes in the value of foreign currency denominated stable value contracts. No foreign currency swaps remain outstanding. The Company also uses S&P 500® options to mitigate its exposure to the value of equity indexed annuity contracts.

The Company has sold credit default protection on liquid traded indices to enhance the return on its investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly-issued fixed maturity cash investments. The credit default swaps relate to the High Yield Series 8 Index and the Investment Grade Series 9 Index and have terms to June 2014 and December 2017, respectively. Defaults within the High Yield Series 8 Index that exceeded the 25% attachment point would require the Company to perform under the credit default swaps, up to the 35% exhaustion point. Defaults within the Investment Grade Series 9 Index that exceeded the 10% attachment point would require the Company to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is \$65.0 million. As of December 31, 2008, the fair value of the credit derivatives was a liability of \$19.4 million.

As a result of the ongoing disruption in the credit markets, the fair value of these derivatives has fluctuated in response to changing market conditions. The Company believes that the unrealized loss recorded on the \$65.0 million notional of credit default swaps is not indicative of the economic value of the investment.

FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133") requires that all derivative instruments be recognized in the balance sheet at fair value. The Company records its derivative instruments on the balance sheet in "other long-term investments" and "other liabilities". The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge related to foreign currency exposure. For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gain or loss realized on the derivative instrument is reported as a component of other comprehensive income and reclassified

into earnings in the same period during which the hedged transaction impacts earnings. The remaining gain or loss on these derivatives is recognized as ineffectiveness in current earnings during the period of the change. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of change in fair values. Effectiveness of the Company's hedge relationships is assessed on a quarterly basis. The Company accounts for 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".

Cash-Flow Hedges

In 2002, the Company entered into a foreign currency swap to hedge the risk of changes in the value of interest and principal payments to be made on certain foreign-currency-based stable value contracts. During 2007, the Company exited from this swap. Under the terms of the swap, the Company paid a fixed U.S.-dollar-denominated rate and received a fixed foreign-currency-denominated rate.

During 2004 and 2005, in connection with the issuance of inflation adjusted funding agreements, the Company entered into swaps to convert the floating CPI-linked interest rate on the contracts to a fixed rate. The Company paid a fixed rate on the swap and received a floating rate equal to the CPI change paid on the funding agreements.

During 2006, the Company entered into swaps to convert CMT ("Constant Maturity Treasury") based floating rate interest payments on funding agreements to fixed rate interest payments.

During 2006 and 2007, the Company entered into interest rate swaps to convert LIBOR based floating rate interest payments on funding agreements to fixed rate interest payments.

The Company designated these swaps as cash flow hedges and therefore recorded the change in the fair value of the swap during the period in accumulated other comprehensive income. Gains and losses on these swaps are reclassified from other comprehensive income to current earnings as interest payments are made on the funding agreements. For the years ended December 31, 2008, 2007, and 2006, the amount of hedge ineffectiveness reported in income was a \$1.7 million loss and \$4.2 million and \$0.6 million in gains, respectively. Additionally, as of December 31, 2008 and 2007, the Company reported an after-tax decrease to accumulated other comprehensive income of \$34.5 million and \$6.3 million, respectively, related to our cash flow hedges. During 2009, the Company expects to reclassify \$3.0 million out of accumulated other comprehensive income and into earnings.

Other Derivatives

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

The Company uses interest rate swaps to convert the fixed interest rate payments on certain of its debt obligations to a floating rate. Interest is exchanged periodically on the notional value, with the Company receiving the fixed rate and paying various LIBOR-based rates. In 2008, 2007, and 2006, the Company recognized pre-tax gains of \$15.2 million, \$5.3 million, and \$0.8 million, respectively, representing the change in value of these derivatives and related net settlements.

The Company uses certain foreign currency swaps, which are not designated as cash flow hedges, to mitigate its exposure to changes in currency rates. For 2008, 2007, and 2006, the Company recorded pre-tax losses of \$11.0 million, and pre-tax gains of \$3.5 million and \$3.4 million on

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these swaps, respectively. In connection with these swaps, the Company also recognized pre-tax gains of \$11.0 million and pre-tax losses of \$3.5 million and \$3.4 million, respectively, during 2008, 2007, and 2006 as the change in value of the related foreign currency denominated stable value contracts. These net gains or losses primarily result from differences in the forward and spot exchange rates used to revalue the swaps and the stable value contracts. The final swap and related stable value contract matured in November of 2008. No foreign currency swaps remain outstanding.

The Company also uses short positions in interest rate futures to mitigate the interest rate risk associated with its mortgage loan commitments. During 2008, 2007, and 2006, the Company recognized pre-tax losses of \$25.8 million and \$3.7 million, and a pre-tax gain of \$26.7 million, respectively, as a result of changes in value of these futures positions.

The Company uses other interest swaps to mitigate interest rate risk related to floating rate exposures. The Company realized a loss of \$24.9 million on interest rate swaps for the year ended December 31, 2008.

The Company uses other swaps, options, and swaptions to manage the interest rate risk in its mortgage-backed security portfolio. For 2008, 2007, and 2006, the Company recognized pre-tax losses of \$4.3 million, \$10.5 million, and \$1.6 million, respectively, for the change in fair value of these derivatives.

In September of 2000, the Company also entered into a total return swap in connection with a portfolio of investment securities it manages for an unrelated party. The Company recognized pre-tax losses of \$0.6 million, \$0.7 million, and \$0.7 million in 2008, 2007, and 2006, respectively, for the change in the total return swap's fair value. The total return swap was terminated in September of 2008. No total return swaps remain outstanding.

The Company is involved in various modified coinsurance and funds withheld arrangements which, in accordance with DIG B36, contain embedded derivatives that must report changes in fair value through current period earnings. The change in fair value of these derivatives resulted in the recognition of pre-tax gains of \$212.9 million and \$10.7 million and a \$44.5 million pre-tax loss in 2008, 2007, and 2006, respectively. The gain during 2008 on these embedded derivatives was the result of an elevated level of spread widening, fluctuations in interest rates, and the impact of impairments/credit related losses on the modified coinsurance portfolios. The gain during 2007 on these embedded derivatives was the result of spread widening, partially offset by lower interest rates. The loss during 2006 was primarily the result of decreasing interest rates during the second half of 2006. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes offset the gains or losses on these embedded derivatives.

During 2005, the Company began marketing equity indexed annuities. Effective January 1, 2007, the Company adopted FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155") and elected the fair value option for valuing the reserve liabilities associated with the Company's EIA product. Under SFAS No. 155, the entire reserve liability is valued using fair value, whereas prior to the adoption of SFAS No. 155, the embedded derivative was bifurcated and valued under SFAS No. 133 guidance and the annuity host contract was valued under SFAS No. 97. Prior to 2007, under SFAS No. 133, the equity market component, where interest credited to the contracts was linked to the performance of the S&P 500® index, was considered an embedded derivative. The change in fair value of the embedded derivative resulted in a \$5.7 million pre-tax loss in 2006. The Company utilized S&P 500® options to mitigate the risk associated with equity indexed annuity contracts. The Company recognized pre-tax losses of \$8.0 million and pre-tax

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gains of \$0.5 million and \$2.9 million on its S&P 500® options in 2008, 2007, and 2006, respectively.

During 2007, the Company began marketing certain variable annuity products with a guaranteed minimum withdrawal benefit ("GMWB") rider. Under SFAS No. 133, the GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract. The change in fair value of the embedded derivative resulted in pre-tax losses of \$32.9 million and \$0.5 million in 2008 and 2007, respectively.

During 2007, the Company entered into credit default swaps to enhance the return on its investment portfolio. The Company recognized a pre-tax loss of \$13.2 million and pre-tax gain of \$3.3 million in 2008 and 2007, respectively, from the change in the swaps' fair value and positions closed.

Insurance liabilities and reserves

Establishing an adequate liability for the Company's 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 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. In addition, effective January 1, 2007, the Company adopted SFAS No. 155, related to its equity indexed annuity product. SFAS No. 155 requires that the Company determine a fair value for the liability related to this block of business at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As a result of the adoption of SFAS No. 157 at January 1, 2008, the Company made certain modifications to the method used to determine fair value for its liability related to equity indexed annuities to take into consideration factors such as policyholder behavior, the Company's credit rating and other market considerations. The impact of adopting SFAS No. 157 is discussed further in Note 19, *Fair Value of Financial Instruments*.

Guaranteed minimum withdrawal benefits

The Company also establishes liabilities for GMWB on its variable annuity products. The GMWB is valued in accordance with SFAS No. 133 which utilizes the valuation technique prescribed by SFAS No. 157, which requires the liability to be marked-to-market. The methods used to estimate the liabilities employ assumptions, about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDM Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses.

As a result of the adoption of SFAS No. 157 at January 1, 2008, the Company made certain modifications to the method used to determine fair value for its liability related embedded derivatives related to annuities with guaranteed minimum withdrawal benefits to take into consideration factors such as policyholder behavior, credit risk and other market considerations. See Note 19, *Fair Value of Financial Instruments* for more information related to the impact of adopting SFAS No. 157.

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Goodwill

Goodwill is tested for impairment at least annually. The Company evaluates the carrying value of goodwill at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of a 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 compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilized a discounted cash flows model to assess the fair value of the reporting units. As of December 31, 2008 and 2007, the Company evaluated goodwill and determined that the fair value had not decreased below carrying value and no adjustment to impair goodwill was necessary in accordance with FASB Statement No. 142, *Goodwill and Other intangible Assets* ("SFAS No. 142"). As of December 31, 2008, the Company had goodwill of \$121.0 million.

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

The Company's material goodwill balances are attributable to its business segments. As previously noted, the Company's operating segments' discounted cash flows support the goodwill balance as of December 31, 2008. In the Company's view, the reduction in market cap is primarily attributable to illiquidity of credit markets and capital markets, concern related to its investment portfolio's unrealized loss positions, impairments recognized during 2008, and an overall fear of the capital levels and potential economic impacts to financial services companies. These factors primarily impact the Company at a corporate level, and largely within the Corporate and Other segment. The Company monitors the aggregate fair value of its reporting units as a comparison to its overall market capitalization. During 2008, the Company believes the factors that led to the decline in market cap primarily impacted us at a corporate level, and largely within the Corporate and Other segment, which does not carry a material balance of goodwill, as opposed to impacting the prescribed and inherent fair values of the Company's other operating segments and reporting units. As a result, in the Company's view, the decrease in its market cap does not invalidate its discounted cash flow results.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Income tax provisions are generally based on income reported for financial statement purposes. Deferred income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to the marking to market value of investment assets, the deferral of policy acquisition costs, and the provision for future policy benefits and expenses.

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

Policyholder Liabilities, Revenues and Benefits Expense**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. 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.

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, 2008 range from approximately 5.0% to 7.0%. 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.

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

	2008	2007	2006
	(Dollars In Thousands)		
Balance beginning of year	\$237,669	\$167,757	\$134,104
Less: reinsurance	113,011	59,654	61,655
Net balance beginning of year	124,658	108,103	72,449
Incurred related to:			
Current year	381,146	447,752	395,873
Prior year	50,123	(13,619)	(9,685)
Total incurred	431,269	434,133	386,188
Paid related to:			
Current year	396,438	360,308	304,177
Prior year	52,289	57,270	55,349
Total paid	448,727	417,578	359,526
Other changes:			
Acquisition and reserve transfers	(80)		8,992
Net balance end of year	107,120	124,658	108,103
Add: reinsurance	111,451	113,011	59,654
Balance end of year	\$218,571	\$237,669	\$167,757

Universal Life and Investment Products

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Premiums and policy fees for universal life and investment products consist of fees that have been assessed against policy account balances for the costs of insurance, policy administration, and

surrenders. Such fees are recognized when assessed and earned. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. Interest rates credited to universal life products ranged from 3.0% to 12.6% and investment products ranged from 3.0% to 7.3% in 2008.

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

Effective January 1, 2007, the Company adopted SFAS No. 155 related to its equity indexed annuity product. SFAS No. 155 requires that the Company record the liability related to this block of business at fair value at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As a result of the adoption of SFAS No. 157 at January 1, 2008, the Company made certain modifications to the method used to determine fair value for this product, to take into consideration factors such as policyholder behavior, credit risk and other market considerations. See Note 19, *Fair Value of Financial Instruments* for more information related to the impact of adopting SFAS No. 157.

The Company establishes liabilities for guaranteed minimum death benefits ("GMDB") on its variable annuity products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. 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, 2008, are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2008, the Company's net GMDB liability held was \$1.2 million.

The Company also establishes liabilities for GMWB on its variable annuity products. The GMWB is valued in accordance with SFAS No. 133 which utilizes the valuation technique prescribed by SFAS No. 157, which requires the liability to be marked-to-market. The methods used to estimate the liabilities employ assumptions, about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses.

Property and Casualty Insurance Products

Property and casualty insurance products include service contract business, surety bonds, residual value insurance, guaranteed asset protection ("GAP"), credit-related coverages, and inventory protection products. 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. The following summarizes some of the key aspects of the Company's accounting policies for reinsurance:

Reinsurance Accounting Methodology The Company accounts for reinsurance under the provisions of FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts* ("SFAS No. 113"). The methodology for accounting for the impact of reinsurance on the Company's life insurance and annuity products is determined by whether the specific products are subject to SFAS No. 60 or SFAS No. 97.

The Company's traditional life insurance products are subject to SFAS No. 60 and the recognition of the impact of reinsurance costs on the Company's financial statements reflect the requirements of that pronouncement. Ceded premiums are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable financial reporting period. Expense allowances paid by the assuming companies 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 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's short duration insurance contracts (primarily issued through the Asset Protection segment) are also subject to SFAS No. 60 and the recognition of the impact of reinsurance costs on the Company's financial statements also reflect the requirements of that pronouncement. Reinsurance allowances include such acquisition costs as commissions and premium taxes. A ceding fee is also collected to cover other administrative costs and profits for the Company. Reinsurance allowances received 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.

The Company's universal life ("UL"), variable universal life, bank-owned life insurance ("BOLI"), and annuity products are subject to SFAS No. 97 and the recognition of the impact of reinsurance costs on the Company's financial statements reflect the requirements of that pronouncement. Ceded premiums and policy fees on SFAS No. 97 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. Commission and expense allowances paid by the assuming companies 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 are amortized based on future expected gross profits according to SFAS No. 97. Unlike with SFAS No. 60 products, assumptions for SFAS No. 97 regarding mortality, lapses and interest are continuously reviewed and may be periodically changed. These changes will result in "unlocking" that changes the balance in the ceded deferred amortization cost and can affect the amortization of deferred acquisition cost and VOBA. Ceded unearned revenue liabilities are also amortized based on expected gross profits. Assumptions for SFAS No. 97 products are based on the best current estimate of expected mortality.

lapses and interest spread. The Company complies with AICPA Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*, which impacts the timing of direct and ceded earnings on certain blocks of the Company's SFAS No. 97 business.

Reinsurance Allowances The amount and timing of reinsurance allowances (both first year and renewal allowances) are contractually determined by the applicable reinsurance contract and may or may not bear a relationship to the amount and incidence of expenses actually paid by the ceding company. Many of the Company's reinsurance treaties do, in fact, have ultimate renewal allowances that exceed the direct ultimate expenses. Additionally, allowances are intended to reimburse the ceding company for some portion of the ceding company's commissions, expenses, and taxes. As a result, first year expenses paid by the Company may be higher than first year allowances paid by the reinsurer, and reinsurance allowances may be higher in later years than renewal expenses paid by the Company.

The Company recognizes allowances according to the prescribed schedules in the reinsurance contracts, which may or may not bear a relationship to actual expenses incurred by the Company. A portion of these allowances is deferred while the non-deferrable allowances are recognized immediately as a reduction of other operating expenses. The Company's practice is to defer reinsurance allowances in excess of the ultimate allowance. This practice is consistent with the Company's practice of capitalizing direct expenses. While the recognition of reinsurance allowances is consistent with U.S. GAAP, in some cases non-deferred reinsurance allowances may exceed non-deferred direct costs, which may cause net other operating expenses to be negative.

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). The Company determines ultimate allowances as the final amount to be paid over the life of a contract after higher acquisition related expenses (whether first year or renewal) are completed. Ultimate reinsurance allowances are determined by the reinsurer and set by the individual contract of each treaty during the initial negotiation of each such contract. Ultimate reinsurance allowances and other treaty provisions are listed within each treaty and will differ between agreements since each reinsurance contract is a separately negotiated agreement. The Company uses the ultimate reinsurance allowances set by the reinsurers and contained within each treaty agreement to complete its accounting responsibilities.

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. The amortization pattern varies with changes in estimated gross profits arising from the allowances. DAC and VOBA on SFAS No. 60 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 SFAS No. 60 amortization patterns. DAC and VOBA on SFAS No. 97 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 SFAS No. 97 amortization patterns.

Reinsurance Liabilities Claim liabilities and policy benefits are calculated consistently for all policies in accordance with U.S. GAAP, 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 reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners. Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a

timely basis. Incurred but not reported claims are reviewed by the Company's actuarial staff to ensure that appropriate amounts are ceded.

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

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

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

Benefits and settlement expenses include incurred claim amounts ceded and changes in 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. Ceded amortization decreases reinsurance cost.

Other expenses include reinsurance allowances paid by assuming companies to the Company less amounts capitalized. Non-deferred 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

FASB Statement No. 157, Fair Value Measurement ("SFAS No. 157"). In September 2006, the FASB issued SFAS No. 157. On January 1, 2008, the Company adopted this Statement, which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The adoption of SFAS No. 157 did not have a material impact on the Company's consolidated financial statements. Additionally, on January 1, 2008, the Company elected the partial adoption of SFAS No. 157 under the provisions of FASB Staff Position ("FSP") FAS No. 157-2, which amends SFAS No. 157 to allow an entity to delay the application of this Statement until periods beginning January 1, 2009 for certain non-financial assets and liabilities. Under the provisions of this FSP, the Company will delay the application of SFAS No. 157 for fair value measurements used in the impairment testing of goodwill and indefinite-lived intangible assets and eligible non-financial assets and liabilities included within a business combination. In January 2008, FASB also issued proposed FSP FAS No. 157-c that would amend SFAS No. 157 to clarify the principles on fair value measurement of liabilities. Management is monitoring the status of this proposed FSP for any impact on the Company's consolidated financial statements. On October 10, 2008, the FASB issued FSP FAS No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active* ("FSP FAS No. 157-3"), to clarify the application of SFAS No. 157 in a market that is not active and provides examples to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. This statement was effective upon issuance, including prior periods for which the financial statements have not been issued. For more information, see Note 19, *Fair Value of Financial Instruments*.

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SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The Company utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable inputs. For more information, see Note 19, *Fair Value of Financial Instruments*.

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). In February 2007, the FASB issued SFAS No. 159. This Statement provides entities the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company adopted SFAS No. 159 as of January 1, 2008. The Company has elected not to apply the provisions of SFAS No. 159 to its eligible financial assets and financial liabilities on the date of adoption. Accordingly, the initial application of SFAS No. 159 had no effect on the Company's consolidated results of operations or financial position.

FASB Staff Position ("FSP") FIN No. 39-1, *Amendment of FASB Interpretation No. 39* ("FSP FIN No. 39-1"). As of January 1, 2008, the Company adopted FSP FIN No. 39-1. This FSP amends FIN No. 39, *Offsetting of Amounts Related to Certain Contracts*, to allow fair value amounts recognized for collateral to be offset against fair value amounts recognized for derivative instruments that are executed with the same counterparty under certain circumstances. The FSP also requires an entity to disclose the accounting policy decision to offset, or not to offset, fair value amounts in accordance with FIN No. 39, as amended. The Company does not, and has not previously, offset the fair value amounts recognized for derivatives with the amounts recognized as collateral.

FSP FAS No. 133-1 and FIN No. 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" ("FSP FAS No. 133-1 and FIN No. 45-4"). In September of 2008, the FASB issued FSP FAS No. 133-1 and FIN No. 45-4. This FSP amends SFAS No. 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument, and also amends FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others*, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. In addition, this FSP clarifies the FASB's intent about the effective date of SFAS No. 161. The FSP will be effective for financial statements issued for fiscal years and interim periods ending after November 15, 2008. In periods after adoption, this FSP requires comparative disclosures only for periods ending subsequent to initial adoption. The adoption of this FSP did not have an impact on the Company's consolidated results of operations or financial position.

FSP FAS No. 140-4 and FIN No. 46(R)-8, "Disclosures by Public Entities (Enterprises) about transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP FAS No. 140-4 and FIN No. 46(R)-8"). In December of 2008, the FASB issued FSP FAS No. 140-4 and FIN No. 46(R)-8. This FSP amends the disclosure requirements in FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*. This amendment is to provide users of financial assets and an enterprise's involvement with variable interest entities ("VIEs"). Additionally, this FSP requires certain disclosures to be provided by a sponsor of a VIE and a non-transferor enterprise that holds a significant variable interest in a qualifying special-purpose entity ("SPE"). The Company does not expect this FSP to have a significant impact on its consolidated results of operations or financial position other than footnote disclosures. The additional disclosure requirements will be

effective for the first reporting period ending after December 15, 2008. This FSP will be effective for the period ending December 31, 2008.

Accounting Pronouncements Not Yet Adopted

FASB Statement No. 141(R), Business Combinations ("SFAS No. 141(R)"). In December of 2007, the FASB issued SFAS No. 141(R). This Statement is a revision to the original Statement and continues the movement toward a greater use of fair values in financial reporting. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Further, certain of the changes will introduce more volatility into earnings and thus may impact a company's acquisition strategy. SFAS No. 141(R) will also impact the annual goodwill impairment test associated with acquisitions that close both before and after the effective date of this Statement. Thus, any potential goodwill impact from an acquisition that closed prior to the effective date of the Statement will need to be assessed under the provisions of SFAS No. 141(R). This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements ("SFAS No. 160"). In December of 2007, the FASB issued SFAS No. 160. This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). The Company does not expect this Statement to have a significant impact on its consolidated results of operations or financial position.

FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS No. 161"). In March of 2008, the FASB issued SFAS No. 161. This Statement requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133. This statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Statement will be effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact, if any, that SFAS No. 161 will have on its consolidated results of operations or financial position.

FSP No. 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions ("FAS No. 140-3"). In February of 2008, the FASB issued FSP No. 140-3 to provide guidance on accounting for a transfer of a financial asset and a repurchase financing, which is not directly addressed by FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("SFAS No. 140"). This FSP is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The FSP will be effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact, if any, that this FSP will have on its consolidated results of operations or financial position.

FSP No. 142-3, Determination of the Useful Life of Intangible Assets ("FAS No. 142-3"). In April of 2008, the FASB issued FSP No. 142-3 to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other guidance under U.S. GAAP. This FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The FSP will be effective for the Company beginning January 1, 2009. The Company does not expect this FSP to have a significant impact on its consolidated results of operations or financial position.

FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS No. 162"). In May of 2008, the FASB issued SFAS No. 162. This Statement identifies the sources of

accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles ("GAAP") in the United States ("the GAAP hierarchy"). This Statement is effective sixty days following the United States Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect this Statement to have a significant impact on its consolidated results of operations or financial position.

FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* ("SFAS No. 163"). In May of 2008, the FASB issued SFAS No. 163. This Statement requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement also clarifies how SFAS No. 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities. It also requires expanded disclosures about financial guarantee insurance contracts. This Statement does not apply to financial guarantee insurance contracts that would be within the scope of SFAS No. 133. This Statement is effective for fiscal years and interim periods beginning after December 15, 2008. The standard will be effective for the Company beginning January 1, 2009. The Company does not expect this Statement to have a significant impact on its consolidated results of operations or financial position.

FSP EITF Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF Issue No. 03-6-1"). In June of 2008, the FASB issued FSP EITF Issue No. 03-6-1. This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, *Earnings per Share*. The FSP will be effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. All prior period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The Company is currently evaluating the impact of this FSP, but does not expect it to have a significant impact on its consolidated results of operations or financial position.

FASB Statement No. 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ("SFAS No. 132(R)-1"). In December of 2008, the FASB issued SFAS No. 132(R)-1. This statement does not require any changes to current accounting. It requires additional disclosures related to Postretirement Benefit Plan Assets. This statement will provide users of financial statements with an understanding of: 1) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, 2) the major categories of plan assets, 3) the inputs and valuation techniques used to measure the fair value of plan assets, 4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and 5) significant concentrations of risk within plan assets. The disclosure requirements will be effective for the Company for the period ending December 31, 2009. The Company does not expect this FSP to have an impact on its consolidated results of operations or financial position.

Reclassifications

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

Table of Contents**3. ACQUISITION ACTIVITY****Chase Insurance Group Acquisition**

On July 3, 2006, Protective Life, the Company's largest operating subsidiary, completed the acquisition contemplated by the Stock Purchase Agreement. Pursuant to that agreement with JP Morgan Chase & Co. ("JPMC") and two of its wholly owned subsidiaries (collectively, the "Sellers"), Protective Life and its subsidiary West Coast Life Insurance Company purchased from the Sellers the Chase Insurance Group, which consisted of five insurance companies that manufacture and administer traditional life insurance and annuity products and four related non-insurance companies (which collectively are referred to as the "Chase Insurance Group") for a net purchase price of \$873.5 million. The Chase Insurance Group historically was headquartered in Elgin, Illinois, and offered primarily level premium term and other traditional life products, as well as fixed and variable annuity products. The Chase Insurance Group's results of operations were included in the Company's consolidated results of operations beginning July 3, 2006.

This transaction was accounted for under the purchase method of accounting prescribed by FASB Statement No. 141, *Business Combinations* ("SFAS No. 141"). SFAS No. 141 requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation of the \$873.5 million aggregate purchase price to the specific identifiable tangible and intangible assets and liabilities is as follows:

	Fair Value as of July 3, 2006 (Dollars In Thousands)
ASSETS	
Investments	\$ 6,784,023
Policy loans	380,608
Cash	392,493
Accrued investment income	88,069
Accounts and premiums receivable, net	14,342
Reinsurance receivable	1,093,633
Value of business acquired	739,856
Goodwill	32,007
Other assets	25,214
Intangible assets	3,200
Deferred tax asset	13,290
Assets related to separate accounts	110,073
Total assets	9,676,808
LIABILITIES	
Policy liabilities and accrual	2,704,790
Annuity account balances	5,528,849
Other policyholders' funds	273,805
Other liabilities	161,309
Accrued income taxes	24,445
Liabilities related to separate accounts	110,073
Total liabilities	8,803,271
NET ASSETS ACQUIRED	\$ 873,537

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The Chase Insurance Group acquisition was funded through the issuance of \$200 million of capital securities (see Note 9, *Debt and Other Obligations*) together with cash. The capital securities will mature and become due and payable, together with any accrued and unpaid interest thereon, on June 30, 2066.

Immediately after the closing of the acquisition, the Company entered into agreements with Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC") and Wilton Reassurance Company and Wilton Reinsurance Bermuda Limited (collectively, the "Wilton Re Group"), whereby CALIC reinsured 100% of the variable annuity business of the Chase Insurance Group and the Wilton Re Group reinsured approximately 42% of the other insurance business of the Chase Insurance Group. The Company received aggregate ceding commissions of approximately \$330.5 million from these transactions.

The \$32.0 million of goodwill was assigned to the Acquisitions Segment. \$114.5 million of goodwill is expected to be deductible for tax purposes.

Certain of the reinsurance agreements with CALIC and the Wilton Re Group are in the form of modified coinsurance ("Modco") agreements. Certain of our investments supporting these agreements, consisting of primarily fixed income securities in designated portfolios, are designated as "trading securities" under U.S. GAAP. Investment results for these portfolios, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value are included in net income as realized investment gains (losses) as they occur. These amounts are substantially offset by changes in the fair value of embedded derivative liabilities associated with the underlying reinsurance arrangements.

Western General Acquisition

On July 14, 2006, the Company completed the acquisition of the vehicle extended service contract business of Western General effective as of July 1, 2006. Western General, headquartered in Calabasas, California, is a provider of vehicle service contracts nationally, focusing primarily on the west coast market. In addition, Western General currently provides extended service contract administration for several automobile manufacturers and provides used car service contracts for a publicly-traded national dealership group.

This transaction was accounted for under the purchase method of accounting prescribed by SFAS No. 141. Western General's results of operations are included in our consolidated results of operations beginning July 1, 2006. The purchase price for Western General was \$33.0 million, and was subject to contingent consideration based on future performance. During 2007, a \$4.3 million contingent payment was made related to the purchase of Western General, thereby increasing goodwill.

The fair value of Western General's net assets acquired was \$14.2 million. Goodwill of \$18.8 million was originally recorded from the excess of purchase price over the fair value of Western General's net assets. This goodwill was allocated to the Asset Protection segment. The Company paid a premium over the fair value of Western General's net assets for a number of potential strategic and financial benefits that are expected to be realized as a result of the acquisition including, but not limited to, the following:

Expanded distribution network

Increased geographic presence

Broader product portfolio in core product lines

Additional administration capabilities

Greater size and scale with improved earnings diversification

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SFAS No. 141 requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The following table summarizes the fair values of the net assets acquired as of the acquisition date:

	Fair Value as of July 1, 2006 (Dollars In Thousands)
ASSETS	
Investments	\$ 18,571
Cash	1,873
Accrued investment income	114
Accounts and premiums receivable, net	16,924
Value of business acquired and other intangible assets	12,650
Goodwill	18,813
Property and equipment	450
Other assets	9,990
Income tax receivable	41
Deferred income taxes	2,735
Total assets	82,161
LIABILITIES	
Policy liabilities and accrual	39,596
Other liabilities	9,607
Total liabilities	49,203
NET ASSETS ACQUIRED	\$ 32,958

The \$18.8 million of goodwill was assigned to the Asset Protection Segment, and of this amount, approximately \$10.4 million is expected to be deductible for tax purposes. During 2007, the goodwill amount was increased to \$23.1 million as a result of contingent consideration related to the purchase.

Pro forma Condensed Consolidated Results of Operations

The following (unaudited) pro forma condensed consolidated results of operations assume that the acquisitions of both the Chase Insurance Group and Western General were completed as of January 1, 2006:

	For the Year Ended December 31, 2006 (Dollars In Thousands)
Revenue	\$ 2,921,735
Net income	300,742
Net income per common share:	
Basic	\$ 4.25
Diluted	\$ 4.21

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. INVESTMENT OPERATIONS

Major categories of net investment income for the years ended December 31, are summarized as follows:

	2008	2007	2006
	(Dollars In Thousands)		
Fixed maturities	\$ 1,399,882	\$ 1,312,872	\$ 1,099,343
Equity securities	20,384	3,208	6,265
Mortgage loans	238,112	308,262	268,380
Investment real estate	3,771	3,784	389
Short-term investments and other	36,000	94,299	108,809
	1,698,149	1,722,425	1,483,186
Investment expenses	22,985	46,491	63,408
	\$ 1,675,164	\$ 1,675,934	\$ 1,419,778

Net realized investment gains (losses) for all other investments for the years ended December 31, are summarized as follows:

	2008	2007	2006
	(Dollars In Thousands)		
Fixed maturities	\$ (296,694)	\$ 124	\$ 17,139
Equity securities	63	5,900	289
Mark to market Modco trading portfolio	(290,831)	(989)	66,363
Mortgage loans and other investments	2,970	3,567	20,293
	\$ (584,492)	\$ 8,602	\$ 104,084

In 2008, gross gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$52.0 million, and gross losses were \$348.7 million. In 2007, gross gains on investments available for sale (fixed maturities, equity securities, and short-term investments) were \$18.4 million, and gross losses were \$12.3 million. In 2006, gross gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$57.3 million, and gross losses were \$39.9 million.

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The amortized cost and estimated market value of the Company's investments classified as available-for-sale as of December 31, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Market Value
(Dollars In Thousands)				
2008				
Fixed maturities:				
Bonds				
Mortgage-backed securities	\$ 7,208,888	\$ 43,010	\$(1,019,892)	\$ 6,232,006
United States Government and authorities	71,575	2,774	(1,527)	72,822
States, municipalities, and political subdivisions	28,809	1,396	(198)	30,007
Public utilities	1,840,916	16,263	(189,764)	1,667,415
Convertibles and bonds with warrants	88		(69)	19
All other corporate bonds	10,704,939	64,773	(1,909,495)	8,860,217
Redeemable preferred stocks	36		(36)	
	19,855,251	128,216	(3,120,981)	16,862,486
Equity securities	355,586	4,362	(60,353)	299,595
Short-term investments	979,140			979,140
	\$21,189,977	\$ 132,578	\$(3,181,334)	\$18,141,221
2007				