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DELAWARE

(State or other jurisdiction of incorporation or organization)

95-2492236

(IRS Employer Identification Number)

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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

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

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

Accelerated Filer

Non-accelerated filer

Smaller Reporting Company

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

Number of shares of Common Stock, \$0.50 Par Value, outstanding as of October 29, 2013: 78,567,547

Table of Contents

PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

	Page
PART I	
Item 1.	
Financial Statements (unaudited):	
<u>Consolidated Condensed Statements of Income For The Three and Nine Months Ended September 30, 2013 and 2012</u>	3
<u>Consolidated Condensed Statements of Comprehensive Income (Loss) For The Three and Nine Months Ended September 30, 2013 and 2012</u>	4
<u>Consolidated Condensed Balance Sheets as of September 30, 2013 and December 31, 2012</u>	5
<u>Consolidated Condensed Statement of Shareowners' Equity For The Nine Months Ended September 30, 2013</u>	7
<u>Consolidated Condensed Statements of Cash Flows For The Nine Months Ended September 30, 2013 and 2012</u>	8
<u>Notes to Consolidated Condensed Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	56
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	121
<u>Item 4. Controls and Procedures</u>	121
PART II	
<u>Item 1A. Risk Factors and Cautionary Factors that may Affect Future Results</u>	121
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	130
<u>Item 6. Exhibits</u>	131
<u>Signature</u>	132

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	\$ 657,218	\$ 684,939	\$ 2,140,396	\$ 2,092,673
Reinsurance ceded	(270,730)	(321,059)	(996,570)	(970,290)
Net of reinsurance ceded	386,488	363,880	1,143,826	1,122,383
Net investment income	454,275	467,944	1,378,129	1,386,287
Realized investment gains (losses):				
Derivative financial instruments	41,326	(134,222)	192,592	(212,399)
All other investments	(19,508)	122,555	(133,631)	223,874
Other-than-temporary impairment losses	(6,635)	(1,676)	(9,764)	(49,766)
Portion recognized in other comprehensive income (before taxes)	(2,046)	(6,880)	(7,501)	8,838
Net impairment losses recognized in earnings	(8,681)	(8,556)	(17,265)	(40,928)
Other income	98,794	81,190	278,213	273,930
Total revenues	952,694	892,791	2,841,864	2,753,147
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2013 - \$204,065; 2012 - \$307,866; nine months: 2013 - \$882,123; 2012 - \$895,845)	624,577	629,945	1,764,323	1,788,096
Amortization of deferred policy acquisition costs and value of business acquired	22,446	14,011	149,631	138,035
Other operating expenses, net of reinsurance ceded: (three months: 2013 - \$47,506; 2012 - \$46,679; nine months: 2013 - \$138,901; 2012 - \$139,288)	163,550	157,849	511,149	477,764
Total benefits and expenses	810,573	801,805	2,425,103	2,403,895
Income before income tax	142,121	90,986	416,761	349,252
Income tax expense	49,060	30,506	142,210	113,596
Net income	93,061	60,480	274,551	235,656
Less: Net income (loss) attributable to noncontrolling interests				
Net income available to PLC's common shareowners(1)	\$ 93,061	\$ 60,480	\$ 274,551	\$ 235,656
Net income available to PLC's common shareowners - basic	\$ 1.17	\$ 0.75	\$ 3.46	\$ 2.89
Net income available to PLC's common shareowners - diluted	\$ 1.15	\$ 0.73	\$ 3.39	\$ 2.83
Cash dividends paid per share	\$ 0.20	\$ 0.18	\$ 0.58	\$ 0.52
Average shares outstanding - basic	79,492,274	80,662,745	79,346,771	81,541,462
Average shares outstanding - diluted	80,852,078	82,406,103	80,882,552	83,187,854

(1)Protective Life Corporation (PLC)

See Notes to Consolidated Condensed Financial Statements

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

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Net income	\$ 93,061	\$ 60,480	\$ 274,551	\$ 235,656
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2013 - \$(145,224); 2012 - \$205,978; nine months: 2013 - \$(641,532); 2012 - \$384,084)	(269,703)	382,536	(1,191,416)	713,305
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2013 - \$(653); 2012 - \$(4,931); nine months: 2013 - \$(9,488); 2012 - \$(6,266))	(1,212)	(9,162)	(17,621)	(11,642)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2013 - \$(1,543); 2012 - \$12,808; nine months: 2013 - \$1,383; 2012 - \$15,770)	(2,865)	23,784	2,570	29,284
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2013 - \$8; 2012 - \$1,028; nine months: 2013 - \$(55); 2012 - \$1,424)	14	1,908	(103)	2,645
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2013 - \$200; 2012 - \$385; nine months: 2013 - \$577; 2012 - \$961)	372	716	1,072	1,785
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2013 - \$(922); 2012 - \$(728); nine months: 2013 - \$(2,766); 2012 - \$(2,183))	(1,712)	(1,352)	(5,136)	(4,055)
Total other comprehensive income (loss)	\$ (275,106)	\$ 398,430	\$ (1,210,634)	\$ 731,322
Comprehensive income (loss)	(182,045)	458,910	(936,083)	966,978
Total comprehensive income attributable to noncontrolling interests				
Total comprehensive income (loss) attributable to Protective Life Corporation	\$ (182,045)	\$ 458,910	\$ (936,083)	\$ 966,978

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 2013	As of December 31, 2012
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2013 - \$27,024,977; 2012 - \$26,681,324)	\$ 28,323,215	\$ 29,787,959
Fixed maturities, at amortized cost (fair value: 2013 - \$341,797; 2012 - \$319,163)	350,000	300,000
Equity securities, at fair value (cost: 2013 - \$485,580; 2012 - \$409,376)	461,231	411,786
Mortgage loans (2013 and 2012 includes \$675,805 and \$765,520 related to securitizations)	4,794,924	4,950,201
Investment real estate, net of accumulated depreciation (2013 - \$1,199; 2012 - \$1,017)	18,750	19,816
Policy loans	856,333	865,391
Other long-term investments	482,367	361,837
Short-term investments	216,224	217,812
Total investments	35,503,044	36,914,802
Cash	354,449	368,801
Accrued investment income	364,233	357,368
Accounts and premiums receivable, net of allowance for uncollectible amounts (2013 - \$4,353; 2012 - \$4,290)	76,138	85,500
Reinsurance receivables	5,744,801	5,805,401
Deferred policy acquisition costs and value of business acquired	3,307,513	3,239,519
Goodwill	106,237	108,561
Property and equipment, net of accumulated depreciation (2013 - \$110,999; 2012 - \$105,789)	51,806	47,607
Other assets	343,015	262,052
Income tax receivable	23,970	30,827
Assets related to separate accounts		
Variable annuity	11,921,925	9,601,417
Variable universal life	663,380	562,817
Total assets	\$ 58,460,511	\$ 57,384,672

See Notes to Consolidated Condensed Financial Statements

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

(continued)

(Unaudited)

	As of	
	September 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	\$ 22,029,491	\$ 21,626,386
Unearned premiums	1,512,909	1,396,026
Total policy liabilities and accruals	23,542,400	23,022,412
Stable value product account balances	2,531,262	2,510,559
Annuity account balances	10,431,938	10,658,463
Other policyholders' funds	602,978	566,985
Other liabilities	1,177,807	1,434,604
Deferred income taxes	1,239,796	1,736,389
Non-recourse funding obligations	619,900	586,000
Repurchase program borrowings	100,000	150,000
Debt	1,450,000	1,400,000
Subordinated debt securities	540,593	540,593
Liabilities related to separate accounts		
Variable annuity	11,921,925	9,601,417
Variable universal life	663,380	562,817
Total liabilities	54,821,979	52,770,239
Commitments and contingencies - Note 7		
Shareowners' equity		
Preferred Stock; \$1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, \$.50 par value, shares authorized: 2013 and 2012 - 160,000,000 shares issued: 2013 and 2012 - 88,776,960	\$ 44,388	\$ 44,388
Additional paid-in-capital	602,072	606,369
Treasury stock, at cost (2013 - 10,214,413; 2012 - 10,639,467)	(200,637)	(209,840)
Retained earnings	2,666,621	2,437,544
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2013 - \$327,636; 2012 - \$978,656)	608,467	1,817,504
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2013 - \$(764); 2012 - \$(2,147))	(1,418)	(3,988)
Accumulated loss - derivatives, net of income tax: (2013 - \$(1,361); 2012 - \$(1,883))	(2,527)	(3,496)
Postretirement benefits liability adjustment, net of income tax: (2013 - \$(42,234); 2012 - \$(39,468))	(78,434)	(73,298)
Total Protective Life Corporation's shareowners' equity	3,638,532	4,615,183
Noncontrolling interest		(750)
Total equity	3,638,532	4,614,433
Total liabilities and shareowners' equity	\$ 58,460,511	\$ 57,384,672

See Notes to Consolidated Condensed Financial Statements

Table of Contents**PROTECTIVE LIFE CORPORATION****CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY**

(Unaudited)

	Common Stock	Additional Paid-In- Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Protective Life Corporation's equity	Non controlling Interest	Total Equity
Balance, December 31, 2012	\$ 44,388	\$ 606,369	\$ (209,840)	\$ 2,437,544	\$ 1,736,722	\$ 4,615,183	\$ (750)	\$ 4,614,433
Net income for the nine months ended September 30, 2013				274,551		274,551		274,551
Other comprehensive income (loss)					(1,210,634)	(1,210,634)		(1,210,634)
Comprehensive income (loss) for the nine months ended September 30, 2013						(936,083)		(936,083)
Cash dividends (\$0.58 per share)				(45,474)		(45,474)		(45,474)
Noncontrolling interests		(750)				(750)	750	
Stock-based compensation		(3,547)	9,203			5,656		5,656
Balance, September 30, 2013	\$ 44,388	\$ 602,072	\$ (200,637)	\$ 2,666,621	\$ 526,088	\$ 3,638,532	\$	\$ 3,638,532

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30,	
	2013	2012
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	\$ 274,551	\$ 235,656
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	(41,696)	29,453
Amortization of deferred policy acquisition costs and value of business acquired	149,631	138,035
Capitalization of deferred policy acquisition costs	(240,398)	(217,319)
Depreciation expense	6,731	6,741
Deferred income tax	154,457	(45,366)
Accrued income tax	6,857	(4,735)
Interest credited to universal life and investment products	532,396	731,934
Policy fees assessed on universal life and investment products	(659,058)	(579,812)
Change in reinsurance receivables	60,600	(108,509)
Change in accrued investment income and other receivables	7,370	(6,734)
Change in policy liabilities and other policyholders' funds of traditional life and health products	261,691	219,900
Trading securities:		
Maturities and principal reductions of investments	152,948	212,048
Sale of investments	220,711	365,809
Cost of investments acquired	(297,558)	(528,753)
Other net change in trading securities	(9,069)	13,758
Change in other liabilities	(48,694)	(49,200)
Other income - gains on repurchase of non-recourse funding obligations	(3,359)	(35,456)
Other, net	(85,008)	5,525
Net cash provided by operating activities	443,103	382,975
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	752,754	905,085
Sale of investments, available-for-sale	1,718,810	1,960,993
Cost of investments acquired, available-for-sale	(3,076,555)	(3,084,807)
Change in investments, held-to-maturity	(50,000)	
Mortgage loans:		
New lendings	(392,883)	(256,227)
Repayments	543,297	499,524
Change in investment real estate, net	1,300	9,687
Change in policy loans, net	9,058	10,212
Change in other long-term investments, net	(169,668)	(96,015)
Change in short-term investments, net	(10,912)	(39,118)
Net unsettled security transactions	31,686	69,845
Purchase of property and equipment	(17,983)	(5,474)
Sales of property and equipment	86	
Net cash used in investing activities	(661,010)	(26,295)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	430,000	492,500
Principal payments on line of credit arrangement and debt	(380,000)	(596,650)
Issuance (repayment) of non-recourse funding obligations	33,900	(110,800)

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Repurchase program borrowings	(50,000)	280,000
Dividends to shareowners	(45,474)	(42,027)
Repurchase of common stock		(78,686)
Investment product deposits and change in universal life deposits	2,413,676	2,641,899
Investment product withdrawals	(2,198,547)	(3,002,824)
Other financing activities, net		(1,378)
Net cash provided by (used in) financing activities	203,555	(417,966)
Change in cash	(14,352)	(61,286)
Cash at beginning of period	368,801	267,298
Cash at end of period	\$ 354,449	\$ 206,012

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2013, are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The year-end consolidated condensed financial data was derived from audited financial statements but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

Reclassifications and Accounting Changes

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

Entities Included

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

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During the first quarter of 2013, the Company sold its ownership interest in an immaterial limited partnership which previously resulted in the recognition of a non-controlling interest in income and equity of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. There were no significant changes to the Company's accounting policies during the nine months ended September 30, 2013 other than those discussed below.

Investment Products

The Company establishes liabilities for fixed indexed annuity (FIA) products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) Topic 815 *Derivatives and Hedging* which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election

Table of Contents

was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The changes in the fair value of the liability for these FIA products are recorded in *Benefit and settlement expenses* with the liability being recorded in *Annuity account balances*. For more information regarding the determination of fair value of annuity account balances please refer to Note 13, *Fair Value of Financial Instruments*. Premiums and policy fees for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

During 2013, the Company began marketing a new FIA product. These products are also deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance and are considered hybrid financial instruments under the FASB's ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these FIA products at fair value, as a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. Changes in the fair value of the embedded derivative are recorded in *Realized investment gains (losses) - Derivative financial instruments*. For more information regarding the determination of fair value of the FIA embedded derivative refer to Note 13, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services - Insurance* and is recorded in *Annuity account balances* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

Accounting Pronouncements Recently Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity's rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under International Financial Reporting Standards (IFRSs). Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. In January 2013, the FASB issued ASU No. 2013-01, which clarifies that application of ASU No. 2011-11 is limited to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. Both Updates were effective January 1, 2013. Neither Update had an impact on the Company's results of operations or financial position.

ASU No. 2012-02 Intangibles Goodwill and Other Testing Indefinite-Lived Intangible Assets for Impairment. This Update is intended to reduce the complexity and cost of performing an impairment test for indefinite-lived intangible assets by allowing an entity the option to make a qualitative evaluation about the likelihood of impairment prior to the quantitative calculation required by current guidance. Under the amendments to Topic 350, an entity has the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. If an entity determines it is not more likely than not that impairment exists, quantitative impairment testing is not required. However, if an entity concludes otherwise, the impairment test outlined in current guidance is required to be completed. The Update does not change the current requirement that indefinite-lived intangible assets be reviewed for impairment at least annually. This Update was effective January 1, 2013. This Update did not have an impact on the Company's results of operations or financial position.

ASU No. 2013-02 Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU No. 2011-05, *Comprehensive Income - Presentation of Comprehensive Income*, and ASU No. 2011-12, *Comprehensive Income - Deferral of*

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the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, for all entities. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The Update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its

Table of Contents

entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The Company has added the Accumulated Other Comprehensive Income footnote to disclose the required information beginning in the first quarter of 2013. This Update was effective January 1, 2013. This Update did not have an impact on the Company's results of operations or financial position.

ASU No. 2013-10 Derivatives and Hedging Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. This Update provides for the inclusion of the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes, in addition to U.S. Treasury rates and LIBOR. The amendments in the Update also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for transactions entered into on or after July 17, 2013. The Company will consider this additional benchmark rate in its future transactions.

Accounting Pronouncements Not Yet Adopted

ASU No. 2013-11 Income Taxes Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The objective of this Update is to eliminate diversity in practice related to the presentation of certain unrecognized tax benefits. The Update provides that unrecognized tax benefits should be presented as a reduction of a deferred tax asset for a net operating loss or other tax credit carryforward when settlement in this manner is available under the tax law. The amendments are effective for annual periods beginning after December 15, 2013 and interim periods therein. The Update does not require new recurring disclosures, and is not expected to have an impact on the Company's results of operations or financial position.

3. INVESTMENT OPERATIONS

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Fixed maturities	\$ 10,546	\$ 22,889	\$ 42,007	\$ 58,929
Equity securities		(241)	2,367	(93)
Impairments on fixed maturity securities	(7,421)	(8,556)	(13,918)	(40,928)
Impairments on equity securities	(1,260)		(3,347)	
Modco trading portfolio	(25,960)	104,865	(167,982)	179,027
Other investments	(4,094)	(4,958)	(10,023)	(13,989)
Total realized gains (losses) - investments	\$ (28,189)	\$ 113,999	\$ (150,896)	\$ 182,946

For the three and nine months ended September 30, 2013, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$11.7 million and \$48.5 million and gross realized losses were \$9.6 million and \$20.8 million, including \$8.5 million and \$16.7 million of impairment losses, respectively.

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For the three and nine months ended September 30, 2012, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were \$23.6 million and \$63.0 million and gross realized losses were \$9.3 million and \$44.8 million, including \$8.4 million and \$40.6 million of impairment losses, respectively.

For the three and nine months ended September 30, 2013, the Company sold securities in an unrealized gain position with a fair value (proceeds) of \$332.1 million and \$1.1 billion, respectively. The gain realized on the sale of these securities was \$11.7 million and \$48.5 million, respectively. For the three and nine months ended September 30,

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Table of Contents

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

For the three and nine months ended September 30, 2013, the Company sold securities in an unrealized loss position with a fair value (proceeds) of \$7.0 million and \$64.2 million, respectively. The losses realized on the sale of these securities were \$1.1 million and \$4.1 million, respectively.

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

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

The amortized cost and fair value of the Company's investments classified as available-for-sale as of September 30, 2013 and December 31, 2012, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
(Dollars In Thousands)					
2013					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	\$ 1,438,409	\$ 47,935	\$ (22,317)	\$ 1,464,027	\$ (914)
Commercial mortgage-backed securities	898,377	30,287	(17,057)	911,607	
Other asset-backed securities	928,367	15,532	(66,735)	877,164	(66)
U.S. government-related securities	1,204,908	38,525	(29,997)	1,213,436	
Other government-related securities	38,406	2,722		41,128	
States, municipals, and political subdivisions	1,191,736	114,900	(6,259)	1,300,377	
Corporate bonds	18,541,995	1,539,996	(349,294)	19,732,697	(1,308)
	24,242,198	1,789,897	(491,659)	25,540,436	(2,288)
Equity securities	464,862	5,470	(29,819)	440,513	106
Short-term investments	109,793			109,793	
	\$ 24,816,853	\$ 1,795,367	\$ (521,478)	\$ 26,090,742	\$ (2,182)
2012					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	\$ 1,766,440	\$ 92,265	\$ (19,375)	\$ 1,839,330	\$ (406)
Commercial mortgage-backed securities	797,844	72,577	(598)	869,823	
Other asset-backed securities	1,023,649	12,788	(61,424)	975,013	(241)
U.S. government-related securities	1,099,001	71,537	(595)	1,169,943	

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Other government-related securities	93,565	7,258	(45)	100,778	
States, municipals, and political subdivisions	1,188,077	255,900	(264)	1,443,713	
Corporate bonds	17,705,440	2,725,057	(48,446)	20,382,051	(5,487)
	23,674,016	3,237,382	(130,747)	26,780,651	(6,134)
Equity securities	389,821	12,443	(10,033)	392,231	
Short-term investments	98,877			98,877	
	\$ 24,162,714	\$ 3,249,825	\$ (140,780)	\$ 27,271,759	\$ (6,134)

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

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Table of Contents

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of September 30, 2013 and December 31, 2012, are as follows:

	Amortized Cost	Gross Unrealized Gains (Dollars In Thousands)	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
Fixed maturities:					
Other	\$ 350,000	\$	\$ (8,203)	\$ 341,797	\$
	\$ 350,000	\$	\$ (8,203)	\$ 341,797	\$
2012					
Fixed maturities:					
Other	\$ 300,000	\$ 19,163	\$	\$ 319,163	\$
	\$ 300,000	\$ 19,163	\$	\$ 319,163	\$

As of September 30, 2013 and December 31, 2012, the Company had an additional \$2.8 billion and \$3.0 billion of fixed maturities, \$20.7 million and \$19.6 million of equity securities, and \$106.4 million and \$118.9 million of short-term investments classified as trading securities, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of September 30, 2013, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-sale		Held-to-maturity	
	Amortized Cost (Dollars In Thousands)	Fair Value	Amortized Cost (Dollars In Thousands)	Fair Value
Due in one year or less	\$ 554,918	\$ 569,362	\$	\$
Due after one year through five years	3,234,475	3,515,816		
Due after five years through ten years	7,559,566	7,882,075		
Due after ten years	12,893,239	13,573,183	350,000	341,797
	\$ 24,242,198	\$ 25,540,436	\$ 350,000	\$ 341,797

During the three and nine months ended September 30, 2013, the Company recorded pre-tax other-than-temporary impairments of investments of \$6.7 million and \$9.8 million, of which \$5.4 million and \$6.4 million related to fixed maturities and \$1.3 million and \$3.4 million related to equity securities, respectively. Credit impairments recorded in earnings during the three and nine months ended September 30, 2013 were \$8.7 million and \$17.3 million, respectively. During the three and nine months ended September 30, 2013, \$2.0 million and \$7.5 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. For the three and nine months ended September 30, 2013, there were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell.

During the three and nine months ended September 30, 2012, the Company recorded pre-tax other-than-temporary impairments of investments of \$1.6 million and \$49.7 million, respectively, all of which were related to fixed maturities. There were no impairments related to equity

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securities. During the three months ended September 30, 2012, the Company recorded credit impairments in earnings of \$8.5 million, \$7.0 million of which were non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses. Additional non-credit losses during the three months ended September 30, 2012 were \$0.1 million. Of the \$49.7 million of impairments for the nine months ended September 30, 2012, \$40.9 million was recorded in earnings and \$8.8 million was recorded in other comprehensive income (loss). For the three and nine months ended September 30, 2012, there were \$0.1 million of other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell.

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Table of Contents

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Beginning balance	\$ 51,832	\$ 101,470	\$ 122,121	\$ 69,719
Additions for newly impaired securities	1,663		3,278	19,473
Additions for previously impaired securities	4,840	6,923	7,894	19,201
Reductions for previously impaired securities due to a change in expected cash flows	(6,537)		(74,007)	
Reductions for previously impaired securities that were sold in the current period			(7,488)	
Ending balance	\$ 51,798	\$ 108,393	\$ 51,798	\$ 108,393

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2013:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 247,821	\$ (13,668)	\$ 67,680	\$ (8,649)	\$ 315,501	\$ (22,317)
Commercial mortgage-backed securities	379,783	(16,807)	6,656	(250)	386,439	(17,057)
Other asset-backed securities	129,567	(6,567)	532,205	(60,168)	661,772	(66,735)
U.S. government-related securities	601,537	(29,179)	14,847	(818)	616,384	(29,997)
Other government-related securities						
States, municipalities, and political subdivisions	81,281	(6,059)	315	(200)	81,596	(6,259)
Corporate bonds	4,293,043	(322,093)	190,041	(27,201)	4,483,084	(349,294)
Equities	255,007	(21,313)	21,880	(8,506)	276,887	(29,819)
	\$ 5,988,039	\$ (415,686)	\$ 833,624	\$ (105,792)	\$ 6,821,663	\$ (521,478)

RMBS have a gross unrealized loss greater than twelve months of \$8.6 million as of September 30, 2013. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$60.2 million as of September 30, 2013. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company's auction rate securities (ARS) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education

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would not honor the FFELP guarantee, if it were necessary.

The corporate bonds category has gross unrealized losses less than and greater than twelve months of \$322.1 million and \$27.2 million, respectively, as of September 30, 2013. These declines were primarily related to changes in interest rates during the period. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

The equities category has a gross unrealized loss greater than twelve months of \$8.5 million as of September 30, 2013. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the

Table of Contents

recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

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

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	\$ 101,522	\$ (9,605)	\$ 166,000	\$ (9,770)	\$ 267,522	\$ (19,375)
Commercial mortgage-backed securities	50,601	(598)			50,601	(598)
Other asset-backed securities	479,223	(28,179)	242,558	(33,245)	721,781	(61,424)
U.S. government-related securities	107,802	(595)			107,802	(595)
Other government-related securities	14,955	(45)			14,955	(45)
States, municipalities, and political subdivisions	11,526	(264)			11,526	(264)
Corporate bonds	777,552	(23,663)	364,110	(24,783)	1,141,662	(48,446)
Equities	35,059	(5,150)	21,954	(4,883)	57,013	(10,033)
	\$ 1,578,240	\$ (68,099)	\$ 794,622	\$ (72,681)	\$ 2,372,862	\$ (140,780)

RMBS had a gross unrealized loss greater than twelve months of \$9.8 million as of December 31, 2012. The non-agency RMBS market experienced improvements during the year, but these losses represented securities where credit concerns were more pronounced. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of \$33.2 million as of December 31, 2012. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company's ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The corporate bonds category had gross unrealized losses greater than twelve months of \$24.8 million as of December 31, 2012. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital

markets, and other pertinent information.

The equities category had a gross unrealized loss greater than twelve months of \$4.9 million as of December 31, 2012. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

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

As of September 30, 2013, the Company had securities in its available-for-sale portfolio which were rated below investment grade of \$1.5 billion and had an amortized cost of \$1.5 billion. In addition, included in the Company's trading portfolio, the Company held \$330.0 million of securities which were rated below investment grade. Approximately \$437.7 million of the below investment grade securities were not publicly traded.

Table of Contents

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Fixed maturities	\$ (156,636)	\$ 437,087	\$ (1,175,458)	\$ 797,314
Equity securities	(12,791)	4,531	(17,393)	8,226

Variable Interest Entities

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

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC (Red Mountain), that was continued to be classified as a VIE as of September 30, 2013. The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (Golden Gate V) and the Company in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued the note to Golden Gate V. Credit enhancement on the Red Mountain Note is provided by an unrelated third party. For details of this transaction, see Note 6, *Debt and Other Obligations*. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company s risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the holding company (PLC) has guaranteed the VIE s payment obligation for the credit enhancement fee to the unrelated third party provider.

4. MORTGAGE LOANS**Mortgage Loans**

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2013, the Company s mortgage loan holdings were approximately \$4.8 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are

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

The Company's commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount

Table of Contents

of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are with these options called at their next call dates, approximately \$66.4 million would become due for the remainder of 2013, \$1.2 billion in 2014 through 2018, \$575.0 million in 2019 through 2023, and \$174.4 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of September 30, 2013 and December 31, 2012, approximately \$714.5 million and \$817.3 million, respectively, of the Company's mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and nine month periods ended September 30, 2013, the Company recognized \$3.7 million and \$12.9 million of participating mortgage loan income, respectively.

As of September 30, 2013, approximately \$16.4 million, or 0.05%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the three months ended September 30, 2013, two mortgage loan transactions occurred that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is reflected in the Company's investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the quarter involved the modification of payment terms pursuant to bankruptcy proceedings. However, the Company expects to collect all amounts due related to these loans as well as expenses incurred as a result of the restructurings, which resulted in no material change to the principal balance of these loans, which was \$3.2 million as of September 30, 2013 and no associated reserve.

The Company's mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement. As of September 30, 2013, \$10.7 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured. The Company foreclosed on two nonperforming loans during the nine months ended September 30, 2013.

As of September 30, 2013, \$5.7 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the nine months ended September 30, 2013. The Company did not foreclose on any nonperforming loans during the nine months ended September 30, 2013.

As of September 30, 2013 and December 31, 2012, the Company had an allowance for mortgage loan credit losses of \$8.0 million and \$2.9 million, respectively. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the

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risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less

Table of Contents

than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

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

	As of	
	September 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Beginning balance	\$ 2,875	\$ 6,475
Charge offs	(2,643)	(9,840)
Recoveries	(374)	(628)
Provision	8,112	6,868
Ending balance	\$ 7,970	\$ 2,875

It is the Company's policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company's general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of September 30, 2013.

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	\$ 20,531	\$ 9,318	\$ 9,318	\$ 29,849
Number of delinquent commercial mortgage loans	7		3	10

The Company's commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of September 30, 2013 and December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
2013						
Commercial mortgage loans:						
With no related allowance recorded	\$ 2,243	\$ 3,021	\$ 7,970	\$ 2,243	\$ 42	\$ 32
With an allowance recorded	37,485	37,482	7,970	5,355	499	478

2012

Commercial mortgage loans:

With no related allowance recorded	\$	14,619	\$	16,942	\$	2,088	\$	53	\$	100
With an allowance recorded		13,927		13,927		2,875		3,482		154

5. GOODWILL

During the nine months ended September 30, 2013, the Company decreased its goodwill balance by approximately \$2.3 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits

Table of Contents

realized during 2013 on the portion of tax goodwill in excess of GAAP basis goodwill. As of September 30, 2013, the Company had an aggregate goodwill balance of \$106.2 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company's judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2012, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the nine months ended September 30, 2013, no events occurred which indicate an impairment should be recorded or which would invalidate the previous results of the Company's impairment assessment.

6. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

	As of	
	September 30, 2013	December 31, 2012
	(Dollars In Thousands)	
Debt (year of issue):		
Revolving Line of Credit	\$ 350,000	\$ 50,000
4.30% Senior Notes (2003), due 2013		250,000
4.875% Senior Notes (2004), due 2014	150,000	150,000
6.40% Senior Notes (2007), due 2018	150,000	150,000
7.375% Senior Notes (2009), due 2019	400,000	400,000
8.00% Senior Notes (2009), due 2024, callable 2014	100,000	100,000
8.45% Senior Notes (2009), due 2039	300,000	300,000
	\$ 1,450,000	\$ 1,400,000
Subordinated debt securities (year of issue):		
	\$ 103,093	\$ 103,093

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6.125% Subordinated Debentures (2004), due 2034, callable 2009			
6.25% Subordinated Debentures (2012), due 2042, callable 2017	287,500		287,500
6.00% Subordinated Debentures (2012), due 2042, callable 2017	150,000		150,000
	\$ 540,593	\$	540,593

The Company has access to a Credit Facility that provides the ability to borrow on an unsecured basis up to an aggregate principal amount of \$750 million. The Company has the right in certain circumstances to request that the

Table of Contents

commitment under the Credit Facility be increased up to a maximum principal amount of \$1.0 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company's Senior Debt. The Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The maturity date on the Credit Facility is July 17, 2017. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of September 30, 2013. There was an outstanding balance of \$350.0 million at an interest rate of LIBOR plus 1.20% under the Credit Facility as of September 30, 2013.

During the three month period ended June 30, 2013, the Company's 4.30% Senior notes issued in 2003 matured. The maturity resulted in the payment of \$250.0 million of principal to the holders of the senior notes on June 3, 2013. The Company borrowed an additional \$250.0 million from its Credit Facility to finance the final principal payment.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by Protective Life Insurance Company (PLICO), had \$575 million of outstanding non-recourse funding obligations as of September 30, 2013. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of September 30, 2013, securities related to \$269.9 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to \$305.1 million of the non-recourse funding obligations were held by the Company and our affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. As of September 30, 2013, no payments are expected to be required under these agreements.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V and Red Mountain, indirect wholly owned subsidiaries of the Company, entered into a 20-year transaction to finance up to \$945 million of XXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company (WCL). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America (Hannover Re), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is non-recourse to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of September 30, 2013, the principal balance of the Red Mountain note was \$350 million. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees

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or otherwise supports certain obligations of Golden Gate V or Red Mountain. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$144.3 million and will be paid in annual installments through 2031. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies

Table of Contents

reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of September 30, 2013, no payments are expected to be required under these agreements.

In connection with the transaction outlined above, Golden Gate V had a \$350 million outstanding non-recourse funding obligation as of September 30, 2013. This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of September 30, 2013, on a consolidated basis, are shown in the following table:

Issuer	Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	\$ 269,900	2052	0.99%
Golden Gate V Vermont Captive Insurance Company	350,000	2037	6.25%
Total	\$ 619,900		

During the nine months ended September 30, 2013, the Company repurchased \$16.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$3.4 million pre-tax gain for the Company. During the nine months ended September 30, 2012, the Company repurchased \$110.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a \$35.5 million pre-tax gain for the Company. These gains are recorded in other income in the consolidated statements of income.

Letters of Credit

Golden Gate III Vermont Captive Insurance Company (Golden Gate III), a Vermont special purpose financial captive insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the Reimbursement Agreement) with UBS AG, Stamford Branch (UBS), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the LOC) in the initial amount of \$505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the First Amended and Restated Reimbursement Agreement), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to April 1, 2022. On August 7, 2013, the Company entered into a Second Amended and Restated Reimbursement Agreement with UBS (the Second Amended and Restated Reimbursement Agreement), which amended and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of \$710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from \$610 million to \$720 million in 2015 if certain conditions are met. The LOC is held in trust for the benefit of WCL, and supports certain obligations of Golden Gate III to WCL under an indemnity reinsurance agreement originally effective April 1, 2010, as amended and restated on November 21, 2011, and as further amended and restated on August 7, 2013 to include an additional block of policies, and pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. The LOC balance was \$710 million as of September 30, 2013. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$720 million in 2015. The term of the LOC is expected to be approximately 13.5 years from the original issuance date. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate

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III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately \$149.8 million and will be paid in three installments with the last payment occurring in 2019, and these contributions may be subject to potential offset against dividend payments as permitted under the terms of the Second Amended and Restated Reimbursement Agreement. The support agreements provide that

Table of Contents

amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Second and Amended and Restated Agreement. As of September 30, 2013, no payments are expected to be required under these agreements.

Golden Gate IV Vermont Captive Insurance Company (Golden Gate IV), a Vermont special purpose financial captive insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. The LOC balance has increased, in accordance with the terms of the Reimbursement Agreement, during each of the first three quarters of 2013 and was \$690 million as of September 30, 2013. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of \$790 million in 2016. The term of the LOC is expected to be 12 years from the original issuance date and with a maturity date of December 30, 2022. The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of September 30, 2013, no payments are expected to be required under these agreements.

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are for a term less than ninety days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. The agreements provided for net settlement in the event of default or on termination of the agreements. As of September 30, 2013, the fair value of securities pledged under the repurchase program was \$109.6 million and the repurchase obligation of \$100.0 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 11 basis points). During the nine months ended September 30, 2013, the maximum balance outstanding at any one point in time related to these programs was \$645.1 million. The average daily balance was \$417.5 million (at an average borrowing rate of 11 basis points) during the nine months ended September 30, 2013. As of December 31, 2012, the Company had a \$150.0 million outstanding balance related to such borrowings. During 2012, the maximum balance outstanding at any one point in time related to these programs was \$425.0 million. The average daily balance was \$266.3 million (at an average borrowing rate of 14 basis points) during the year ended December 31, 2012.

7. COMMITMENTS AND CONTINGENCIES

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

Table of Contents

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

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

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

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

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

The Company has received notice from two third party auditors that certain of the Company's insurance subsidiaries, as well as certain other insurance companies for which the Company has co-insured blocks of life insurance and annuity policies, will be audited for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company has recorded a reserve with respect to life insurance policies issued by the Company's subsidiaries and certain co-insured blocks of life insurance policies issued by other companies in connection with these pending audits. The Company does not consider the amount of this reserve to be material to the Company's financial condition or results of operations. With respect to a separate block of life insurance

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policies that is co-insured by a subsidiary of the Company, the Company is presently unable to estimate the reasonably possible loss or range of loss due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies, the distinct characteristics of this co-insured block of policies which differentiate it from

Table of Contents

the blocks of life insurance policies for which the Company has recorded a reserve, and the early stages of the audits being conducted. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with this block of co-insured policies probable or reasonably estimable.

Certain of the Company's subsidiaries have received notice that they are subject to a targeted multi-state examination with respect to their claims paying practices and their use of the U.S. Social Security Administration's Death Master File or similar databases (a "Death Database") to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed, and substantial legal authority exists to support the position that the prevailing industry practice was lawful. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, and escheating the benefits and interest as well as penalties to the state if the beneficiary could not be found. It has been publicly reported that the life insurers have paid substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes it is reasonably possible that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company estimates the range of such fees to be from \$0 to \$3.5 million.

8. STOCK-BASED COMPENSATION

During the nine months ended September 30, 2013, 298,500 performance shares with an estimated fair value of \$9.3 million were awarded. The criteria for payment of the 2013 performance awards is based primarily on the Company's average operating return on average equity (ROE) over a three-year period. If the Company's ROE is below 10.0%, no award is earned. If the Company's ROE is at or above 11.5%, the award maximum is earned. Awards are paid in shares of the Company's common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 163,850 restricted stock units for the nine months ended September 30, 2013. These awards had a total fair value at grant date of \$5.4 million. Approximately half of these restricted stock units vest in 2016, and the remainder vest in 2017. These awards have been recorded as equity-classified awards for the period ended September 30, 2013.

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

		Weighted-Average Base Price per share	No. of SARs
Balance at December 31, 2012	\$	22.15	1,641,167
SARs granted			
SARs exercised / forfeited		18.02	(315,616)

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Balance at September 30, 2013	\$	23.13	1,325,551
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The Company will pay an amount in stock equal to the difference between the specified base price of the Company's common stock and the market value at the exercise date for each SAR. There were no SARs issued for the nine months ended September 30, 2013.

Table of Contents**9. EMPLOYEE BENEFIT PLANS**

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Service cost – benefits earned during the period	\$ 2,708	\$ 2,561	\$ 8,124	\$ 7,683
Interest cost on projected benefit obligation	2,553	2,604	7,659	7,812
Expected return on plan assets	(2,759)	(2,673)	(8,277)	(8,019)
Amortization of prior service cost/(credit)	(95)	(95)	(285)	(285)
Amortization of actuarial losses	2,729	2,175	8,187	6,525
Total benefit cost	\$ 5,136	\$ 4,572	\$ 15,408	\$ 13,716

During the nine months ended September 30, 2013, the Company contributed \$2.0 million to its defined benefit pension plan for the 2012 plan year and \$4.6 million for the 2013 plan year. During October of 2013, the Company contributed \$2.3 million to the defined benefit pension plan for the 2013 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

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

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the nine months ended September 30, 2013, was immaterial to the Company's financial statements.

Table of Contents**10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The following table summarizes the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (AOCI) as of September 30, 2013.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2012	\$ 1,813,516	\$ (3,496)	\$ (73,298)	\$ 1,736,722
Other comprehensive income (loss) before reclassifications	(1,191,416)	(103)	(5,136)	(1,196,655)
Other comprehensive income (loss) relating to other- than-temporary impaired investments for which a portion has been recognized in earnings	2,570			2,570
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(17,621)	1,072		(16,549)
Net current-period other comprehensive income (loss)	(1,206,467)	969	(5,136)	(1,210,634)
Ending Balance, September 30, 2013	\$ 607,049	\$ (2,527)	\$ (78,434)	\$ 526,088

(1) See Reclassification table below for details.

The following table summarizes the reclassifications amounts out of AOCI for the three and nine months ended September 30, 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
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Accumulated Other Comprehensive Income (Loss) Components

**For The Three Months Ended
September 30, 2013**
**Gains and losses on derivative
instruments**

Net settlement (expense)/benefit(1)	\$	(572)	Benefits and settlement expenses, net of reinsurance ceded
		(572)	Total before tax
		200	Tax (expense) or benefit
	\$	(372)	Net of tax

**Unrealized gains and losses on
available-for-sale securities**

Net investment gains/losses	\$	10,546	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(8,681)	Net impairment losses recognized in earnings
		1,865	Total before tax
		(653)	Tax (expense) or benefit
	\$	1,212	Net of tax

(1) See Note 14, *Derivative Financial Instruments* for additional information.

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

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components		
For The Nine Months Ended September 30, 2013		
Gains and losses on derivative instruments		
Net settlement (expense)/benefit(1)	\$ (1,649)	Benefits and settlement expenses, net of reinsurance ceded
	(1,649)	Total before tax
	577	Tax (expense) or benefit
	\$ (1,072)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains/losses	\$ 44,374	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(17,265)	Net impairment losses recognized in earnings
	27,109	Total before tax
	(9,488)	Tax (expense) or benefit
	\$ 17,621	Net of tax

(1) See Note 14, *Derivative Financial Instruments* for additional information.

Table of Contents**11. EARNINGS PER SHARE**

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

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars In Thousands, Except Per Share Amounts)				
Calculation of basic earnings per share:				
Net income available to PLC's common shareowners	\$ 93,061	\$ 60,480	\$ 274,551	\$ 235,656
Average shares issued and outstanding	78,521,996	79,725,407	78,396,347	80,632,108
Issuable under various deferred compensation plans	970,278	937,338	950,424	909,354
Weighted shares outstanding - basic	79,492,274	80,662,745	79,346,771	81,541,462
Per share:				
Net income available to PLC's common shareowners - basic	\$ 1.17	\$ 0.75	\$ 3.46	\$ 2.89
Calculation of diluted earnings per share:				
Net income available to PLC's common shareowners	\$ 93,061	\$ 60,480	\$ 274,551	\$ 235,656
Weighted shares outstanding - basic	79,492,274	80,662,745	79,346,771	81,541,462
Stock appreciation rights (SARs)(1)	409,964	464,504	433,174	460,104
Issuable under various other stock-based compensation plans	592,580	677,218	758,976	568,587
Restricted stock units	357,260	601,636	343,631	617,701
Weighted shares outstanding - diluted	80,852,078	82,406,103	80,882,552	83,187,854
Per share:				
Net income available to PLC's common shareowners - diluted	\$ 1.15	\$ 0.73	\$ 3.39	\$ 2.83

(1)Excludes 454,925 and 665,320 SARs as of September 30, 2013 and 2012, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company's earnings per share and will be included in the Company's calculation of the diluted average shares outstanding, for applicable periods.

12. INCOME TAXES

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There have been no material changes to the balance of unrecognized tax benefits, where such benefits impacted earnings, for the nine months ended September 30, 2013.

In the IRS audit that concluded during the prior year, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and is seeking resolution at the IRS Appeals Division. If the IRS prevails at Appeals, and the Company does not litigate these issues, then an acceleration of tax payments will occur. However, if these payments were to occur, they would not materially impact the Company or its effective tax rate.

Table of Contents

The Company believes that it is possible that in the next 12 months approximately \$17 million of these unrecognized tax benefits will be reduced due to the expected closure of the aforementioned Appeals process. In general, this closure would represent the Company's possible successful negotiation of certain issues, coupled with its payment of the assessed taxes on the remaining issues.

The Company used its estimate of its annual 2013 and 2012 income in computing its effective income tax rates for the three and nine months ended September 30, 2013 and 2012. The effective tax rates for the three and nine months ended September 30, 2013 were 34.5% and 34.1%, respectively, and 33.5% and 32.5% for the three and nine months ended September 30, 2012, respectively.

In general, the Company is no longer subject to U.S. federal, state, and local income tax examinations by taxing authorities for tax years that began before 2003.

Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of September 30, 2013.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2013:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 1,463,989	\$ 38	\$ 1,464,027
Commercial mortgage-backed securities		911,607		911,607
Other asset-backed securities		328,393	548,771	877,164
U.S. government-related securities	1,063,584	149,852		1,213,436
State, municipalities, and political subdivisions		1,296,047	4,330	1,300,377
Other government-related securities		41,128		41,128
Corporate bonds	107	19,545,102	187,488	19,732,697
Total fixed maturity securities - available-for-sale	1,063,691	23,736,118	740,627	25,540,436
Fixed maturity securities - trading				
Residential mortgage-backed securities		308,356		308,356
Commercial mortgage-backed securities		169,046		169,046
Other asset-backed securities		90,726	170,967	261,693
U.S. government-related securities	198,717	5,147		203,864
State, municipalities, and political subdivisions		262,036		262,036
Other government-related securities		57,525		57,525
Corporate bonds		1,515,167	5,092	1,520,259
Total fixed maturity securities - trading	198,717	2,408,003	176,059	2,782,779
Total fixed maturity securities	1,262,408	26,144,121	916,686	28,323,215
Equity securities	348,472	43,341	69,418	461,231
Other long-term investments(1)	58,567	54,600	153,563	266,730
Short-term investments	213,924	2,300		216,224
Total investments	1,883,371	26,244,362	1,139,667	29,267,400
Cash	354,449			354,449
Other assets	10,086			10,086
Assets related to separate accounts				
Variable annuity	11,921,925			11,921,925
Variable universal life	663,380			663,380
Total assets measured at fair value on a recurring basis	\$ 14,833,211	\$ 26,244,362	\$ 1,139,667	\$ 42,217,240
Liabilities:				
Annuity account balances(2)	\$	\$	\$ 110,590	\$ 110,590
Other liabilities (1)	11,304	136,398	286,530	434,232
Total liabilities measured at fair value on a recurring basis	\$ 11,304	\$ 136,398	\$ 397,120	\$ 544,822

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

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Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	\$	\$ 1,839,326	\$ 4	\$ 1,839,330
Commercial mortgage-backed securities		869,823		869,823
Other asset-backed securities		378,870	596,143	975,013
U.S. government-related securities	909,988	259,955		1,169,943
State, municipalities, and political subdivisions		1,439,378	4,335	1,443,713
Other government-related securities		80,767	20,011	100,778
Corporate bonds	207	20,213,952	167,892	20,382,051
Total fixed maturity securities - available-for-sale	910,195	25,082,071	788,385	26,780,651
Fixed maturity securities - trading				
Residential mortgage-backed securities		357,803		357,803
Commercial mortgage-backed securities		171,073		171,073
Other asset-backed securities		87,395	70,535	157,930
U.S. government-related securities	304,704	1,169		305,873
State, municipalities, and political subdivisions		278,898		278,898
Other government-related securities		63,444		63,444
Corporate bonds		1,672,172	115	1,672,287
Total fixed maturity securities - trading	304,704	2,631,954	70,650	3,007,308
Total fixed maturity securities	1,214,899	27,714,025	859,035	29,787,959
Equity securities	307,252	35,116	69,418	411,786
Other long-term investments (1)	23,639	58,134	31,591	113,364
Short-term investments	215,320	2,492		217,812
Total investments	1,761,110	27,809,767	960,044	30,530,921
Cash	368,801			368,801
Other assets	8,239			8,239
Assets related to separate accounts				
Variable annuity	9,601,417			9,601,417
Variable universal life	562,817			562,817
Total assets measured at fair value on a recurring basis	\$ 12,302,384	\$ 27,809,767	\$ 960,044	\$ 41,072,195
Liabilities:				
Annuity account balances (2)	\$	\$	\$ 129,468	\$ 129,468
Other liabilities (1)	19,187	27,250	611,437	657,874
Total liabilities measured at fair value on a recurring basis	\$ 19,187	\$ 27,250	\$ 740,905	\$ 787,342

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

Determination of fair values

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

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available

Table of Contents

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the nine months ended September 30, 2013.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of September 30, 2013, the Company held \$3.3 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying

Table of Contents

assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin.

As of September 30, 2013, the Company held \$719.8 million of Level 3 ABS, which included \$548.8 million of other asset-backed securities classified as available-for-sale and \$171.0 million of other asset-backed securities classified as trading. The securities classified as available-for-sale are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate.

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

As of September 30, 2013, the Company classified approximately \$22.9 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of September 30, 2013, the Company classified approximately \$196.9 million of bonds and securities as Level 3 valuations. Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of September 30, 2013, the Company held approximately \$112.8 million of equity securities classified as Level 2 and Level 3. Of this total, \$64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 14, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of September 30, 2013, 96.1% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Table of Contents

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

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

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

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

The embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company's consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments. Refer to Note 14, *Derivative Financial Instruments* for more information related to each embedded derivatives gains and losses.

The fair value of the guaranteed minimum withdrawal benefits (GMWB) embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience, with attained age factors varying from 49% - 80%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

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

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value.

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Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the statutory policy liabilities (net of policy loans) of \$2.6 billion and the fair value of the trading securities of \$2.9 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Table of Contents

Annuity account balances

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

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for September 30, 2013, ranged from a one month rate of 0.36%, a 5 year rate of 2.44%, and a 30 year rate of 4.97%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Separate Accounts

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

Table of Contents*Valuation of Level 3 Financial Instruments*

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

	Fair Value As of September 30, 2013 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	\$ 548,771	Discounted cash flow	Liquidity premium	0.69% - 1.32% (0.80%)
			Paydown rate	8.37% - 17.50% (12.45%)
Corporate bonds	192,580	Discounted cash flow	Spread over treasury	0.32% - 6.75% (2.89%)
Embedded derivatives - GMWB(1)	95,058	Actuarial cash flow model	Mortality	49% to 80% of 1994 MGDB table
			Lapse	0% - 24%, depending on product/duration/funded status of guarantee
			Utilization	97% - 103%
			Nonperformance risk	0.19% - 1.31%
Liabilities:				
Annuity account balances(2)	\$ 110,590	Actuarial cash flow model	Asset earned rate	5.37%
			Expenses	\$88 - \$102 per policy
			Withdrawal rate	2.20%
			Mortality	49% to 80% of 1994 MGDB table
			Lapse	2.2% - 33.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on surrender charge period
			Nonperformance risk	0.19% - 1.31%
Embedded derivative - FIA	9,199	Actuarial cash flow model	Expenses	\$83 - \$97 per policy
			Withdrawal rate	1.1% - 4.5% depending on duration and tax qualification
			Mortality	49% to 80% of 1994 MGDB table
			Lapse	2.5% - 40.0%, depending on duration/surrender charge period
			Nonperformance risk	0.19% - 1.31%

(1)The fair value for the GMWB embedded derivative is presented as a net asset for the purposes of this chart. Excludes modified coinsurance arrangements.

(2)Represents account balance liabilities related to fixed indexed annuities.

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

The Company has considered all reasonably available quantitative inputs as of September 30, 2013, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$171.6 million of financial

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instruments being classified as Level 3 as of September 30, 2013. Of the \$171.6 million, \$171.0 million are other asset backed securities and \$0.6 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of September 30, 2013, the Company held \$73.2 million of financial instruments where book value approximates fair value. Of the \$73.2 million, \$68.8 million represents equity securities, which are predominantly FHLB stock, and \$4.4 million of other fixed maturity securities.

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Table of Contents

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

	Fair Value As of December 31, 2012 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	\$ 596,143	Discounted cash flow	Liquidity premium	0.72% - 1.68% (1.29%)
			Paydown rate	8.51% - 18.10% (11.40%)
Other government-related securities	20,011	Discounted cash flow	Spread over treasury	(0.30)%
Corporate bonds	168,007	Discounted cash flow	Spread over treasury	0.92% - 7.75% (3.34%)
Liabilities:				
Embedded derivatives - GMWB(1)	\$ 169,041	Actuarial cash flow model	Mortality	57% of 1994 MGDB table
			Lapse	0% - 24%, depending on product/duration/funded status of guarantee
			Utilization	93% - 100%
			Nonperformance risk	0.09% - 1.34%
Annuity account balances(2)	129,468	Actuarial cash flow model	Asset earned rate	5.81%
			Expenses	\$88 - \$108 per policy
			Withdrawal rate	2.20%
			Mortality	57% of 1994 MGDB table
			Lapse	2.2% - 45.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on surrender charge period
			Nonperformance risk	0.09% - 1.34%

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

(2)Represents liabilities related to fixed indexed annuities.

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

The valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company which resulted in \$71.1 million of financial instruments being classified as Level 3 as of December 31, 2012. Of the \$71.1 million, \$70.5 million are other asset backed securities and \$0.6 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2012, the Company held \$73.2 million of financial instruments where book value approximates fair value. Of the \$73.2 million, \$68.9 million represents equity securities, which are predominantly FHLB stock, and \$4.3 million of other fixed maturity securities.

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

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

The GMWB liability is sensitive to changes in the discount rate which includes the Company's nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it

Table of Contents

is based on market inputs. The Company's nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the liability and conversely, if there is a decrease in the assumptions the liability would increase. The liability is also dependent on the assumed policyholder utilization of the GMWB where an increase in assumed utilization would result in an increase in the liability and conversely, if there is a decrease in the assumption, the liability would decrease.

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

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

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Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2013, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)											
Assets:												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	\$ 14,062	\$ 1,310				\$ (12)			\$ (15,333)	\$ 11	\$ 38	
Commercial mortgage-backed securities												
Other asset-backed securities	576,396	52		(26,969)	11,769	(12,085)				(392)	548,771	
U.S. government-related securities												
States, municipals, and political subdivisions	4,330										4,330	
Other government-related securities	20,000	1				(20,000)				(1)		
Corporate bonds	194,895	1,662		(3,513)	11,002	(13,558)			(3,385)	385	187,488	
Total fixed maturity securities - available-for-sale	809,683	3,025		(30,482)	22,771	(45,655)			(18,718)	3	740,627	
Fixed maturity securities - trading												
Residential mortgage-backed securities	1,582			(1)		(72)			(1,494)	(15)		
Commercial mortgage-backed securities												
Other asset-backed securities	168,851	3,167		(1,080)	16,394	(16,568)				203	170,967	1,596
U.S. government-related securities												
States, municipals and political subdivisions	3,500			(123)					(3,377)			
Other government-related												

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securities													
Corporate bonds	5,092			(4)				4	5,092		(4)		
Total fixed maturity securities - trading	179,025	3,167		(1,208)		16,394	(16,640)		(4,871)	192	176,059	1,592	
Total fixed maturity securities	988,708	3,167	3,025	(1,208)	(30,482)	39,165	(62,295)		(23,589)	195	916,686	1,592	
Equity securities	69,418										69,418		
Other long-term investments(1)	100,072	53,791		(300)							153,563	53,491	
Short-term investments													
Total investments	1,158,198	56,958	3,025	(1,508)	(30,482)	39,165	(62,295)		(23,589)	195	1,139,667	55,083	
Total assets measured at fair value on a recurring basis	\$ 1,158,198	\$ 56,958	\$ 3,025	\$ (1,508)	\$ (30,482)	\$ 39,165	\$ (62,295)	\$	\$ (23,589)	\$ 195	\$ 1,139,667	\$ 55,083	
Liabilities:													
Annuity account balances(2)	\$ 114,614	\$	\$	\$ (2,472)	\$	\$	\$	\$ 46	\$ 6,542	\$	\$	\$ 110,590	\$
Other liabilities(1)	335,581	72,905		(23,854)							286,530	49,051	
Total liabilities measured at fair value on a recurring basis	\$ 450,195	\$ 72,905	\$	\$ (26,326)	\$	\$	\$	\$ 46	\$ 6,542	\$	\$ 397,120	\$ 49,051	

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2013, \$1.3 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of September 30, 2013.

For the three months ended September 30, 2013, there were \$24.9 million of securities transferred out of Level 3. This amount was transferred to Level 2. These transfers resulted from securities that were priced using significant unobservable inputs in previous periods, but are now priced by independent pricing services or brokers, using no significant unobservable inputs as of September 30, 2013.

For the three months ended September 30, 2013, there were no transfers from Level 2 to Level 1.

For the three months ended September 30, 2013, there were no transfers from Level 1.

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Table of Contents

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

	Beginning Balance	Included Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)											
Assets:												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	\$ 4	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 4	\$
Commercial mortgage-backed securities												
Other asset-backed securities	584,641	45	11,462	(1,157)		(5,200)				(153)	589,638	
U.S. government-related securities												
States, municipals, and political subdivisions	4,340										4,340	
Other government-related securities	20,020			(11)						(4)	20,005	
Corporate bonds	172,181		5,349	(221)		(2,090)			(26,802)	122	148,539	
Total fixed maturity securities - available-for-sale	781,186	45	16,811	(1,389)		(7,290)			(26,802)	(35)	762,526	
Fixed maturity securities - trading												
Residential mortgage-backed securities												
Commercial mortgage-backed securities												
Other asset-backed securities	65,059	2,972		(148)	7,208	(1,442)				413	74,062	2,823
U.S. government-related securities												
States, municipals and political subdivisions												
Other government-related												

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securities													
Corporate bonds	114	1							115	2			
Total fixed maturity securities - trading	65,173	2,973	(148)	7,208	(1,442)			413	74,177	2,825			
Total fixed maturity securities	846,359	3,018	16,811	(148)	(1,389)	7,208	(8,732)	(26,802)	378	836,703	2,825		
Equity securities	73,651	8			(147)	(4,295)				69,217			
Other long-term investments(1)	18,415	2,719	(34)							21,100	2,685		
Short-term investments													
Total investments	938,425	5,745	16,811	(182)	(1,536)	7,208	(13,027)	(26,802)	378	927,020	5,510		
Total assets measured at fair value on a recurring basis	\$ 938,425	\$ 5,745	\$ 16,811	\$ (182)	\$ (1,536)	\$ 7,208	\$ (13,027)	\$ (26,802)	\$ 378	\$ 927,020	\$ 5,510		

Liabilities:

Annuity account balances(2)	\$ 134,597	\$	\$ (5,766)	\$	\$	\$ 217	\$ 6,011	\$	\$ 134,569	\$			
Other liabilities(1)	516,587	11,016	(112,779)							618,350	(101,763)		
Total liabilities measured at fair value on a recurring basis	\$ 651,184	\$ 11,016	\$ (118,545)	\$	\$	\$ 217	\$ 6,011	\$	\$ 752,919	\$ (101,763)			

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

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

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

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

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

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Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2013, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Included in Earnings	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	\$ 4		\$ 1,310		\$ (337)	\$ 14,349	\$ (12)	\$	\$ (15,287)	\$ 11		\$ 38	
Commercial mortgage-backed securities													
Other asset-backed securities	596,143		43,808		(54,517)	24,931	(62,471)			1,227	(350)	548,771	
U.S. government-related securities													
States, municipals, and political subdivisions	4,335						(5)					4,330	
Other government-related securities	20,011		2		(3)		(20,000)				(10)		
Corporate bonds	167,892	116	2,673		(13,559)	29,277	(58,742)			58,945	886	187,488	
Total fixed maturity securities - available-for-sale	788,385	116	47,793		(68,416)	68,557	(141,230)			44,885	537	740,627	
Fixed maturity securities - trading													
Residential mortgage-backed securities					(1)	1,582	(72)			(1,494)	(15)		
Commercial mortgage-backed securities													
Other asset-backed securities	70,535	7,964			(3,949)	122,224	(29,344)			2,210	1,327	170,967	4,814
U.S. government-related securities													
States, municipals and political subdivisions					(123)	3,500				(3,377)			
Other government-related													

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securities											
Corporate bonds	115	1	(27)			(17)		5,013	7	5,092	(4)
Total fixed maturity securities - trading	70,650	7,965	(4,100)			127,306	(29,433)	2,352	1,319	176,059	4,810
Total fixed maturity securities	859,035	8,081	47,793	(4,100)	(68,416)	195,863	(170,663)	47,237	1,856	916,686	4,810
Equity securities	69,418									69,418	
Other long-term investments(1)	31,591	122,643		(671)						153,563	121,972
Short-term investments											
Total investments	960,044	130,724	47,793	(4,771)	(68,416)	195,863	(170,663)	47,237	1,856	1,139,667	126,782
Total assets measured at fair value on a recurring basis	\$ 960,044	\$ 130,724	\$ 47,793	\$ (4,771)	\$ (68,416)	\$ 195,863	\$ (170,663)	\$ 47,237	\$ 1,856	\$ 1,139,667	\$ 126,782
Liabilities:											
Annuity account balances(2)	\$ 129,468	\$	\$	\$ (6,159)	\$	\$	\$	\$ 247	\$ 25,284	\$	\$ 110,590
Other liabilities(1)	611,437	377,398		(52,491)						286,530	324,907
Total liabilities measured at fair value on a recurring basis	\$ 740,905	\$ 377,398	\$	\$ (58,650)	\$	\$	\$	\$ 247	\$ 25,284	\$	\$ 397,120

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2013, \$72.1 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of September 30, 2013. All transfers are recognized as of the end of the period.

For the nine months ended September 30, 2013, there were \$24.9 million of securities transferred out of Level 3. This amount was transferred to Level 2. These transfers resulted from securities that were priced using significant unobservable inputs in previous periods, but are now priced by independent pricing services or brokers, using no significant unobservable inputs as of September 30, 2013.

For the nine months ended September 30, 2013, there were no transfers from Level 2 to Level 1.

For the nine months ended September 30, 2013, there were no transfers out of Level 1.

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Table of Contents

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

	Beginning Balance	Included Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Realized Earnings	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	\$ 7							(3)				\$ 4	
Commercial mortgage-backed securities													
Other asset-backed securities	614,813	339	15,981		(22,055)		(19,050)				(390)	589,638	
U.S. government-related securities	15,000				(1)		(15,000)				1		
States, municipals, and political subdivisions	69					4,275	(4)					4,340	
Other government-related securities			18		(27)	20,023					(9)	20,005	
Corporate bonds	119,601		7,198		(2,131)	4	(4,185)			27,810	242	148,539	
Total fixed maturity securities - available-for-sale	749,490	339	23,197		(24,214)	24,302	(38,242)			27,810	(156)	762,526	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	28,343	3,450			(905)	48,255	(6,516)				1,435	74,062	2,545
U.S. government-related securities													
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds	28,343	1				1				113		115	10
	28,343	3,451			(905)	48,256	(6,516)			113	1,435	74,177	2,555

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Total fixed maturity securities - trading												
Total fixed maturity securities	777,833	3,790	23,197	(905)	(24,214)	72,558	(44,758)		27,923	1,279	836,703	2,555
Equity securities	80,586	8	660		(1,096)	4	(4,295)			(6,650)	69,217	
Other long-term investments(1)	12,703	15,792		(7,395)							21,100	8,397
Short-term investments												
Total investments	871,122	19,590	23,857	(8,300)	(25,310)	72,562	(49,053)		27,923	(5,371)	927,020	10,952
Total assets measured at fair value on a recurring basis	\$ 871,122	\$ 19,590	\$ 23,857	\$ (8,300)	\$ (25,310)	\$ 72,562	\$ (49,053)	\$	\$ 27,923	\$ (5,371)	\$ 927,020	\$ 10,952

Liabilities:

Annuity account balances(2)	\$ 136,462	\$	\$	\$ (9,983)	\$	\$	\$ 645	\$ 12,521	\$	\$	\$ 134,569	\$
Other liabilities(1)	437,613	67,565		(248,302)							618,350	(180,737)
Total liabilities measured at fair value on a recurring basis	\$ 574,075	\$ 67,565	\$	\$ (258,285)	\$	\$	\$ 645	\$ 12,521	\$	\$	\$ 752,919	\$ (180,737)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2012, \$54.7 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of September 30, 2012. All transfers are recognized as of the end of the period.

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

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

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

Table of Contents

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

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

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur.

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

Estimated Fair Value of Financial Instruments

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

	Fair Value Level	September 30, 2013		As of December 31, 2012	
		Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
(Dollars In Thousands)					
Assets:					
Mortgage loans on real estate	3	\$ 4,794,924	\$ 5,287,854	\$ 4,950,201	\$ 5,725,382
Policy loans	3	856,333	856,333	865,391	865,391
Fixed maturities, held-to-maturity(1)	3	350,000	341,797	300,000	319,163
Liabilities:					
Stable value product account balances	3	\$ 2,531,262	\$ 2,535,865	\$ 2,510,559	\$ 2,534,094
Annuity account balances	3	10,431,938	10,074,996	10,658,463	10,525,702
Debt:					
Bank borrowings	3	\$ 350,000	\$ 350,000	\$ 50,000	\$ 50,000
Senior Notes	2	1,100,000	1,292,066	1,350,000	1,584,438
Subordinated debt securities	2	540,593	502,628	540,593	556,524
Non-recourse funding obligations(2)	3	619,900	517,180	586,000	481,056

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

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- (1) Security purchased from unconsolidated subsidiary, Red Mountain LLC.
- (2) Of this carrying amount, \$350 million, fair value of \$325.1 million, as of September 30, 2013, and \$300 million, fair value of \$297.6 million, as of December 31, 2012, relates to non-recourse funding obligations issued by Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

The Company estimates the fair value of mortgage loans using an internally developed model. This model includes inputs derived by the Company based on assumed discount rates relative to the Company's current mortgage

Table of Contents

loan lending rate and an expected cash flow analysis based on a review of the mortgage loan terms. The model also contains the Company's determined representative risk adjustment assumptions related to credit and liquidity risks.

Policy loans

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

Fixed maturities, held-to-maturity

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

Stable value product and Annuity account balances

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

Debt

Bank borrowings

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

Non-recourse funding obligations

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

14. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

Table of Contents

Derivatives Related to Interest Rate Risk Management

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

Derivatives Related to Risk Mitigation of Variable Annuity Contracts

The Company may use the following types of derivative contracts to mitigate its exposure to certain guaranteed benefits related to variable annuity contracts:

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

Accounting for Derivative Instruments

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

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

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

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

- In connection with the issuance of inflation-adjusted funding agreements, the Company has entered into swaps to convert the floating CPI-linked interest rate on these agreements to a fixed rate. The Company pays a fixed rate on the swap and receives a floating rate primarily determined by the period's change in the CPI. The amounts that are received on the swaps are equal to the amounts that are paid on the agreements.

Table of Contents

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives related to variable annuity contracts

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility. No volatility future positions were held during the three and nine months ended September 30, 2013.
- The Company uses equity options and variance swaps to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In general, the cost of such benefits varies with the level of equity markets and overall volatility.
- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products.
- The Company markets certain variable annuity products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

Other Derivatives

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities.
- The Company has purchased interest rate caps to mitigate its risk with respect to the Company's LIBOR exposure and the potential impact of European financial market distress.
- The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

- The Company recorded an embedded derivative associated with the FIA product as of September 30, 2013. The Company did not market this product during the three and nine months ended September 30, 2012.

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

Table of Contents

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

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Derivatives related to variable annuity and FIA contracts:				
Interest rate futures - VA	\$ (2,255)	\$ (3,371)	\$ (26,393)	\$ 32,419
Equity futures - VA	(12,568)	(17,324)	(39,829)	(42,643)
Currency futures - VA	(6,531)	(3,078)	1,440	(2,298)
Volatility futures - VA				(132)
Variance swaps - VA	(1,347)	(5,840)	(9,566)	(6,660)
Equity options - VA	(29,094)	(9,184)	(65,631)	(29,903)
Interest rate swaptions - VA	1,725	(3,019)	(738)	2,293
Interest rate swaps - VA	(19,224)	6,361	(125,502)	10,187
Embedded derivative - GMWB	80,541	2,921	264,231	(32,369)
Total derivatives related to variable annuity contracts	11,247	(32,534)	(1,988)	(69,106)
Embedded derivative - Modco reinsurance treaties	30,074	(101,999)	191,847	(139,972)
Embedded derivative - FIA	(104)		(145)	
Interest rate swaps	72	199	2,984	(680)
Interest rate caps		(143)		(2,658)
Other derivatives	37	255	(106)	17
Total realized gains (losses) - derivatives	\$ 41,326	\$ (134,222)	\$ 192,592	\$ (212,399)

Realized investment gains (losses) - all other investments

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
Modco trading portfolio(1)	\$ (25,960)	\$ 104,865	\$ (167,982)	\$ 179,027

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

Table of Contents**Gain (Loss) on Derivatives in Cash Flow Relationship**

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)		Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion) Benefits and settlement expenses (Dollars In Thousands)		Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
For The Three Months Ended September 30, 2013					
Inflation	\$ 22	\$	(572)	\$	(62)
Total	\$ 22	\$	(572)	\$	(62)
For The Nine Months Ended September 30, 2013					
Inflation	\$ (157)	\$	(1,649)	\$	(253)
Total	\$ (157)	\$	(1,649)	\$	(253)

Gain (Loss) on Derivatives in Cash Flow Relationship

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)		Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion) Benefits and settlement expenses (Dollars In Thousands)		Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
For The Three Months Ended September 30, 2012					
Interest rate	\$ (1)	\$	(549)	\$	
Inflation	2,938		(552)		221
Total	\$ 2,937	\$	(1,101)	\$	221
For The Nine Months Ended September 30, 2012					
Interest rate	\$ (77)	\$	(2,261)	\$	
Inflation	4,146		(485)		(2)
Total	\$ 4,069	\$	(2,746)	\$	(2)

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Table of Contents

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

	As of September 30, 2013		As of December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
(Dollars In Thousands)				
Other long-term investments				
Cash flow hedges:				
Inflation	\$	\$	\$	\$
Derivatives not designated as hedging instruments:				
Interest rate swaps	200,000	2,035	355,000	6,532
Variance swaps			500	406
Embedded derivative - Modco reinsurance treaties	45,314	802	30,244	1,330
Embedded derivative - GMWB	5,200,449	152,761	1,640,075	30,261
Interest rate futures	111,534	1,106		
Equity futures	47,994	937	147,581	595
Currency futures			15,944	784
Interest rate caps			3,000,000	
Equity options	1,467,720	80,754	573,493	61,833
Interest rate swaptions	625,000	27,978	400,000	11,370
Other	262	357	224	253
	\$ 7,698,273	\$ 266,730	\$ 6,163,061	\$ 113,364
Other liabilities				
Cash flow hedges:				
Inflation	\$ 182,965	\$ 3,806	\$ 182,965	\$ 5,027
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,500,000	132,592	400,000	10,025
Variance swaps			2,675	12,198
Embedded derivative - Modco reinsurance treaties	2,598,832	219,532	2,655,134	411,907
Embedded derivative - GMWB	3,117,089	57,799	5,253,961	199,530
Embedded derivative - FIA	104,951	9,199		
Interest rate futures	175,681	531	893,476	13,970
Equity futures	94,457	1,484	152,364	3,316
Currency futures	126,389	3,350	131,979	1,901
Equity options	144,408	5,939		
Other - FIA volatility futures	35			
	\$ 8,044,807	\$ 434,232	\$ 9,672,554	\$ 657,874

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify \$2.3 million out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

From time to time, the Company is required to post and obligated to return collateral related to derivative transactions. As of September 30, 2013, the Company had posted cash and securities (at fair value) as collateral of approximately \$81.0 million and \$52.2 million, respectively. As of September 30, 2013, the Company received \$6.0 million of cash as collateral. The Company does not net the collateral posted or received with the fair value of the derivative financial instruments for reporting purposes.

Table of Contents**15. OFFSETTING OF ASSETS AND LIABILITIES**

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 6, *Debt and Other Obligations* for details of the Company's repurchase agreement programs.

The tables below present the derivative instruments by assets and liabilities for the Company as of September 30, 2013:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	\$ 112,810	\$	\$ 112,810	\$ 44,189	\$ 6,000	\$ 62,621
Embedded derivative - Modco reinsurance treaties	802		802			802
Embedded derivative - GMWB	152,761		152,761			152,761
Total derivatives, subject to a master netting arrangement or similar arrangement	266,373		266,373	44,189	6,000	216,184
Total derivatives, not subject to a master netting arrangement or similar arrangement	357		357			357
Total derivatives	266,730		266,730	44,189	6,000	216,541
Total Assets	\$ 266,730	\$	\$ 266,730	\$ 44,189	\$ 6,000	\$ 216,541

Table of Contents

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Paid	Net Amount
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	\$ 147,702	\$	\$ 147,702	\$ 44,189	\$ 72,813	\$ 30,700
Embedded derivative - Modco reinsurance treaties	219,532		219,532			219,532
Embedded derivative - GMWB	57,799		57,799			57,799
Embedded derivative - FIA	9,199		9,199			9,199
Total derivatives, subject to a master netting arrangement or similar arrangement	434,232		434,232	44,189	72,813	317,230
Total derivatives, not subject to a master netting arrangement or similar arrangement						
Total derivatives	434,232		434,232	44,189	72,813	317,230
Repurchase agreements(1)	100,000		100,000			100,000
Total Liabilities	\$ 534,232	\$	\$ 534,232	\$ 44,189	\$ 72,813	\$ 417,230

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

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2012:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	\$ 81,520	\$	\$ 81,520	\$ 21,565	\$ 11,280	\$ 48,675
Embedded derivative - Modco reinsurance treaties	1,330		1,330			1,330
Embedded derivative - GMWB	30,261		30,261			30,261
Total derivatives, subject to a master netting arrangement or similar arrangement	113,111		113,111	21,565	11,280	80,266
Total derivatives, not subject to a master netting arrangement or similar arrangement	253		253			253
Total derivatives	113,364		113,364	21,565	11,280	80,519
Total Assets	\$ 113,364	\$	\$ 113,364	\$ 21,565	\$ 11,280	\$ 80,519

Table of Contents

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position (Dollars In Thousands)	Gross Amounts Not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Paid	Net Amount
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	\$ 46,437	\$	\$ 46,437	\$ 21,565	\$ 20,373	\$ 4,499
Embedded derivative - Modco reinsurance treaties	411,907		411,907			411,907
Embedded derivative - GMWB	199,530		199,530			199,530
Embedded derivative - FIA						
Total derivatives, subject to a master netting arrangement or similar arrangement	657,874		657,874	21,565	20,373	615,936
Total derivatives, not subject to a master netting arrangement or similar arrangement						
Total derivatives	657,874		657,874	21,565	20,373	615,936
Repurchase agreements(1)	150,000		150,000			150,000
Total Liabilities	\$ 807,874	\$	\$ 807,874	\$ 21,565	\$ 20,373	\$ 765,936

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

16. OPERATING SEGMENTS

The Company has several operating segments each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments, as prescribed in the ASC Segment Reporting Topic, and makes adjustments to its segment reporting as needed. A brief description of each segment follows.

- The Life Marketing segment markets UL, variable universal life, bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a national basis primarily through networks of independent insurance agents and brokers, stockbrokers, and independent marketing organizations.
- The Acquisitions segment focuses on acquiring, converting, and servicing policies from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically 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.

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

- The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the FHLB, and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. Additionally, the Company has contracts outstanding pursuant to a funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC) which offered notes to both institutional and retail investors.

Table of Contents

- The Asset Protection segment markets 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. GAP coverage covers the difference between the loan pay-off amount and an asset s actual cash value in the case of a total loss.
- The Corporate and Other segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity), expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

The Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income available to PLC s common shareowners and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives net of the amortization related to deferred acquisition costs (DAC), value of business acquired (VOBA), and benefits and settlement expenses. Operating earnings exclude changes in the GMWB embedded derivatives (excluding the portion attributed to economic cost), realized and unrealized gains (losses) on derivatives used to hedge the VA product, actual GMWB incurred claims and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of the Company s business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

There were no significant intersegment transactions during the three or nine months ended September 30, 2013 and 2012.

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Table of Contents

The following tables summarize financial information for the Company's segments:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars In Thousands)				
Revenues				
Life Marketing	\$ 377,416	\$ 341,035	\$ 1,092,063	\$ 1,023,668
Acquisitions	240,067	251,550	752,247	812,355
Annuities	196,305	141,015	547,259	462,031
Stable Value Products	25,208	26,933	91,596	95,949
Asset Protection	71,495	72,492	210,879	216,163
Corporate and Other	42,203	59,766	147,820	142,981
Total revenues	\$ 952,694	\$ 892,791	\$ 2,841,864	\$ 2,753,147
Segment Operating Income (Loss)				
Life Marketing	\$ 29,218	\$ 28,673	\$ 77,598	\$ 89,390
Acquisitions	29,429	46,155	93,241	128,869
Annuities	50,866	9,408	130,646	73,744
Stable Value Products	19,206	13,050	59,514	41,654
Asset Protection	6,827	4,150	20,292	15,595
Corporate and Other	(14,251)	(6,614)	(35,066)	(4,131)
Total segment operating income	121,295	94,822	346,225	345,121
Realized investment (losses) gains - investments(1)	(36,282)	120,745	(165,349)	191,294
Realized investment (losses) gains - derivatives	57,108	(124,581)	235,885	(187,163)
Income tax expense	(49,060)	(30,506)	(142,210)	(113,596)
Net income available to PLC's common shareowners	\$ 93,061	\$ 60,480	\$ 274,551	\$ 235,656
Investment gains (losses)(2)	\$ (28,189)	\$ 113,999	\$ (150,896)	\$ 182,946
Less: amortization related to DAC/VOBA and benefits and settlement expenses	8,093	(6,746)	14,453	(8,348)
Realized investment gains (losses) - investments	\$ (36,282)	\$ 120,745	\$ (165,349)	\$ 191,294
Derivative gains (losses)(3)	\$ 41,326	\$ (134,222)	\$ 192,592	\$ (212,399)
Less: VA GMWB economic cost	(15,782)	(9,641)	(43,293)	(25,236)
Realized investment gains (losses) - derivatives	\$ 57,108	\$ (124,581)	\$ 235,885	\$ (187,163)

(1) Includes credit related other-than-temporary impairments of \$8.7 million and \$17.3 million for the three and nine months ended September 30, 2013, respectively, as compared to \$8.5 million and \$40.9 million for the three and nine months ended September 30, 2012, respectively.

(2) Includes realized investment gains (losses) before related amortization.

(3) Includes realized gains (losses) on derivatives before the VA GMWB economic cost.

Table of Contents

	Operating Segment Assets As of September 30, 2013 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 12,913,198	\$ 11,196,503	\$ 19,331,934	\$ 2,530,150
Deferred policy acquisition costs and value of business acquired	2,030,605	597,284	623,634	1,112
Goodwill	10,192	33,292		
Total assets	\$ 14,953,995	\$ 11,827,079	\$ 19,955,568	\$ 2,531,262

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
	Investments and other assets	\$ 842,165	\$ 8,215,533	\$ 17,278
Deferred policy acquisition costs and value of business acquired	54,171	707		3,307,513
Goodwill	62,670	83		106,237
Total assets	\$ 959,006	\$ 8,216,323	\$ 17,278	\$ 58,460,511

	Operating Segment Assets As of December 31, 2012 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	\$ 12,171,405	\$ 11,312,550	\$ 17,649,488	\$ 2,509,160
Deferred policy acquisition costs and value of business acquired	2,001,708	679,746	491,184	1,399
Goodwill	10,192	35,615		
Total assets	\$ 14,183,305	\$ 12,027,911	\$ 18,140,672	\$ 2,510,559

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
	Investments and other assets	\$ 789,916	\$ 9,584,411	\$ 19,662
Deferred policy acquisition costs and value of business acquired	64,416	1,066		3,239,519
Goodwill	62,671	83		108,561
Total assets	\$ 917,003	\$ 9,585,560	\$ 19,662	\$ 57,384,672

17. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to September 30, 2013, and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.

On October 1, 2013, PLICO completed the acquisition contemplated by the master agreement (the "Master Agreement") previously reported in our Current Report on Form 8-K dated April 11, 2013. Pursuant to that Master Agreement with AXA Financial, Inc. ("AXA") and AXA Equitable Financial Services, LLC ("AEFS"), PLICO acquired the stock of MONY Life Insurance Company ("MONY") from AEFS and entered into a reinsurance agreement pursuant to which it is reinsuring on a 100% indemnity reinsurance basis certain business (the "MLOA Business") of

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MONY Life Insurance Company of America (MLOA). The aggregate purchase price for MONY was \$686 million, and will be subject to a customary post-closing adjustment. The ceding commission for the reinsurance of the MLOA Business was \$370 million.

At the closing of the transaction, PLICO entered into an administrative services agreement with MLOA, which governs the ongoing administration of the MLOA Business by PLICO, and a transaction services agreement with AXA Equitable Life Insurance Company (AXA Equitable), pursuant to which AXA Equitable and its affiliates will make available to PLICO and its affiliates, for a limited period of time, certain services required for the operation of the business following the closing.

Table of Contents

Item 2. 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 condensed financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K.

For a more complete understanding of our business and current period results, please read the following MD&A in conjunction with our latest Annual Report on Form 10-K and other filings with the United States Securities and Exchange Commission (the SEC).

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, other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Part I, Item II, *Risks and Uncertainties* and Part II, Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results*, of this report, as well as Part I, Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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, the Company, we, us, or our refers to the consolidated group of Protective Life Corporation and our subsidiaries.

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We have several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments as prescribed in the Accounting Standards Codification (ASC) Segment Reporting Topic, and make adjustments to our segment reporting as needed.

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

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

Table of Contents

- **Acquisitions** - We focus on acquiring, converting, and servicing policies from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisition segment are typically 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 market fixed and variable annuity (VA) products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- **Stable Value Products** - We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank (FHLB), and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. Additionally, we have contracts outstanding pursuant to a funding agreement-backed notes program registered with the United States Securities and Exchange Commission (the SEC) which offered notes to both institutional and retail investors.
- **Asset Protection** - We 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. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.
- **Corporate and Other** - This segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity) and expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

EXECUTIVE SUMMARY

Net income available to PLC's common shareowners for the nine months ended September 30, 2013 was \$274.6 million or \$3.39 per average diluted share. After-tax operating income was \$228.7 or \$2.82 per average diluted share.

We have reported strong financial results during the first nine months of 2013. Notwithstanding the headwinds created by the low interest rate environment, an unsettled regulatory environment and intense competition across all retail product lines, we have continued to stay on track to meet our sales, capital and earnings goals.

Also, on October 1, 2013, we closed the acquisition of MONY Life Insurance Company and entered into a reinsurance agreement to reinsure certain business from MONY Life Insurance Company of America. We expect these transactions to positively impact our future results.

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 and man-made catastrophes, pandemics, malicious acts, terrorist acts and climate change, could adversely affect our operations and results;
- a disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect our business, financial condition and results of operations;
- confidential information maintained in our systems could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- we may not be able to achieve the expected results from our recent acquisition;

Table of Contents

- we are dependent on the performance of others;
- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;

Financial environment

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

control;

- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations and pay dividends;

Industry

- we are highly regulated, are subject to numerous legal restrictions and regulations, and are subject to audits, examinations and actions by regulators and law enforcement agencies;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- 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;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- use of 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;
- our policy claims fluctuate from period to period resulting in earnings volatility;

Table of Contents

Competition

- we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and
- we may not be able to protect our intellectual property and may be subject to infringement claims.

For more information about the risks, uncertainties, and other factors that could affect our future results, please see Part II, Item 1A of this report and our Annual Report on Form 10-K.

CRITICAL ACCOUNTING POLICIES

Our accounting policies require the use of judgments relating to a variety of assumptions and estimates, including, but not limited to expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of 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 condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2012.

RESULTS OF OPERATIONS

We use the same accounting policies and procedures to measure segment operating income (loss) and assets as we use to measure consolidated net income available to PLC's common shareowners and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives net of the amortization related to deferred acquisition costs (DAC), value of business acquired (VOBA), and benefits and settlement expenses. Operating earnings exclude changes in the guaranteed minimum withdrawal benefits (GMWB) embedded derivatives (excluding the portion attributed to economic cost), realized and unrealized gains (losses) on derivatives used to hedge the VA product, actual GMWB incurred claims and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of our business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. During the three month period ended September 30, 2013, we began allocating realized gains and losses to certain of our segments to better reflect the economics of the investments supporting those segments. This change had no impact to segment operating income. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

However, segment operating income (loss) should not be viewed as a substitute for accounting principles generally accepted in the United States of America (GAAP) net income available to PLC s common shareowners. In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

We periodically review and update as appropriate our key assumptions on products using the ASC Financial Services-Insurance Topic, including future mortality, expenses, lapses, premium persistency, benefit utilization, investment yields, interest spreads, and equity market returns. Changes to these assumptions result in adjustments which increase or decrease DAC amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as unlocking . When referring to DAC amortization or unlocking on products covered under the ASC Financial Services-Insurance Topic, the reference is to changes in all balance sheet components amortized over estimated gross profits.

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Table of Contents

The following table presents a summary of results and reconciles segment operating income (loss) to consolidated net income available to PLC's common shareowners:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change
Segment Operating Income (Loss)						
Life Marketing	\$ 29,218	\$ 28,673	1.9%	\$ 77,598	\$ 89,390	(13.2)%
Acquisitions	29,429	46,155	(36.2)	93,241	128,869	(27.6)
Annuities	50,866	9,408	n/m	130,646	73,744	77.2
Stable Value Products	19,206	13,050	47.2	59,514	41,654	42.9
Asset Protection	6,827	4,150	64.5	20,292	15,595	30.1
Corporate and Other	(14,251)	(6,614)	n/m	(35,066)	(4,131)	n/m
Total segment operating income	121,295	94,822	27.9	346,225	345,121	0.3
Realized investment gains (losses) - investments(1)	(36,282)	120,745		(165,349)	191,294	
Realized investment gains (losses) - derivatives	57,108	(124,581)		235,885	(187,163)	
Income tax expense	(49,060)	(30,506)		(142,210)	(113,596)	
Net income available to PLC's common shareowners	\$ 93,061	\$ 60,480	53.9	\$ 274,551	\$ 235,656	16.5
Investment gains (losses)(2)	\$ (28,189)	\$ 113,999		\$ (150,896)	\$ 182,946	
Less: amortization related to DAC/VOBA and benefits and settlement expenses	8,093	(6,746)		14,453	(8,348)	
Realized investment gains (losses) - investments	\$ (36,282)	\$ 120,745		\$ (165,349)	\$ 191,294	
Derivative gains (losses) (3)	\$ 41,326	\$ (134,222)		\$ 192,592	\$ (212,399)	
Less: VA GMWB economic cost	(15,782)	(9,641)		(43,293)	(25,236)	
Realized investment gains (losses) - derivatives	\$ 57,108	\$ (124,581)		\$ 235,885	\$ (187,163)	

(1) Includes credit related other-than-temporary impairments of \$8.7 million and \$17.3 million for the three and nine months ended September 30, 2013, respectively, as compared to \$8.5 million and \$40.9 million for the three and nine months ended September 30, 2012, respectively.

(2) Includes realized investment gains (losses) before related amortization.

(3) Includes realized gains (losses) on derivatives before the VA GMWB economic cost.

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

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Net income available to PLC's common shareowners for the three months ended September 30, 2013, included a \$26.5 million, or 27.9%, increase in segment operating income. The increase consisted of a \$0.5 million increase in the Life Marketing segment, a \$41.5 million increase in the Annuities segment, a \$6.2 million increase in the Stable Value Products segment, and a \$2.7 million increase in the Asset Protection segment. These increases were partially offset by a \$16.7 million decrease in the Acquisitions segment and a \$7.6 million decrease in the Corporate and Other segment.

We experienced net realized gains of \$13.1 million for the three months ended September 30, 2013, as compared to net realized losses of \$20.2 million for the three months ended September 30, 2012. The gains realized for the three months ended September 30, 2013, were primarily related to \$10.5 million of gains related to investment securities sale activity, \$4.1 million of gains related to the net activity of the modified coinsurance portfolio, \$11.2 million of gains on derivatives related to variable annuity contracts, and a \$0.1 million gain on interest rate caps and swaps. Partially offsetting these gains were \$8.7 million of other-than-temporary impairment credit-related losses and \$4.2 million of losses related to other investment and derivative activity.

Table of Contents

- Life Marketing segment operating income was \$29.2 million for the three months ended September 30, 2013, representing an increase of \$0.5 million, or 1.9%, from the three months ended September 30, 2012. The increase was primarily due to favorable prospective unlocking, higher investment income due to growth and higher other income due to the segment's non-insurance operation. The segment recorded a favorable \$2.4 million of prospective unlocking for the three months ended September 30, 2013, as compared to an unfavorable \$5.5 million for the three months ended September 30, 2012. These items were partially offset by less favorable traditional and universal life mortality and an increase in non-deferred expenses resulting from slightly higher sales.
- Acquisitions segment operating income was \$29.4 million for the three months ended September 30, 2013, a decrease of \$16.7 million, or 36.2%, as compared to the three months ended September 30, 2012. This variance is largely attributable to unfavorable prospective unlocking of \$4.2 million during the third quarter of 2013, compared to favorable prospective unlocking of \$4.5 million in 2012. The remainder of the variance was caused primarily by less favorable mortality, lower spread income and the expected runoff of business.
- Annuities segment operating income was \$50.9 million for the three months ended September 30, 2013, as compared to \$9.4 million for the three months ended September 30, 2012, an increase of \$41.5 million. This variance included a favorable change of \$29.6 million in unlocking and higher net policy fees and other income of \$15.6 million in the VA line associated with the growth in account balances. The segment recorded a favorable \$4.9 million of unlocking for the three months ended September 30, 2013, as compared to unfavorable unlocking of \$24.7 million for the three months ended September 30, 2012. This was offset by an unfavorable change in net investment income resulting from a decrease in fixed annuity account balances.
- Stable Value Products segment operating income was \$19.2 million and increased \$6.2 million, or 47.2%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase in operating earnings resulted from an increase in participating mortgage income and higher operating spreads offset by a decline in average account values. Participating mortgage income for the three months ended September 30, 2013 was \$2.4 million compared to \$0.1 million for the three months ended September 30, 2012. The adjusted operating spread, which excludes participating income, increased by 69 basis points for the three months ended September 30, 2013 over the prior year, due primarily to a decline in credited interest.
- Asset Protection segment operating income was \$6.8 million, representing an increase of \$2.7 million, or 64.5%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Credit insurance earnings increased \$1.6 million, primarily resulting from lower losses. Service contract earnings increased \$1.0 million, primarily due to higher volume and lower general and administrative expenses. Earnings from the GAP product was consistent with the prior year.
- Corporate and Other segment operating loss was \$14.3 million for the three months ended September 30, 2013, as compared to an operating loss of \$6.6 million for the three months ended September 30, 2012. The decrease resulted from a decline of \$7.5 million in core net investment income partially offset by favorable operating expenses as compared to the three months ended September 30, 2012. The decrease in core net investment income was primarily driven by a \$4.9 million unfavorable variance related to income on called securities. The decrease in other operating expenses was primarily related to a \$4.0 million deferred issue cost write-off recorded during the third quarter of 2012.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

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Net income available to PLC's common shareowners for the nine months ended September 30, 2013, included a \$1.1 million, or 0.3%, increase in segment operating income. The increase consisted of a \$56.9 million increase in the Annuities segment, a \$17.9 million increase in the Stable Value Products segment, and a \$4.7 million increase in the Asset Protection segment. These increases were partially offset by an \$11.8 million decrease in the Life Marketing segment, a \$35.6 million decrease in the Acquisitions segment, and a \$30.9 million decrease in the Corporate and Other segment.

Table of Contents

We experienced net realized gains of \$41.7 million for the nine months ended September 30, 2013, as compared to net realized losses of \$29.5 million for the nine months ended September 30, 2012. The gains realized for the nine months ended September 30, 2013, were primarily related to \$44.4 million of gains related to investment securities sale activity, \$23.9 million of gains related to the net activity of the modified coinsurance portfolio, and a \$3.0 million gain on interest rate caps and swaps. Partially offsetting these gains were \$17.3 million for other-than-temporary impairment credit-related losses, net losses of \$2.0 million on derivatives related to variable annuity contracts, and \$10.3 million of losses related to other investment and derivative activity.

- Life Marketing segment operating income was \$77.6 million for the nine months ended September 30, 2013, representing a decrease of \$11.8 million, or 13.2%, from the nine months ended September 30, 2012. The decrease was primarily due to less favorable traditional and universal life mortality, a \$4.2 million reinsurance accrual established in the second quarter of 2013, and an increase in non-deferred expenses resulting from higher sales. This decrease was partially offset by higher investment income due to an increase in reserves and favorable prospective unlocking. The segment recorded a favorable \$2.4 million of prospective unlocking for the nine months ended September 30, 2013, as compared to an unfavorable \$5.5 million for the nine months ended September 30, 2012.

- Acquisitions segment operating income was \$93.2 million for the nine months ended September 30, 2013, a decrease of \$35.6 million, or 27.6%, as compared to the nine months ended September 30, 2012. This variance is primarily attributable to an unfavorable mortality variance, unfavorable change in prospective unlocking, lower spread income, and the expected runoff of business.

- Annuities segment operating income was \$130.6 million for the nine months ended September 30, 2013, as compared to \$73.7 million for the nine months ended September 30, 2012, an increase of \$56.9 million, or 77.2%. This variance included a favorable change of \$35.4 million in unlocking and \$42.0 million of higher net policy fees and other income in the VA line associated with the growth in account balances. This was offset by an unfavorable change in net investment income resulting from a decrease in fixed annuity account balances.

- Stable Value Products segment operating income was \$59.5 million and increased \$17.9 million, or 42.9%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The increase in operating earnings resulted from an increase in participating mortgage income and higher operating spreads offset by a decline in average account values. Participating mortgage income for the nine months ended September 30, 2013 was \$9.5 million compared to \$2.6 million for the nine months ended September 30, 2012. The adjusted operating spread, which excludes participating income, increased by 71 basis points for the nine months ended September 30, 2013 over the prior year, due primarily to a decline in credited interest.

- Asset Protection segment operating income was \$20.3 million, representing an increase of \$4.7 million, or 30.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Credit insurance earnings increased \$3.9 million primarily due to \$2.6 million in litigation costs incurred in 2012 and lower losses and expenses in 2013. Service contract earnings increased \$0.6 million primarily due to higher volume and lower general and administrative expenses. Earnings from the GAP product line increased \$0.2 million primarily resulting from lower expenses somewhat offset by higher losses.

- Corporate and Other segment operating loss was \$35.1 million for the nine months ended September 30, 2013, as compared to an operating loss of \$4.1 million for the nine months ended September 30, 2012. The decrease was the result of a \$32.1 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. For the nine months ended September 30, 2013, \$3.4 million of pre-tax gains were generated from the repurchase on non-recourse funding obligations as compared to \$35.5 million of pre-tax gains for the nine

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months ended September 30, 2012. In addition, the decrease was driven by higher operating expenses which were partially offset by an \$11.2 million deferred issue cost write-off recorded during the nine months ended September 30, 2012.

Table of Contents**Life Marketing***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change
REVENUES						
Gross premiums and policy fees	\$ 356,809	\$ 379,207	(5.9)%	\$ 1,217,852	\$ 1,164,969	4.5%
Reinsurance ceded	(145,075)	(190,099)	23.7	(607,917)	(592,657)	(2.6)
Net premiums and policy fees	211,734	189,108	12.0	609,935	572,312	6.6
Net investment income	129,935	123,647	5.1	387,237	363,956	6.4
Other income	32,144	28,280	13.7	91,288	87,400	4.4
Total operating revenues	373,813	341,035	9.6	1,088,460	1,023,668	6.3
Realized gains (losses) - investments	3,603			3,603		
Total revenues	377,416	341,035		1,092,063	1,023,668	
BENEFITS AND EXPENSES						
Benefits and settlement expenses	330,156	305,281	8.1	866,995	811,369	6.9
Amortization of deferred policy acquisition costs	(24,284)	(26,464)	8.2	16,804	15,584	7.8
Other operating expenses	38,723	33,545	15.4	127,063	107,325	18.4
Operating benefits and expenses	344,595	312,362		1,010,862	934,278	
Amortization related to benefits and settlement expenses	483			483		
Amortization of DAC related to realized gains (losses) - investments	819			819		
Total benefits and expenses	345,897	312,362	10.7	1,012,164	934,278	8.3
INCOME BEFORE INCOME TAX						
TAX	31,519	28,673	9.9	79,899	89,390	(10.6)
Less: realized gains (losses)	3,603			3,603		
Less: amortization related to benefits and settlement expenses	(483)			(483)		
Less: related amortization of DAC	(819)			(819)		
OPERATING INCOME	\$ 29,218	\$ 28,673	1.9	\$ 77,598	\$ 89,390	(13.2)

Table of Contents

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

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change
Sales By Product						
Traditional	\$ 390	\$ 326	19.6%	\$ 1,091	\$ 920	18.6%
Universal life	32,261	30,779	4.8	123,437	75,883	62.7
BOLI		33	n/m		2,754	n/m
	\$ 32,651	\$ 31,138	4.9	\$ 124,528	\$ 79,557	56.5
Sales By Distribution Channel						
Independent agents	\$ 23,395	\$ 18,373	27.3	\$ 86,040	\$ 47,131	82.6
Stockbrokers / banks	8,608	12,315	(30.1)	36,831	28,482	29.3
BOLI / other	648	450	44.0	1,657	3,944	(58.0)
	\$ 32,651	\$ 31,138	4.9	\$ 124,528	\$ 79,557	56.5
Average Life Insurance In-force(1)						
Traditional	\$ 423,831,748	\$ 449,416,242	(5.7)	\$ 430,538,542	\$ 455,635,914	(5.5)
Universal life	109,933,560	79,452,404	38.4	100,813,147	76,678,629	31.5
	\$ 533,765,308	\$ 528,868,646	0.9	\$ 531,351,689	\$ 532,314,543	(0.2)
Average Account Values						
Universal life	\$ 7,003,612	\$ 6,466,699	8.3	\$ 6,865,081	\$ 6,398,672	7.3
Variable universal life	468,595	388,002	20.8	440,238	379,947	15.9
	\$ 7,472,207	\$ 6,854,701	9.0	\$ 7,305,319	\$ 6,778,619	7.8

(1) Amounts are not adjusted for reinsurance ceded.

Table of Contents*Operating expenses detail*

Other operating expenses for the segment were as follows:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
Insurance companies:								
First year commissions	\$ 39,168	\$ 32,834	19.3%	\$ 135,332	\$ 80,049	69.1%		
Renewal commissions	8,238	8,128	1.4	25,426	25,783	(1.4)		
First year ceding allowances	(939)	(1,084)	13.4	(3,035)	(3,107)	2.3		
Renewal ceding allowances	(40,322)	(39,102)	(3.1)	(120,393)	(117,474)	(2.5)		
General & administrative	41,005	33,606	22.0	130,001	104,265	24.7		
Taxes, licenses, and fees	8,153	8,536	(4.5)	28,666	25,626	11.9		
Other operating expenses incurred	55,303	42,918	28.9	195,997	115,142	70.2		
Less: commissions, allowances & expenses capitalized	(46,636)	(36,447)	28.0	(156,364)	(90,834)	72.1		
Other insurance company operating expenses	8,667	6,471	33.9	39,633	24,308	63.0		
Marketing companies:								
Commissions	22,298	19,425	14.8	64,610	60,197	7.3		
Other operating expenses	7,758	7,649	1.4	22,820	22,820			
Other marketing company operating expenses	30,056	27,074	11.0	87,430	83,017	5.3		
Other operating expenses	\$ 38,723	\$ 33,545	15.4	\$ 127,063	\$ 107,325	18.4		

*For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012**Segment operating income*

Operating income was \$29.2 million for the three months ended September 30, 2013, representing an increase of \$0.5 million, or 1.9%, from the three months ended September 30, 2012. The increase was primarily due to favorable prospective unlocking, higher investment income due to growth and higher other income due to the segment's non-insurance operation. The segment recorded a favorable \$2.4 million of prospective unlocking for the three months ended September 30, 2013, as compared to an unfavorable \$5.5 million for the three months ended September 30, 2012. These items were partially offset by less favorable traditional and universal life mortality and an increase in non-deferred expenses resulting from slightly higher sales.

Operating revenues

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Total operating revenues for the three months ended September 30, 2013, increased \$32.8 million, or 9.6%, as compared to the three months ended September 30, 2012. This increase was driven by higher net premiums and policy fees due to lower reinsurance ceded resulting from non-recurring activity on a block of term business reaching the end of its post level premium period, investment income due to increases in net in force reserves, and other income due to higher revenue in the segment's non-insurance operations.

Net premiums and policy fees

Net premiums and policy fees increased by \$22.6 million, or 12.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to an increase in premiums and policy fees associated with decreases in the ceded reinsurance on traditional life premiums resulting from non-recurring activity on a block of term business reaching the end of its post level premium period, partially offset by increased sales in universal life business.

Table of Contents

Net investment income

Net investment income in the segment increased \$6.3 million, or 5.1%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Of the increase in net investment income, \$4.3 million was attributable to a net increase in universal life reserves. Additionally, traditional life investment income increased \$1.7 million.

Other income

Other income increased \$3.9 million, or 13.7%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to higher revenue in the segment's non-insurance operations and favorable fluctuations in variable universal life marketing allowances.

Benefits and settlement expenses

Benefits and settlement expenses increased by \$24.9 million, or 8.1%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to growth in retained universal life insurance in-force, an increase in reserves resulting from new sales, higher credited interest on universal life products resulting from increases in account values, and less favorable mortality in the traditional and universal life blocks. In the third quarter of 2013, UL and BOLI unlocking increased policy benefits and settlement expenses \$41.2 million as compared to an increase of \$54.4 million in the third quarter of 2012. Unlocking in 2013 was largely driven by assumption changes to reinsurance, lapses, yield, and credited interest. Lapses, yield, and credited interest mainly contributed to the unlocking in 2012.

Amortization of DAC

DAC amortization increased \$2.2 million, or 8.2%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to less favorable unlocking and the impact of fluctuations in reinsurance premiums, which were offset in the associated reserves within benefits and settlement expenses. In the third quarter of 2012, UL and BOLI unlocking decreased amortization by \$49.5 million, largely driven by assumption changes to lapses, yield, and credited interest on fund value. In the third quarter of 2013, UL and BOLI unlocking decreased amortization \$40.3 million, which is offset by the \$41.2 million increase in policy benefits and settlement expenses.

Other operating expenses

Other operating expenses increased \$5.2 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. This increase reflects higher new business acquisition costs associated with slightly higher sales, higher marketing company expenses of \$3.0 million, higher general administrative expenses, and a \$0.7 million increase in interest expense associated with

reserve financing costs.

Sales

Sales for the segment increased \$1.5 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to more competitive product positioning.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income

Operating income was \$77.6 million for the nine months ended September 30, 2013, representing a decrease of \$11.8 million, or 13.2%, from the nine months ended September 30, 2012. The decrease was primarily due to less favorable traditional and universal life mortality, a \$4.2 million reinsurance accrual established in the second quarter of 2013, and an increase in non-deferred expenses resulting from higher sales. This decrease was partially offset by higher investment income due to an increase in reserves and favorable prospective unlocking. The segment recorded a

Table of Contents

favorable \$2.4 million of prospective unlocking for the nine months ended September 30, 2013, as compared to an unfavorable \$5.5 million for the nine months ended September 30, 2012.

Operating revenues

Total operating revenues for the nine months ended September 30, 2013, increased \$64.8 million, or 6.3%, as compared to the nine months ended September 30, 2012. This increase was driven by higher premiums and policy fees due to increased sales along with higher investment income due to increases in net in force reserves.

Net premiums and policy fees

Net premiums and policy fees increased by \$37.6 million, or 6.6%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to an increase in premiums and policy fees associated with increased sales of universal life business, partially offset by decreases in traditional life premiums.

Net investment income

Net investment income in the segment increased \$23.3 million, or 6.4%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Of the increase in net investment income, \$15.0 million was the result of a net increase in universal life reserves. Additionally, traditional life investment income increased \$7.4 million.

Other income

Other income increased \$3.9 million, or 4.4%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to higher revenue in the segment's non-insurance operations, slightly offset by unfavorable fluctuations in variable universal life marketing allowances.

Benefits and settlement expenses

Benefits and settlement expenses increased by \$55.6 million, or 6.9%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to growth in retained universal life insurance in-force, higher credited interest on universal life products, and less favorable mortality in the traditional and universal life block. For the nine months ended September 30, 2013, UL and BOLI unlocking

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increased policy benefits and settlement expenses \$42.8 million as compared to an increase of \$74.0 million for the nine months ended September 30, 2012. Unlocking in 2013 was largely driven by assumption changes to reinsurance, lapses, yield, and credited interest. Lapses, yield, and credited interest mainly contributed to the unlocking in 2012.

Amortization of DAC

DAC amortization increased \$1.2 million, or 7.8%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to differing impacts of unlocking. In 2013, UL and BOLI unlocking decreased amortization \$42.6 million, as compared to a decrease of \$46.6 million in 2012.

Other operating expenses

Other operating expenses increased \$19.7 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. This increase reflects higher new business acquisition costs associated with higher sales, higher marketing company expenses of \$4.4 million, higher general administrative expenses, and a \$3.5 million increase in interest expense associated with reserve financing costs.

Table of Contents

Sales

Sales for the segment increased \$45.0 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. UL sales increased \$47.6 million due to more competitive product positioning. BOLI sales decreased by \$2.8 million due to less favorable product positioning.

Reinsurance

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

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration, and investment contracts business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore, impact DAC amortization on these lines of business. Deferred reinsurance allowances on level term business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in-force. Thus, deferred reinsurance allowances may impact DAC amortization. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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 Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
(Dollars In Thousands)				
REVENUES				
Reinsurance ceded	\$ (145,075)	\$ (190,099)	\$ (607,917)	\$ (592,657)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(121,278)	(186,086)	(596,141)	(593,679)
Amortization of deferred policy acquisition costs	(9,279)	1,886	(33,717)	(26,130)
Other operating expenses (1)	(35,227)	(33,191)	(101,592)	(98,754)
Total benefits and expenses	(165,784)	(217,391)	(731,450)	(718,563)
NET IMPACT OF REINSURANCE (2)	\$ 20,709	\$ 27,292	\$ 123,533	\$ 125,906
Allowances received	\$ (41,261)	\$ (40,186)	\$ (120,427)	\$ (120,580)
Less: Amount deferred	6,034	6,995	18,835	21,826
Allowances recognized (ceded other operating expenses) (1)	\$ (35,227)	\$ (33,191)	\$ (101,592)	\$ (98,754)

(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 90% to 160%.

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 90% to 160%. The Life Marketing segment's reinsurance programs do not materially impact the other income line of our income statement.

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

Table of Contents

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

The lower ceded premiums for 2013 as compared to 2012 were caused primarily by lower ceded traditional life premiums of \$51.7 million slightly offset by higher universal life premiums and policy fees of \$7.1 million. Ceded traditional premiums for the three months ended September 30, 2013, decreased from the three months ended September 30, 2012, as a large number of policies reached their post level premium period in the second quarter of 2013 and subsequently lapsed in the third quarter of 2013. This was offset by increases in ceded premium reserves included in the benefits and settlement expenses line.

Ceded benefits and settlement expenses were lower for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to decreases in ceded reserves partially offset by higher ceded claims. Traditional ceded benefits decreased \$39.1 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to an decrease in ceded reserves largely due to a large number of policies that reached their post level period in the second quarter of 2013 and subsequently lapsed in the third quarter of 2013, slightly offset by an increase in ceded death benefits. Universal life ceded benefits decreased \$25.6 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to lower ceded claims and a decrease in ceded reserves. Ceded universal life claims were \$4.7 million lower for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

Ceded amortization of deferred policy acquisitions costs increased for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to the differences in unlocking between the two periods.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income. Allowances decreased in the traditional life block, reflecting runoff of business and increased in the universal life block reflecting the allowance pattern on older business and changes in the mix of business.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

The higher ceded premiums for 2013 as compared to 2012 were caused primarily by higher universal life premiums and policy fees of \$31.9 million, partially offset by lower traditional life premiums of \$15.4 million.

Ceded benefits and settlement expenses were higher for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to higher ceded claims, largely offset by decreases in ceded reserves. Traditional ceded benefits decreased \$7.2 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to a decrease in ceded reserves, partially offset by an increase in ceded death benefits. Universal life ceded benefits increased \$9.2 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to an increase in ceded reserves primarily due to new business and higher ceded claims, partially offset by a decrease in ceded reserves. Ceded universal life claims were \$19.6 million higher for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

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Ceded amortization of deferred policy acquisitions costs increased for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to the differences in unlocking between the two periods.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income. Allowances decreased in the traditional line reflecting runoff of business and increased in the universal life line reflecting the allowance pattern on older business and changes in the mix of business.

Table of Contents**Acquisitions***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change
REVENUES						
Gross premiums and policy fees	\$ 194,379	\$ 207,305	(6.2)%	\$ 611,299	\$ 635,135	(3.8)%
Reinsurance ceded	(92,970)	(99,496)	6.6	(292,229)	(282,441)	(3.5)
Net premiums and policy fees	101,409	107,809	(5.9)	319,070	352,694	(9.5)
Net investment income	133,695	136,466	(2.0)	403,050	413,279	(2.5)
Other income	1,004	1,397	(28.1)	3,033	5,216	(41.9)
Total operating revenues	236,108	245,672	(3.9)	725,153	771,189	(6.0)
Realized gains (losses) - investments	(24,992)	107,500		(163,726)	180,150	
Realized gains (losses) - derivatives	28,951	(101,622)		190,820	(138,984)	
Total revenues	240,067	251,550		752,247	812,355	
BENEFITS AND EXPENSES						
Benefits and settlement expenses	173,423	169,441	2.4	530,773	544,102	(2.4)
Amortization of value of business acquired	18,030	17,707	1.8	54,904	58,614	(6.3)
Other operating expenses	15,226	12,369	23.1	46,235	39,604	16.7
Operating benefits and expenses	206,679	199,517	3.6	631,912	642,320	(1.6)
Amortization related to benefits and settlement expenses	104			104		
Amortization of VOBA related to realized gains (losses) - investments	398	109		1,514	284	
Total benefits and expenses	207,181	199,626	3.8	633,530	642,604	(1.4)
INCOME BEFORE INCOME TAX						
	32,886	51,924	(36.7)	118,717	169,751	(30.1)
Less: realized gains (losses)	3,959	5,878		27,094	41,166	
Less: amortization related to benefits and settlement expenses	(104)			(104)		
Less: related amortization of VOBA	(398)	(109)		(1,514)	(284)	
OPERATING INCOME	\$ 29,429	\$ 46,155	(36.2)	\$ 93,241	\$ 128,869	(27.6)

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Table of Contents

The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
Average Life Insurance In-Force(1)								
Traditional	\$ 166,134,343	\$ 178,243,697	(6.8)%	\$ 169,083,110	\$ 181,097,908	(6.6)%		
Universal life	27,475,762	29,742,721	(7.6)	28,050,853	30,701,371	(8.6)		
	\$ 193,610,105	\$ 207,986,418	(6.9)	\$ 197,133,963	\$ 211,799,279	(6.9)		
Average Account Values								
Universal life	\$ 3,318,872	\$ 3,394,323	(2.2)	\$ 3,338,832	\$ 3,432,776	(2.7)		
Fixed annuity(2)	3,018,382	3,170,656	(4.8)	3,048,919	3,207,014	(4.9)		
Variable annuity	577,578	586,294	(1.5)	576,569	601,130	(4.1)		
	\$ 6,914,832	\$ 7,151,273	(3.3)	\$ 6,964,320	\$ 7,240,920	(3.8)		
Interest Spread - UL & Fixed Annuities								
Net investment income yield(3)	5.73%	5.92%		5.70%	5.88%			
Interest credited to policyholders	4.02	4.20		3.99	4.18			
Interest spread	1.71%	1.72%		1.71%	1.70%			

(1) Amounts are not adjusted for reinsurance ceded.

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

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

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

Segment operating income

Operating income was \$29.4 million for the three months ended September 30, 2013, a decrease of \$16.7 million, or 36.2%, as compared to the three months ended September 30, 2012. This variance is largely attributable to unfavorable prospective unlocking of \$4.2 million during the third quarter of 2013, compared to favorable prospective unlocking of \$4.5 million in 2012. The remainder of the variance was caused primarily by less favorable mortality, lower spread income and the expected runoff of business.

Operating revenues

Net premiums and policy fees decreased \$6.4 million, or 5.9%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to the expected runoff of business. Net investment income decreased \$2.8 million, or 2.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, due to the expected runoff of business, implementation of a reserve financing, and lower yields.

Total benefits and expenses

Total benefits and expenses increased \$7.6 million, or 3.8%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase was due to increases in operating expenses and an increase in prospective unlocking partly offset by the expected runoff of the blocks.

Table of Contents

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income

Operating income was \$93.2 million for the nine months ended September 30, 2013, a decrease of \$35.6 million, or 27.6%, as compared to the nine months ended September 30, 2012. This variance is primarily attributable to an unfavorable mortality variance, unfavorable change in prospective unlocking, lower spread income, and the expected runoff of business.

Operating revenues

Net premiums and policy fees decreased \$33.6 million, or 9.5%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to the impact of a reinsurance recapture on 2012 results, additional reinsurance in 2013, and the expected runoff of business. Net investment income decreased \$10.2 million, or 2.5%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, due to the expected runoff of business, implementation of a reserve financing, and lower yields.

Total benefits and expenses

Total benefits and expenses decreased \$9.1 million, or 1.4%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The decrease was due to the impact of a reinsurance recapture on 2012 results, additional reinsurance in 2013, and the expected runoff of the in-force business, partially offset by higher mortality, interest and an unfavorable change in the impact of prospective unlocking.

Reinsurance

The Acquisitions segment currently reinsures portions of both its life and annuity in-force. The cost of reinsurance to the segment is reflected in the chart shown below. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

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 Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	\$ (92,970)	\$ (99,496)	\$ (292,229)	\$ (282,441)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(65,336)	(88,443)	(238,789)	(234,846)
Amortization of deferred policy acquisition costs	(2,718)	1,993	(7,307)	(8,510)
Other operating expenses	(12,014)	(13,486)	(36,460)	(40,511)
Total benefits and expenses	(80,068)	(99,936)	(282,556)	(283,867)
NET IMPACT OF REINSURANCE (1)	\$ (12,902)	\$ 440	\$ (9,673)	\$ 1,426

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

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

The net impact of reinsurance is less favorable by \$13.3 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to changes in estimates on a block of universal life insurance, lower ceded claims, and implementation of a new reinsurance treaty in 2013.

The net impact of reinsurance is less favorable by \$11.1 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to changes in estimates on a block of universal life insurance, lower ceded claims, the implementation

of a new reinsurance treaty in 2013, and a recapture in 2012.

Table of Contents**Annuities****Segment results of operations**

Segment results were as follows:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
REVENUES								
Gross premiums and policy fees	\$ 34,870	\$ 24,870	40.2%	\$ 96,387	\$ 70,050	37.6%		
Reinsurance ceded		(5)	n/m		(25)	n/m		
Net premiums and policy fees	34,870	24,865	40.2	96,387	70,025	37.6		
Net investment income	116,699	123,933	(5.8)	352,045	374,077	(5.9)		
Realized gains (losses) - derivatives	(15,782)	(9,641)	(63.7)	(43,293)	(25,236)	(71.6)		
Other income	33,295	22,276	49.5	90,690	59,174	53.3		
Total operating revenues	169,082	161,433	4.7	495,829	478,040	3.7		
Realized gains (losses) - investments	236	2,475		10,227	27,861			
Realized gains (losses) - derivatives, net of economic cost	26,987	(22,893)		41,203	(43,870)			
Total revenues	196,305	141,015	39.2	547,259	462,031	18.4		
BENEFITS AND EXPENSES								
Benefits and settlement expenses	80,963	107,253	(24.5)	243,804	286,107	(14.8)		
Amortization of deferred policy acquisition costs and value of business acquired	11,246	19,022	(40.9)	37,663	44,077	(14.6)		
Other operating expenses	26,007	25,750	1.0	83,716	74,112	13.0		
Operating benefits and expenses	118,216	152,025	(22.2)	365,183	404,296	(9.7)		
Amortization related to benefits and settlement expenses	(2,276)	(1,124)		(3,132)	(268)			
Amortization of DAC related to realized gains (losses) - investments	8,565	(5,731)		14,665	(8,364)			
Total benefits and expenses	124,505	145,170	(14.2)	376,716	395,664	(4.8)		
INCOME (LOSS) BEFORE INCOME TAX								
	71,800	(4,155)	n/m	170,543	66,367	n/m		
Less: realized gains (losses) - investments	236	2,475		10,227	27,861			
Less: realized gains (losses) - derivatives, net of economic cost	26,987	(22,893)		41,203	(43,870)			
Less: amortization related to benefits and settlement expenses	2,276	1,124		3,132	268			
Less: related amortization of DAC	(8,565)	5,731		(14,665)	8,364			
OPERATING INCOME	\$ 50,866	\$ 9,408	n/m	\$ 130,646	\$ 73,744	77.2		

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Table of Contents

The following table summarizes key data for the Annuities segment:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change	
Sales							
Fixed annuity	\$ 180,714	\$ 152,168	18.8%	\$ 434,165	\$ 461,045	(5.8)%	
Variable annuity	357,484	761,011	(53.0)	1,656,066	2,001,757	(17.3)	
	\$ 538,198	\$ 913,179	(41.1)	\$ 2,090,231	\$ 2,462,802	(15.1)	
Average Account Values							
Fixed annuity(1)	\$ 8,214,702	\$ 8,534,232	(3.7)	\$ 8,251,504	\$ 8,580,245	(3.8)	
Variable annuity	10,989,161	7,809,542	40.7	10,354,702	7,193,618	43.9	
	\$ 19,203,863	\$ 16,343,774	17.5	\$ 18,606,206	\$ 15,773,863	18.0	
Interest Spread - Fixed Annuities(2)							
Net investment income yield	5.50%	5.76%		5.51%	5.75%		
Interest credited to policyholders	3.50	3.82		3.54	3.89		
Interest spread	2.00%	1.94%		1.97%	1.86%		

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

(2) Interest spread on average general account values.

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012	Change	2013 (Dollars In Thousands)	2012	Change	
Derivatives related to variable annuity and FIA contracts:							
Interest rate futures - VA	\$ (2,255)	\$ (3,371)	\$ 1,116	\$ (26,393)	\$ 32,419	\$ (58,812)	
Equity futures - VA	(12,568)	(17,324)	4,756	(39,829)	(42,643)	2,814	
Currency futures - VA	(6,531)	(3,078)	(3,453)	1,440	(2,298)	3,738	
Volatility futures - VA					(132)	132	
Variance swaps - VA	(1,347)	(5,840)	4,493	(9,566)	(6,660)	(2,906)	
Equity options - VA	(29,094)	(9,184)	(19,910)	(65,631)	(29,903)	(35,728)	
Interest rate swaptions - VA	1,725	(3,019)	4,744	(738)	2,293	(3,031)	
Interest rate swaps - VA	(19,224)	6,361	(25,585)	(125,502)	10,187	(135,689)	
Embedded derivative - GMWB(1)	80,541	2,921	77,620	264,231	(32,369)	296,600	
Total derivatives related to variable annuity contracts	\$ 11,247	\$ (32,534)	\$ 43,781	\$ (1,988)	\$ (69,106)	\$ 67,118	
Economic cost - VA GMWB(2)	15,782	9,641	6,141	43,293	25,236	18,057	
Derivative - FIA	(42)		(42)	(102)		(102)	
Realized gains (losses) - derivatives, net of economic cost	\$ 26,987	\$ (22,893)	\$ 49,880	\$ 41,203	\$ (43,870)	\$ 85,073	

(1) Includes impact of nonperformance risk of \$(10.5) million and \$(3.1) million for the three and nine months ended September 30, 2013 and \$(29.8) million and \$(44.6) million for the three and nine months ended September 30, 2012, respectively.

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

Table of Contents

	As of		
	September 30, 2013	December 31, 2012	Change
	(Dollars In Thousands)		
GMDB - Net amount at risk(1)	\$ 96,868	\$ 129,309	(25.1)%
GMDB Reserves	17,102	19,316	(11.5)
GMWB and GMAB Reserves	(94,962)	169,269	n/m
Account value subject to GMWB rider	9,029,440	7,165,375	26.0
GMWB Benefit Base	8,312,176	6,888,471	20.7
GMAB Benefit Base	5,362	5,565	(3.6)
S&P 500® Index	1,682	1,426	18.0

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

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012*Segment operating income*

Segment operating income was \$50.9 million for the three months ended September 30, 2013, as compared to \$9.4 million for the three months ended September 30, 2012, an increase of \$41.5 million. This variance included a favorable change of \$29.6 million in unlocking and higher net policy fees and other income of \$15.6 million in the VA line associated with the growth in account balances. The segment recorded a favorable \$4.9 million of unlocking for the three months ended September 30, 2013, as compared to unfavorable unlocking of \$24.7 million for the three months ended September 30, 2012. This was offset by an unfavorable change in net investment income resulting from a decrease in fixed annuity account balances.

Operating revenues

Segment operating revenues increased \$7.6 million, or 4.7%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to increases in net policy fees and other income from the VA line of business. Those increases were offset by lower investment income. Average fixed account balances decreased 3.7% while average variable account balances grew 40.7% for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$26.3 million, or 24.5%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. This decrease was primarily the result of lower credited interest, lower realized losses in the fixed market value adjusted (MVA) annuities line, lower unearned premium reserve amortization, and a \$13.0 million favorable change in unlocking.

Amortization of DAC

The decrease in DAC amortization for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was primarily due to a favorable change in unlocking. DAC unlocking for the three months ended September 30, 2013 was \$5.8 million favorable as compared to \$10.8 million unfavorable unlocking for the three months ended September 30, 2012.

Table of Contents

Other operating expenses

Other operating expenses increased \$0.3 million, or 1.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase is due to higher commissions that are partially offset by reduced acquisition expenses attributable to lower sales.

Sales

Total sales decreased \$375.0 million, or 41.1%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Sales of variable annuities decreased \$403.5 million, or 53.0% for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Sales of fixed annuities increased by \$28.5 million, or 18.8% for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, driven by an increase in fixed indexed annuities (FIA) sales that partially offset a decrease in single premium deferred annuity sales.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income

Segment operating income was \$130.6 million for the nine months ended September 30, 2013, as compared to \$73.7 million for the nine months ended September 30, 2012, an increase of \$56.9 million, or 77.2%. This variance included a favorable change of \$35.4 million in unlocking and \$42.0 million of higher net policy fees and other income in the VA line associated with the growth in account balances. This was offset by an unfavorable change in net investment income resulting from a decrease in fixed annuity account balances.

Operating revenues

Segment operating revenues increased \$17.8 million, or 3.7%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to increases in policy fees and other income from the VA line of business. Those increases were offset by lower investment income. Average fixed account balances decreased 3.8% while average variable account balances grew 43.9% for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

Benefits and settlement expenses

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Benefits and settlement expenses decreased \$42.3 million, or 14.8%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. This decrease was primarily the result of lower credited interest, lower realized losses in the MVA annuities line, lower unearned premium reserve amortization, and a \$13.0 million favorable change in unlocking. These favorable changes were partially offset by a \$10.9 million unfavorable change in the SPIA mortality variance.

Amortization of DAC

The decrease in DAC amortization for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, was primarily due to a favorable change in unlocking partially offset by the growth in the business. DAC unlocking for the nine months ended September 30, 2013, was \$9.9 million favorable as compared to \$12.5 million unfavorable unlocking for the nine months ended September 30, 2012.

Table of Contents

Other operating expenses

Other operating expenses increased \$9.6 million, or 13.0%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The increase is due to a guaranty fund allocation of \$3.3 million recorded in the second quarter of 2013 and higher commissions and maintenance expenses related to growth of the block of business.

Sales

Total sales decreased \$372.6 million, or 15.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Sales of variable annuities decreased \$345.7 million, or 17.3% for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Sales of fixed annuities decreased by \$26.9 million, or 5.8% for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, driven by a decrease in single premium deferred annuity sales that was partially offset by an increase in FIA sales.

Table of Contents**Stable Value Products***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
REVENUES								
Net investment income	\$ 29,478	\$ 29,851	(1.2)%	\$ 93,203	\$ 97,209	(4.1)%		
Other income			n/m		1	n/m		
Total operating revenues	29,478	29,851	(1.2)	93,203	97,210	(4.1)		
Realized gains (losses)	(4,270)	(2,918)	(46.3)	(1,607)	(1,261)	(27.4)		
Total revenues	25,208	26,933	(6.4)	91,596	95,949	(4.5)		
BENEFITS AND EXPENSES								
Benefits and settlement expenses	9,639	16,002	(39.8)	31,925	53,180	(40.0)		
Amortization of deferred policy acquisition costs	110	410	(73.2)	287	836	(65.7)		
Other operating expenses	523	389	34.4	1,477	1,540	(4.1)		
Total benefits and expenses	10,272	16,801	(38.9)	33,689	55,556	(39.4)		
INCOME BEFORE INCOME TAX								
	14,936	10,132	47.4	57,907	40,393	43.4		
Less: realized gains (losses)	(4,270)	(2,918)		(1,607)	(1,261)			
OPERATING INCOME	\$ 19,206	\$ 13,050	47.2	\$ 59,514	\$ 41,654	42.9		

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

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
Sales								
GIC	\$ 80,200	\$ 101,954	(21.3)%	\$ 397,504	\$ 127,954	n/m%		
GFA - Direct Institutional		45,000	n/m		221,500	n/m		
	\$ 80,200	\$ 146,954	(45.4)	\$ 397,504	\$ 349,454	13.8		
Average Account Values								
	\$ 2,503,294	\$ 2,591,485	(3.4)%	\$ 2,529,382	\$ 2,703,958	(6.5)%		
Ending Account Values	\$ 2,531,262	\$ 2,328,237	8.7%	\$ 2,531,262	\$ 2,328,237	8.7%		
Operating Spread								
Net investment income yield	4.71%	4.61%		4.91%	4.79%			
Interest credited	1.54	2.47		1.68	2.62			

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Operating expenses	0.10	0.13	0.09	0.12
Operating spread	3.07%	2.01%	3.14%	2.05%
Adjusted operating spread(1)	2.69%	2.00%	2.64%	1.93%

(1) Excludes participating mortgage loan income and bank loan fee income.

Table of Contents

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

Segment operating income

Operating income was \$19.2 million and increased \$6.2 million, or 47.2%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase in operating earnings resulted from an increase in participating mortgage income and higher operating spreads offset by a decline in average account values. Participating mortgage income for the three months ended September 30, 2013 was \$2.4 million compared to \$0.1 million for the three months ended September 30, 2012. The adjusted operating spread, which excludes participating income, increased by 69 basis points for the three months ended September 30, 2013 over the prior year, due primarily to a decline in credited interest.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income

Operating income was \$59.5 million and increased \$17.9 million, or 42.9%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The increase in operating earnings resulted from an increase in participating mortgage income and higher operating spreads offset by a decline in average account values. Participating mortgage income for the nine months ended September 30, 2013 was \$9.5 million compared to \$2.6 million for the nine months ended September 30, 2012. The adjusted operating spread, which excludes participating income, increased by 71 basis points for the nine months ended September 30, 2013 over the prior year, due primarily to a decline in credited interest.

Table of Contents**Asset Protection***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
REVENUES								
Gross premiums and policy fees	\$ 66,604	\$ 68,729	(3.1)%	\$ 200,993	\$ 207,548	(3.2)%		
Reinsurance ceded	(32,681)	(31,456)	(3.9)	(96,416)	(95,143)	(1.3)		
Net premiums and policy fees	33,923	37,273	(9.0)	104,577	112,405	(7.0)		
Net investment income	5,804	5,972	(2.8)	17,440	18,397	(5.2)		
Other income	31,768	29,247	8.6	88,862	85,361	4.1		
Total operating revenues	71,495	72,492	(1.4)	210,879	216,163	(2.4)		
BENEFITS AND EXPENSES								
Benefits and settlement expenses	26,384	27,492	(4.0)	77,006	76,787	0.3		
Amortization of deferred policy acquisition costs	7,402	8,705	(15.0)	22,471	26,211	(14.3)		
Other operating expenses	30,882	32,145	(3.9)	91,110	97,570	(6.6)		
Total benefits and expenses	64,668	68,342	(5.4)	190,587	200,568	(5.0)		
INCOME BEFORE INCOME TAX								
	6,827	4,150	64.5	20,292	15,595	30.1		
Less: noncontrolling interests			n/m			n/m		
OPERATING INCOME	\$ 6,827	\$ 4,150	64.5	\$ 20,292	\$ 15,595	30.1		

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

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
Sales								
Credit insurance	\$ 9,105	\$ 9,558	(4.7)%	\$ 26,291	\$ 28,426	(7.5)%		
Service contracts	102,796	92,890	10.7	283,984	269,812	5.3		
GAP	18,140	14,868	22.0	50,359	48,226	4.4		
	\$ 130,041	\$ 117,316	10.8	\$ 360,634	\$ 346,464	4.1		
Loss Ratios(1)								
Credit insurance	20.7%	56.4%		34.8%	38.0%			
Service contracts	99.0	96.7		92.0	91.6			
GAP	46.0	25.2		41.7	26.2			

(1) Incurred claims as a percentage of earned premiums

Table of Contents

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

Segment operating income

Operating income was \$6.8 million, representing an increase of \$2.7 million, or 64.5%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Credit insurance earnings increased \$1.6 million, primarily resulting from lower losses. Service contract earnings increased \$1.0 million, primarily due to higher volume and lower general and administrative expenses. Earnings from the GAP product was consistent with the prior year.

Net premiums and policy fees

Net premiums and policy fees decreased \$3.4 million, or 9.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. GAP premiums decreased \$1.4 million primarily due to higher ceded premiums and a change in the mix of GAP business. Service contract premiums decreased \$1.5 million, primarily due to higher ceded premiums. Credit insurance premiums decreased \$0.5 million, due to lower sales in prior years and the related impact on earned premiums.

Other income

Other income increased \$2.5 million, or 8.6%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012 due primarily to higher volume.

Benefits and settlement expenses

Benefits and settlement expenses decreased \$1.1 million, or 4.0%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Credit insurance claims decreased \$1.6 million due to lower loss ratios. Service contract claims decreased \$0.9 million. The decreases were partially offset by an increase in GAP claims of \$1.4 million due to higher loss ratios.

Amortization of DAC and Other operating expenses

Amortization of DAC was \$1.3 million, or 15.0%, lower for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to lower earned premiums in the GAP product line. Other operating expenses decreased \$1.3 million, or 3.9%, for the three months ended September 30, 2013, primarily related to expense reductions.

Sales

Total segment sales increased \$12.7 million, or 10.8%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. Service contract sales increased \$9.9 million while sales in the GAP product line increased \$3.3 million. Credit insurance sales decreased \$0.5 million. The growth in overall sales was partly related to strong auto sales in the third quarter.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income

Operating income was \$20.3 million, representing an increase of \$4.7 million, or 30.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Credit insurance earnings increased \$3.9 million primarily due to \$2.6 million in litigation costs incurred in 2012 and lower losses and expenses in 2013. Service contract earnings increased \$0.6 million primarily due to higher volume and lower general and administrative expenses. Earnings from the GAP product line increased \$0.2 million primarily resulting from lower expenses somewhat offset by higher losses.

Table of Contents

Net premiums and policy fees

Net premiums and policy fees decreased \$7.8 million, or 7.0%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. GAP premiums decreased \$3.7 million primarily due to higher ceded premiums and a change in the mix of GAP business. Service contract premiums decreased \$2.1 million primarily due to higher ceded premiums. Credit insurance premiums decreased \$2.0 million primarily the result of lower sales in prior years and the related impact on earned premiums.

Other income

Other income increased \$3.5 million, or 4.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012 due primarily to higher volume.

Benefits and settlement expenses

Benefits and settlement expenses increased \$0.2 million, or 0.3%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. GAP claims increased \$3.0 million due to higher loss ratios. Service contract claims decreased \$1.7 million. Credit insurance claims decreased \$1.1 million, primarily due to lower loss ratios.

Amortization of DAC and Other operating expenses

Amortization of DAC was \$3.7 million, or 14.3%, lower for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to lower earned premiums in the GAP product line. Other operating expenses decreased \$6.5 million, or 6.6%, for the nine months ended September 30, 2013, primarily related to an expense reductions and a \$2.0 million legal settlement accrual in the first quarter of 2012.

Sales

Total segment sales increased \$14.2 million, or 4.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. Service contract sales increased \$14.2 million. Sales in the GAP product line increased \$2.1 million. Credit insurance sales decreased \$2.1 million primarily due to an increase in refunds as a result of the 2012 legal settlement. The growth in overall sales was partly related to higher auto sales in 2013.

Reinsurance

The majority of the Asset Protection segment's reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies (PARCs). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Table of Contents

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

Asset Protection Segment**Line Item Impact of Reinsurance**

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	\$ (32,681)	\$ (31,456)	\$ (96,416)	\$ (95,143)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(14,993)	(14,357)	(42,894)	(43,270)
Amortization of deferred policy acquisition costs	(1,770)	(1,791)	(5,192)	(5,773)
Other operating expenses	(1,530)	(1,594)	(4,494)	(4,438)
Total benefits and expenses	(18,293)	(17,742)	(52,580)	(53,481)
NET IMPACT OF REINSURANCE (1)	\$ (14,388)	\$ (13,714)	\$ (43,836)	\$ (41,662)

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

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

Reinsurance premiums ceded increased \$1.2 million, or 3.9%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase was primarily due to an increase in ceded GAP and service contract premiums, somewhat offset by a decline in ceded dealer credit insurance premiums due to lower sales in prior years and the related impact on earned premiums.

Benefits and settlement expenses ceded increased \$0.6 million, or 4.4%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The increase was primarily due to higher ceded losses in the service contract and GAP lines, somewhat offset by lower ceded losses in the dealer credit line.

Amortization of DAC ceded remained unchanged at \$1.8 million for the three months ended September 30, 2013 and the three months ended September 30, 2012. Other operating remained consistent for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012.

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

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Reinsurance premiums ceded increased \$1.3 million, or 1.3%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The increase was primarily due to an increase in ceded GAP and service contract premiums, somewhat offset by a decline in ceded dealer credit insurance premiums due to lower sales in prior years and the related impact on earned premiums.

Benefits and settlement expenses ceded decreased \$0.4 million, or 0.9%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012. The decrease was primarily due to lower ceded losses in the dealer credit line, somewhat offset by increases in the GAP line.

Table of Contents

Amortization of DAC ceded decreased \$0.6 million, or 10.1%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily as the result of decreases in ceded activity in the dealer credit and service contract product lines. Other operating expenses remained consistent for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012.

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

Table of Contents**Corporate and Other***Segment results of operations*

Segment results were as follows:

	For The Three Months Ended September 30,			Change	For The Nine Months Ended September 30,			Change
	2013 (Dollars In Thousands)	2012			2013 (Dollars In Thousands)	2012		
REVENUES								
Gross premiums and policy fees	\$ 4,556	\$ 4,828	(5.6)%	\$ 13,865	\$ 14,971	(7.4)%		
Reinsurance ceded	(4)	(3)	(33.3)	(8)	(24)	66.7		
Net premiums and policy fees	4,552	4,825	(5.7)	13,857	14,947	(7.3)		
Net investment income	38,664	48,075	(19.6)	125,154	119,369	4.8		
Other income	583	(10)	n/m	4,340	36,778	(88.2)		
Total operating revenues	43,799	52,890	(17.2)	143,351	171,094	(16.2)		
Realized gains (losses) - investments	(2,829)	7,163		354	(23,807)			
Realized gains (losses) - derivatives	1,233	(287)		4,115	(4,306)			
Total revenues	42,203	59,766	(29.4)	147,820	142,981	3.4		
BENEFITS AND EXPENSES								
Benefits and settlement expenses	5,701	5,600	1.8	16,365	16,819	(2.7)		
Amortization of deferred policy acquisition costs	160	253	(36.8)	504	793	(36.4)		
Other operating expenses	52,189	53,651	(2.7)	161,548	157,613	2.5		
Total benefits and expenses	58,050	59,504	(2.4)	178,417	175,225	1.8		
INCOME (LOSS) BEFORE INCOME TAX								
	(15,847)	262	n/m	(30,597)	(32,244)	5.1		
Less: realized gains (losses) - investments	(2,829)	7,163		354	(23,807)			
Less: realized gains (losses) - derivatives	1,233	(287)		4,115	(4,306)			
OPERATING INCOME (LOSS)	\$ (14,251)	\$ (6,614)	n/m	\$ (35,066)	\$ (4,131)	n/m		

For The Three Months Ended September 30, 2013 as compared to The Three Months Ended September 30, 2012

Segment operating income (loss)

Corporate and Other segment operating loss was \$14.3 million for the three months ended September 30, 2013, as compared to an operating loss of \$6.6 million for the three months ended September 30, 2012. The decrease resulted from a decline of \$7.5 million in core net investment income partially offset by favorable operating expenses as compared to the three months ended September 30, 2012. The decrease in core net investment income was primarily driven by a \$4.9 million unfavorable variance related to income on called securities. The decrease in other operating expenses was primarily related to a \$4.0 million deferred issue cost write-off recorded during the third quarter of 2012.

Operating revenues

Net investment income for the segment decreased \$9.4 million, or 19.6%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012. The decrease in net investment income was primarily due to a \$4.9 million unfavorable variance related to income on called securities, a \$2.1 million decrease related to a portfolio of securities designated for trading, and lower core investment income as compared to the three months ended September 30, 2012. Partially offsetting these decreases was a \$4.5 million increase in interest income associated with a reserve financing transaction which is entirely offset by the increase in interest expense as referred to below. Net premiums and policy fees decreased \$0.3 million, or 5.7%, for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012 and other income increased \$0.6 million.

Table of Contents

Total benefits and expenses

Total benefits and expenses decreased \$1.5 million for the three months ended September 30, 2013, as compared to the three months ended September 30, 2012, primarily due to a \$4.0 million deferred issue cost write-off recorded during the three months ended September 30, 2012 and a \$2.6 million decrease in core interest expense for the third quarter of 2013 as compared to the third quarter of 2012. These variances were partially offset by a \$4.5 million increase in interest expense associated with a reserve financing transaction for the three months ended September 30, 2013, which is entirely offset by the increase in interest income as referred to above.

For The Nine Months Ended September 30, 2013 as compared to The Nine Months Ended September 30, 2012

Segment operating income (loss)

Corporate and Other segment operating loss was \$35.1 million for the nine months ended September 30, 2013, as compared to an operating loss of \$4.1 million for the nine months ended September 30, 2012. The decrease was the result of a \$32.1 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. For the nine months ended September 30, 2013, \$3.4 million of pre-tax gains were generated from the repurchase on non-recourse funding obligations as compared to \$35.5 million of pre-tax gains for the nine months ended September 30, 2012. In addition, the decrease was driven by higher operating expenses which were partially offset by an \$11.2 million deferred issue cost write-off recorded during the nine months ended September 30, 2012.

Operating revenues

Net investment income for the segment increased \$5.8 million, or 4.8%, for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, and net premiums and policy fees decreased \$1.1 million, or 7.3%. The increase in net investment income included a \$3.0 million favorable variance related to mortgage loan prepayment fee income. In addition, the segment experienced a \$12.0 million increase in interest income associated with a reserve financing transaction which is entirely offset by the increase in interest expense as referred to below. Partially offsetting these increases was a \$3.0 million decrease related to a portfolio of securities designated for trading as compared to the nine months ended September 30, 2012 and lower core net investment income as a result of holding more cash. Other income decreased \$32.4 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, primarily due to a \$32.1 million unfavorable variance related to gains generated on the repurchase of non-recourse funding obligations.

Total benefits and expenses

Total benefits and expenses increased \$3.2 million for the nine months ended September 30, 2013, as compared to the nine months ended September 30, 2012, primarily due to a \$12.0 million increase in interest expense associated with a reserve financing transaction which is entirely offset by the increase in interest income as referred to above and \$4.9 million of acquisition related expenses recorded during the nine months ended September 30, 2013, partially offset by an \$11.2 million deferred issue cost write-off recorded during the second quarter of 2012.

Table of Contents**CONSOLIDATED INVESTMENTS**

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

Portfolio Description

As of September 30, 2013, our investment portfolio was approximately \$35.5 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

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

	September 30, 2013	As of (Dollars In Thousands)		December 31, 2012	
Publicly issued bonds (amortized cost: 2013 - \$21,244,574; 2012 - \$21,244,173)	\$ 22,313,752	62.9%	\$	23,823,244	64.5%
Privately issued bonds (amortized cost: 2013 - \$6,130,403; 2012 - \$5,737,151)	6,359,463	17.9		6,264,715	17.0
Fixed maturities	28,673,215	80.8		30,087,959	81.5
Equity securities (cost: 2013 - \$485,580; 2012 - \$409,376)	461,231	1.3		411,786	1.1
Mortgage loans	4,794,924	13.5		4,950,201	13.4
Investment real estate	18,750	0.1		19,816	0.1
Policy loans	856,333	2.4		865,391	2.3
Other long-term investments	482,367	1.4		361,837	1.0
Short-term investments	216,224	0.5		217,812	0.6
Total investments	\$ 35,503,044	100.0%	\$	36,914,802	100.0%

Included in the preceding table are \$2.8 billion and \$3.0 billion of fixed maturities and \$106.4 million and \$118.9 million of short-term investments classified as trading securities as of September 30, 2013 and December 31, 2012, respectively. The trading portfolio includes invested assets of \$2.8 billion and \$3.0 billion as of September 30, 2013 and December 31, 2012, respectively, held pursuant to modified coinsurance (Modco) arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are \$350.0 million and \$300.0 million of securities classified as held-to-maturity as of September 30, 2013 and December 31, 2012, respectively.

Fixed Maturity Investments

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As of September 30, 2013, our fixed maturity investment holdings were approximately \$28.7 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	September 30, 2013	As of December 31, 2012
AAA	14.4%	14.6%
AA	6.9	7.2
A	30.3	30.8
BBB	41.0	39.7
Below investment grade	6.2	6.7
Not rated	1.2	1.0
	100.0%	100.0%

Table of Contents

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

We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio. As of September 30, 2013, based upon amortized cost, \$35.3 million of our securities were guaranteed either directly or indirectly by third parties out of a total of \$27.2 billion fixed maturity securities held by us (0.1% of total fixed maturity securities).

Changes in fair value for our available-for-sale portfolio, net of related DAC and VOBA, are charged or credited directly to shareowners' equity, net of tax. Declines in fair value that are other-than-temporary are recorded as realized losses in the consolidated statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income (loss).

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

Type	As of	
	September 30, 2013	December 31, 2012
	(Dollars In Millions)	
Corporate bonds	\$ 21,253.0	\$ 22,054.4
Residential mortgage-backed securities	1,772.4	2,197.1
Commercial mortgage-backed securities	1,080.6	1,040.9
Other asset-backed securities	1,138.9	1,133.0
U.S. government-related securities	1,417.3	1,475.8
Other government-related securities	98.6	164.2
States, municipals, and political subdivisions	1,562.4	1,722.6
Other	350.0	300.0
Total fixed income portfolio	\$ 28,673.2	\$ 30,088.0

Within our fixed maturity investments, we maintain portfolios classified as available-for-sale, trading, and held-to-maturity. We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified \$25.5 billion, or 89.1%, of our fixed maturities as available-for-sale as of September 30, 2013. These securities are carried at fair value on our consolidated condensed balance sheets.

Fixed maturities that we have both the positive intent and ability to hold to maturity are classified as held-to-maturity. We classified \$350.0 million, or 1.2% of our fixed maturities as held-to-maturity as of September 30, 2013. These securities are carried at amortized cost on our consolidated condensed balance sheets.

Table of Contents

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounts for \$2.8 billion, or 9.7%, of our fixed maturities and \$106.4 million of short-term investments as of September 30, 2013. Changes in fair value on the trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	As of	
	September 30, 2013	December 31, 2012
	(Dollars In Thousands)	
AAA	\$ 430,916	\$ 559,374
AA	265,465	239,834
A	836,202	801,562
BBB	920,165	1,038,873
Below investment grade	320,246	353,089
Total Modco trading fixed maturities	\$ 2,772,994	\$ 2,992,732

A portion of our bond portfolio is invested in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS). ABS are securities that are backed by a pool of assets. These holdings as of September 30, 2013, were approximately \$4.0 billion. Mortgage-backed securities (MBS) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

Table of Contents

Residential mortgage-backed securities - As of September 30, 2013, our RMBS portfolio was approximately \$1.8 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities (PACs) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

The tables below include a breakdown of these holdings by type and rating as of September 30, 2013.

Type	Percentage of Residential Mortgage-Backed Securities
Sequential	24.3%
PAC	44.1
Pass Through	6.0
Other	25.6
	100.0%

Rating	Percentage of Residential Mortgage-Backed Securities
AAA	58.5%
AA	
A	1.2
BBB	0.7
Below investment grade	39.6
	100.0%

Table of Contents*Alt-A Collateralized Holdings*

As of September 30, 2013, we held securities with a fair value of \$397.3 million, or 1.1% of invested assets, supported by collateral classified as Alt-A. As of December 31, 2012, we held securities with a fair value of \$443.6 million supported by collateral classified as Alt-A. We included in this classification certain whole loan securities where such securities had underlying mortgages with a high level of limited loan documentation. As of September 30, 2013, these securities had a fair value of \$129.4 million and an unrealized gain of \$20.1 million.

The following table includes the percentage of our collateral classified as Alt-A, grouped by rating category, as of September 30, 2013:

Rating	Percentage of Alt-A Securities
BBB	0.2%
Below investment grade	99.8
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of September 30, 2013:

Alt-A Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination					Total
	2009 and Prior	2010	2011	2012	2013	
BBB	\$ 0.8	\$	\$	\$	\$	\$ 0.8
Below investment grade	396.5					396.5
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 397.3	\$	\$	\$	\$	\$ 397.3

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					Total
	2009 and Prior	2010	2011	2012	2013	
BBB	\$	\$	\$	\$	\$	\$
Below investment grade	22.4					22.4
Total mortgage-backed securities collateralized by Alt-A mortgage loans	\$ 22.4	\$	\$	\$	\$	\$ 22.4

Table of Contents

Sub-prime Collateralized Holdings

As of September 30, 2013, we held securities with a total fair value of \$2.1 million that were supported by collateral classified as sub-prime. As of December 31, 2012, we held securities with a fair value of \$2.7 million that were supported by collateral classified as sub-prime.

Prime Collateralized Holdings

As of September 30, 2013, we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of \$1.4 billion, or 3.9%, of total invested assets. As of December 31, 2012, we held securities with a fair value of \$1.8 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

The following table includes the percentage of our collateral classified as prime, grouped by rating category, as of September 30, 2013:

Rating	Percentage of Prime Securities
AAA	75.6%
AA	
A	1.6
BBB	0.8
Below investment grade	22.0
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of September 30, 2013:

Prime Collateralized Holdings

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013		
	(Dollars In Millions)						
AAA	\$ 345.3	\$ 299.7	\$ 321.0	\$ 5.3	\$ 66.2	\$	1,037.5
AA	0.3						0.3
A	21.9						21.9
BBB	11.2						11.2
Below investment grade	302.1						302.1
Total mortgage-backed securities collateralized by prime mortgage loans	\$ 680.8	\$ 299.7	\$ 321.0	\$ 5.3	\$ 66.2	\$	1,373.0

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013		
AAA	\$ 21.5	\$ 10.9	\$ 7.6	\$ (0.3)	\$ (1.4)	\$	38.3
AA							
A	0.6						0.6
BBB	0.6						0.6
Below investment grade	7.2						7.2
Total mortgage-backed securities collateralized by prime mortgage loans	\$ 29.9	\$ 10.9	\$ 7.6	\$ (0.3)	\$ (1.4)	\$	46.7

Table of Contents

Commercial mortgage-backed securities - Our CMBS portfolio consists of commercial mortgage-backed securities issued in securitization transactions. As of September 30, 2013, the CMBS holdings were approximately \$1.1 billion. As of December 31, 2012, the CMBS holdings were approximately \$1.0 billion.

The following table includes the percentages of our CMBS holdings, grouped by rating category, as of September 30, 2013:

Rating	Percentage of Commercial Mortgage-Backed Securities
AAA	70.4%
AA	13.0
A	15.0
BBB	1.6
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our CMBS as of September 30, 2013:

Commercial Mortgage-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013	(Dollars In Millions)	
AAA	\$ 61.2	\$ 81.2	\$ 212.9	\$ 296.0	\$ 109.6	\$ 760.9	
AA		33.3	37.7	40.9	28.5	140.4	
A	43.0	33.6	53.1	13.4	18.9	162.0	
BBB	17.3					17.3	
Total commercial mortgage- backed securities	\$ 121.5	\$ 148.1	\$ 303.7	\$ 350.3	\$ 157.0	\$ 1,080.6	

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013	(Dollars In Millions)	
AAA	\$ 1.5	\$ 6.5	\$ 15.7	\$ (7.5)	\$ (5.0)	\$ 11.2	
AA		2.1	2.6	(3.1)	(1.6)		
A	1.2	1.2	(0.4)	(1.0)	(1.5)	(0.5)	
BBB	0.5					0.5	
Total commercial mortgage- backed securities	\$ 3.2	\$ 9.8	\$ 17.9	\$ (11.6)	\$ (8.1)	\$ 11.2	

Table of Contents

Other asset-backed securities Other asset-backed securities pay down based on cash flow received from the underlying pool of assets, such as receivables on auto loans, student loans, credit cards, etc. As of September 30, 2013, these holdings were approximately \$1.1 billion. As of December 31, 2012, these holdings were approximately \$1.1 billion.

The following table includes the percentages of our other asset-backed holdings, grouped by rating category, as of September 30, 2013:

Rating	Percentage of Other Asset-Backed Securities
AAA	48.6%
AA	18.7
A	20.5
BBB	0.5
Below investment grade	11.7
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our asset-backed securities as of September 30, 2013:

Other Asset-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013	(Dollars In Millions)	
AAA	\$ 485.9	\$ 7.0	\$ 25.6	\$ 33.0	\$ 2.3	\$ 553.8	
AA	149.7			63.8		213.5	
A	54.9		71.9	96.7	9.9	233.4	
BBB	5.6					5.6	
Below investment grade	132.6					132.6	
Total other asset-backed securities	\$ 828.7	\$ 7.0	\$ 97.5	\$ 193.5	\$ 12.2	\$ 1,138.9	

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination						Total
	2009 and Prior	2010	2011	2012	2013	(Dollars In Millions)	
AAA	\$ (37.6)	\$	\$ 1.0	\$ (0.4)	\$ (0.1)	\$ (37.1)	
AA	(14.2)					(14.2)	
A	6.4		5.2	0.1	(0.1)	11.6	
BBB	0.1					0.1	
Below investment grade	8.7					8.7	
Total other asset-backed securities	\$ (36.6)	\$	\$ 6.2	\$ (0.3)	\$ (0.2)	\$ (30.9)	

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We obtained ratings of our fixed maturities from Moody's Investors Service, Inc. (Moody's), Standard & Poor's Corporation (S&P), and/or Fitch Ratings (Fitch). If a fixed maturity is not rated by Moody's, S&P, or Fitch, we use ratings from the National Association of Insurance Commissioners (NAIC), or we rate the fixed maturity based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of September 30, 2013, 98.8% of our fixed maturities were rated by Moody's, S&P, Fitch, and/or the NAIC.

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Table of Contents

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

	As of September 30, 2013	% Fair Value (Dollars In Thousands)	As of December 31, 2012	% Fair Value
Banking	\$ 2,203,411	7.7%	\$ 2,316,051	7.7%
Other finance	449,107	1.6	346,563	1.2
Electric	3,446,603	12.0	3,782,966	12.6
Natural gas	2,068,128	7.2	2,203,779	7.3
Insurance	2,435,511	8.5	2,541,614	8.4
Energy	1,614,205	5.6	1,821,451	6.1
Communications	1,250,419	4.4	1,260,773	4.2
Basic industrial	1,281,518	4.5	1,293,037	4.3
Consumer noncyclical	1,784,768	6.2	1,738,686	5.8
Consumer cyclical	895,826	3.1	942,465	3.1
Finance companies	228,859	0.8	246,114	0.8
Capital goods	1,010,006	3.5	1,066,972	3.5
Transportation	730,015	2.5	670,477	2.2
Other industrial	258,920	0.9	236,002	0.8
Brokerage	595,631	2.1	588,307	2.0
Technology	807,152	2.8	845,282	2.8
Real estate	120,611	0.4	119,020	0.4
Other utility	72,265	0.3	34,779	0.1
Commercial mortgage-backed securities	1,080,653	3.8	1,040,896	3.5
Other asset-backed securities	1,138,857	4.0	1,132,943	3.8
Residential mortgage-backed non-agency securities	786,813	2.7	987,035	3.3
Residential mortgage-backed agency securities	985,571	3.4	1,210,098	4.0
U.S. government-related securities	1,417,300	4.9	1,475,816	4.9
Other government-related securities	98,653	0.3	164,222	0.5
State, municipals, and political divisions	1,562,413	5.4	1,722,611	5.7
Other	350,000	1.4	300,000	1.0
Total	\$ 28,673,215	100.0%	\$ 30,087,959	100.0%

Our investments classified as available-for-sale and trading in debt and equity securities are reported at fair value. Our investments classified as held-to-maturity are reported at amortized cost. As of September 30, 2013, our fixed maturity investments (bonds and redeemable preferred stocks) had a market value of \$28.7 billion, which was 5.5% above amortized cost of \$27.2 billion. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

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. Upon obtaining this information related to market value, management makes a determination as to the appropriate valuation amount.

Mortgage Loans

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We invest a portion of our investment portfolio in commercial mortgage loans. As of September 30, 2013, our mortgage loan holdings were approximately \$4.8 billion. We have specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). We believe these asset types tend to weather economic downturns better

Table of Contents

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.

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

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 September 30, 2013 and December 31, 2012, our allowance for mortgage loan credit losses was \$8.0 million and \$2.9 million, respectively. While our mortgage loans do not have quoted market values, as of September 30, 2013, we estimated the fair value of our mortgage loans to be \$5.3 billion (using discounted cash flows from the next call date), which was approximately 9.8% greater than the amortized cost, less any related loan loss reserve.

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

We also offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of September 30, 2013 and December 31, 2012, approximately \$714.5 million and \$817.3 million, respectively, of our mortgage loans had this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. Exceptions to these loan-to-value measures may be made if we believe the mortgage has an acceptable risk profile. During the three and nine month periods ended September 30, 2013, we recognized \$3.7 million and \$12.9 million of participating mortgage loan income, respectively.

Certain of our mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called with these options at their next call dates, approximately \$66.4 million will become due in the remainder of 2013, \$1.2 billion in 2014 through 2018, \$575.0 million in 2019 through 2023, and \$174.4 million thereafter.

As of September 30, 2013, approximately \$16.4 million, or 0.05%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. During the three months ended September 30, 2013, two mortgage loan transactions occurred that were accounted for as troubled debt restructurings under Topic 310 of the Financial Accounting Standards Board (FASB) ASC. For all mortgage loans, the impact of troubled debt restructurings is reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the quarter involved the modification of payment terms pursuant to bankruptcy proceedings. However, we expect to collect all amounts due related to these loans as well as expenses incurred as a result of the restructurings, which resulted in no material change to the principal balance of these loans, which was \$3.2 million as of September 30, 2013 and no associated reserve.

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Our mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement. As of September 30, 2013, \$10.7 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured. We foreclosed on two nonperforming loans during the nine months ended September 30, 2013.

As of September 30, 2013, \$5.7 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the nine months ended September 30, 2013. We did not foreclose on any nonperforming loans during the nine months ended September 30, 2013.

Table of Contents

We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities.

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

Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of September 30, 2013:

Rating	Fair Value		Percent of Fair Value
	(Dollars In Thousands)		
AAA	\$	3,695,446	14.5%
AA		1,702,111	6.7
A		7,846,142	30.7
BBB		10,842,864	42.5
Investment grade		24,086,563	94.4
BB		763,303	3.0
B		137,432	0.5
CCC or lower		553,138	2.1
Below investment grade		1,453,873	5.6
Total	\$	25,540,436	100.0%

Not included in the table above are \$2.5 billion of investment grade and \$330.0 million of below investment grade fixed maturities classified as trading securities and \$350.0 million of fixed maturities classified as held-to-maturity.

Limiting bond exposure to any creditor group is another way we manage credit risk. We held no credit default swaps on the positions listed below as of September 30, 2013. The following table summarizes our ten largest maturity exposures to an individual creditor group as of September 30, 2013:

Creditor	Fair Value of		
	Funded Securities	Unfunded Exposures	Total Fair Value
	(Dollars In Millions)		
Duke Energy Corp	\$	185.5	\$ 185.5
Comcast Corp.		176.2	176.2
General Electric		160.3	160.3

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Nextera Energy Inc.	158.8		158.8
Berkshire Hathaway Inc.	157.1		157.1
Exelon Corp	150.2		150.2
JP Morgan Chase and Company	133.0	11.3	144.3
Verizon Communications Inc.	140.3		140.3
Rio Tinto	138.2		138.2
Wells Fargo & Co.	135.1		135.1

Table of Contents

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

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

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

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of our intent to sell the security (including a more likely than not assessment of whether we will be required to sell the security) before recovering the security's amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security-by-security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, along with an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the three and nine months ended September 30, 2013, we concluded that approximately \$8.7 million and \$17.3 million, respectively, of investment securities in an unrealized loss position was other-than-temporarily impaired, due to credit-related factors, resulting in a charge to earnings. Additionally, \$2.0 million and \$7.5 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses for the three and nine months ended September 30, 2013, respectively. These non-credit losses were caused by recognizing, in the current quarter, credit losses in earnings that had previously been recognized as non-credit losses in other comprehensive income.

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.

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

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

Table of Contents

The chart shown below includes our non-sovereign fair value exposures in these countries as of September 30, 2013. As September 30, 2013, we had no unfunded exposure and had no direct sovereign fair value exposure.

Financial Instrument and Country	Non-sovereign Debt		Total Gross Funded Exposure
	Financial	Non-financial (Dollars In Millions)	
Securities:			
United Kingdom	\$ 404.8	\$ 470.1	\$ 874.9
Switzerland	127.4	203.6	331.0
France	69.6	84.9	154.5
Sweden	114.1	4.7	118.8
Netherlands	120.3	82.5	202.8
Spain	36.2	104.7	140.9
Belgium		94.3	94.3
Germany	54.4	76.6	131.0
Ireland	5.7	93.9	99.6
Luxembourg		58.4	58.4
Italy		51.7	51.7
Norway		38.8	38.8
Total securities	932.5	1,364.2	2,296.7
Derivatives:			
Germany	10.8		10.8
Switzerland	11.7		11.7
Total derivatives	22.5		22.5
Total securities	\$ 955.0	\$ 1,364.2	\$ 2,319.2

Table of Contents**Realized Gains and Losses**

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

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,			Change
	2013	2012	Change (Dollars In Thousands)	2013	2012	Change	
Fixed maturity gains - sales	\$ 11,666	\$ 23,552	\$ (11,886)	\$ 46,110	\$ 62,823	\$ (16,713)	
Fixed maturity losses - sales	(1,120)	(663)	(457)	(4,103)	(3,894)	(209)	
Equity gains - sales		8	(8)	2,367	156	2,211	
Equity losses - sales		(249)	249		(249)	249	
Impairments on fixed maturity securities	(7,421)	(8,556)	1,135	(13,918)	(40,928)	27,010	
Impairments on equity securities	(1,260)		(1,260)	(3,347)		(3,347)	
Modco trading portfolio	(25,960)	104,865	(130,825)	(167,982)	179,027	(347,009)	
Other	(4,094)	(4,958)	864	(10,023)	(13,989)	3,966	
Total realized gains (losses) - investments	\$ (28,189)	\$ 113,999	\$ (142,188)	\$ (150,896)	\$ 182,946	\$ (333,842)	
Derivatives related to variable annuity and FIA contracts:							
Interest rate futures - VA	\$ (2,255)	\$ (3,371)	\$ 1,116	\$ (26,393)	\$ 32,419	\$ (58,812)	
Equity futures - VA	(12,568)	(17,324)	4,756	(39,829)	(42,643)	2,814	
Currency futures - VA	(6,531)	(3,078)	(3,453)	1,440	(2,298)	3,738	
Volatility futures - VA					(132)	132	
Variance swaps - VA	(1,347)	(5,840)	4,493	(9,566)	(6,660)	(2,906)	
Equity options - VA	(29,094)	(9,184)	(19,910)	(65,631)	(29,903)	(35,728)	
Interest rate swaptions - VA	1,725	(3,019)	4,744	(738)	2,293	(3,031)	
Interest rate swaps - VA	(19,224)	6,361	(25,585)	(125,502)	10,187	(135,689)	
Embedded derivative - GMWB	80,541	2,921	77,620	264,231	(32,369)	296,600	
Total derivatives related to variable annuity contracts	11,247	(32,534)	43,781	(1,988)	(69,106)	67,118	
Embedded derivative - Modco reinsurance treaties	30,074	(101,999)	132,073	191,847	(139,972)	331,819	
Embedded derivative - FIA	(104)		(104)	(145)		(145)	
Interest rate swaps	72	199	(127)	2,984	(680)	3,664	
Interest rate caps		(143)	143		(2,658)	2,658	
Other derivatives	37	255	(218)	(106)	17	(123)	
Total realized gains (losses) - derivatives	\$ 41,326	\$ (134,222)	\$ 175,548	\$ 192,592	\$ (212,399)	\$ 404,991	

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments and Modco trading portfolio activity during the three and nine months ended September 30, 2013, primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment, as well as tax planning strategies designed to utilize capital loss carryforwards.

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From time to time, we are required to post and obligated to return collateral related to derivative transactions. As of September 30, 2013, we had posted cash and securities (at fair value) as collateral of approximately \$81.0 million and \$52.2 million, respectively. As of September 30, 2013, we received \$6.0 million of cash as collateral. We do not net the collateral posted or received with the fair value of the derivative financial instruments for reporting purposes.

Realized losses are comprised of both write-downs of other-than-temporary impairments and actual sales of investments. For the three and nine months ended September 30, 2013, we recognized pre-tax other-than-temporary impairments of \$8.7 million and \$17.3 million, respectively, due to credit-related factors, resulting in a charge to earnings. During the three and nine months ended September 30, 2013, \$2.0 million and \$7.5 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. These non-credit losses were caused by recognizing, in the current quarter, credit losses in earnings that had previously

Table of Contents

been recognized as non-credit losses in other comprehensive income. For the three and nine months ended September 30, 2012, we recognized pre-tax other-than-temporary impairments of \$8.5 million and \$40.9 million, respectively. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments, net of Modco recoveries, are presented in the chart below:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars In Millions)			
Alt-A MBS	\$ 1.5	\$ 2.0	\$ 4.5	\$ 6.7
Other MBS	1.6	5.1	5.1	15.0
Corporate bonds	4.3	1.4	4.3	19.2
Equities	1.3		3.4	
Total	\$ 8.7	\$ 8.5	\$ 17.3	\$ 40.9

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold them until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the nine months ended September 30, 2013, we sold securities in an unrealized loss position with a fair value of \$64.2 million. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below:

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	\$ 21,812	34.0%	\$ (434)	10.6%
>90 days but <= 180 days	26,862	41.8	(647)	15.8
>180 days but <= 270 days	22		(2)	
>270 days but <= 1 year	32		(8)	0.2
>1 year	15,502	24.2	(3,012)	73.4
Total	\$ 64,230	100.0%	\$ (4,103)	100.0%

For the three and nine months ended September 30, 2013, we sold securities in an unrealized loss position with a fair value (proceeds) of \$7.0 million and \$64.2 million, respectively. The loss realized on the sale of these securities was \$1.1 million and \$4.1 million, respectively.

For the three and nine months ended September 30, 2013, we sold securities in an unrealized gain position with a fair value of \$332.1 million and \$1.1 billion, respectively. The gain realized on the sale of these securities was \$11.7 million and \$48.5 million, respectively.

The \$4.1 million of other realized losses recognized for the three months ended September 30, 2013, consists of an increase in the mortgage loan reserves of \$0.9 million, mortgage loan losses of \$3.0 million, real estate losses of \$0.3 million, and a gain on a partnership of \$0.1 million. The \$10.0 million of other realized losses recognized for the nine months ended September 30, 2013, consists of an increase in the mortgage loan reserves of \$5.1 million, mortgage loan losses of \$5.3 million, real estate gains of \$0.3 million, and a gain of a partnership of \$0.1 million.

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For the three and nine months ended September 30, 2013, net losses of \$26.0 million and \$168.0 million, respectively, primarily related to changes in fair value on our Modco trading portfolios were included in realized gains and losses. Of this amount, approximately \$5.3 million and \$27.3 million, respectively, of gains were realized through the sale of certain securities, which will be reimbursed to our reinsurance partners over time through the reinsurance settlement process for this block of business. The Modco embedded derivative associated with the trading portfolios

Table of Contents

had realized pre-tax gains of \$30.1 million and \$191.9 million, respectively, during the three and nine months ended September 30, 2013. These gains were primarily the result of an increase in treasury yields.

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

We use equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within our variable annuity products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility. The equity futures resulted in net pre-tax losses of \$12.6 million and \$39.8 million, interest rate futures resulted in pre-tax losses of \$2.3 million and \$26.4 million, currency futures resulted in net pre-tax losses of \$6.5 million and net pre-tax gains of \$1.4 million, and volatility futures resulted in no pre-tax gains or losses for the three and nine months ended September 30, 2013, respectively. No volatility future positions were held during the three and nine months ended September 30, 2013.

We also use equity options and variance swaps to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within our variable annuity products. In general, the cost of such benefits varies with the level of equity markets and overall volatility. The equity options resulted in net pre-tax losses of \$29.1 million and \$65.6 million and the variance swaps resulted in a net pre-tax loss of \$1.3 million and a net pre-tax loss of \$9.6 million, respectively, for three and nine months ended September 30, 2013.

We use interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within our variable annuity products. The interest rate swaps resulted in net pre-tax losses of \$19.2 million and \$125.5 million and interest rate swaptions resulted in a net pre-tax gain of \$1.7 million and a net pre-tax loss of \$0.7 million, respectively, for the three and nine months ended September 30, 2013.

The GMWB rider embedded derivative on variable deferred annuities, with the GMWB rider, had net realized gains of \$80.5 million and \$264.2 million for the three and nine months ended September 30, 2013, respectively.

We use certain interest rate swaps to mitigate the price volatility of fixed maturities. These positions resulted insignificant pre-tax gains for the three months ended September 30, 2013 and \$3.0 million net pre-tax gains for the nine months ended September 30, 2013. The pre-tax gains were primarily the result of \$0.8 million in unrealized losses and \$2.5 million in unrealized gains and \$0.9 million and \$0.5 million in realized gains due to terminations and interest settlements, during the three and nine months ended September 30, 2013, respectively.

We purchased interest rate caps during 2011, to mitigate our credit risk with respect to our LIBOR exposure and the potential impact of European financial market distress. No caps positions were held for the three and nine months ended September 30, 2013.

We also use various swaps and other types of derivatives to mitigate risk related to other exposures. These contracts generated insignificant net pre-tax gains and net pre-tax losses of \$0.1 million for the three and nine months ended September 30, 2013, respectively.

We recognized pre-tax losses of \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2013 related to the embedded derivative on the FIA product.

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 September 30, 2013. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a bright line test to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected

Table of Contents

cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. We had an overall net unrealized gain of \$1.3 billion, prior to tax and DAC offsets, as of September 30, 2013, and an overall net unrealized gain of \$3.1 billion as of December 31, 2012.

For fixed maturity and equity securities held that are in an unrealized loss position as of September 30, 2013, the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position are presented in the table below:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
<= 90 days	\$ 3,735,817	54.8%	\$ 3,923,938	53.4%	\$ (188,121)	36.1%
>90 days but <= 180 days	1,910,899	28.0	2,093,300	28.5	(182,401)	35.0
>180 days but <= 270 days	218,056	3.2	245,295	3.3	(27,239)	5.2
>270 days but <= 1 year	123,265	1.8	141,191	1.9	(17,926)	3.4
>1 year but <= 2 years	458,549	6.7	512,152	7.0	(53,603)	10.3
>2 years but <= 3 years	42,039	0.6	48,304	0.7	(6,265)	1.2
>3 years but <= 4 years	12,223	0.2	16,010	0.2	(3,787)	0.7
>4 years but <= 5 years	5,031	0.1	6,088	0.1	(1,057)	0.2
>5 years	315,784	4.6	356,863	4.9	(41,079)	7.9
Total						