

PROTECTIVE LIFE CORP  
Form 10-K  
February 26, 2015

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

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**FORM 10-K**

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

**For the fiscal year ended December 31, 2014**

**or**

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

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

**PROTECTIVE LIFE CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**95-2492236**  
(IRS Employer  
Identification Number)

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

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

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
PLC Capital Trust V 6.125% Trust Originated Preferred Securities, including the Guarantee of Protective Life Corporation	New York Stock Exchange New York Stock Exchange

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6.25% Subordinated Debentures Due 2042  
6.00% Subordinated Debentures Due 2042

New York Stock Exchange

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

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

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

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

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

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

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

Aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant as of June 30, 2014: \$5,386,108,669

Number of shares of Common Stock, \$0.01 Par Value, outstanding as of February 6, 2015: 1,000

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**PROTECTIVE LIFE CORPORATION  
ANNUAL REPORT ON FORM 10-K  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014**

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

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

Additional information concerning the Company's operating segments may be found in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 26, *Operating Segments* to consolidated financial statements included herein.

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

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

**Life Marketing**

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

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

<b>For The Year Ended December 31,</b>	<b>Sales</b>	
	<b>(Dollars In Millions)</b>	
2010	\$	171
2011		133
2012		121
2013		155
2014		130

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**Acquisitions**

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

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

The Company believes that its focused and disciplined approach to the acquisition process and its experience in the assimilation, conservation, and servicing of acquired policies provides a significant competitive advantage. On occasion, the Company's other operating segments have acquired companies and/or blocks of policies. The results of these acquisitions are included in the respective segment's financial results.

On October 1, 2013 PLICO completed the acquisition contemplated by the master agreement (the "Master Agreement") dated April 10, 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 (the "Reinsurance Agreement") pursuant to which it reinsured on a 100% indemnity reinsurance basis certain business (the "MLOA Business") of MONY Life Insurance Company of America ("MLOA"). The final aggregate purchase price of MONY was \$689 million. The ceding commission for the reinsurance of the MLOA Business was \$370 million. Together, the purchase of MONY and reinsurance of the MLOA Business are hereto referred to as the "MONY acquisition". The MONY acquisition allowed the Company to invest its capital and increase the scale of its Acquisitions segment. The MONY acquisition business is comprised of traditional and universal life insurance policies and fixed and variable annuities, most of which were written prior to 2004. See Note 3, *Significant Acquisitions* for additional information.

**Annuities**

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

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

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

For The Year Ended December 31,	Fixed Annuities	Variable Annuities	Total Annuities
(Dollars In Millions)			
2010	\$ 930	\$ 1,715	\$ 2,645
2011	1,032	2,349	3,381
2012	592	2,735	3,327
2013	693	1,867	2,560
2014	831	953	1,784

### **Stable Value Products**

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

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

The following table presents Stable Value Products sales:

For The Year Ended December 31,	GICs	Funding Agreements	Total
(Dollars In Millions)			
2010	\$ 133	\$ 625	\$ 758
2011	499	300	799
2012	400	222	622
2013	495		495
2014	42	50	92

### **Asset Protection**

The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, watercraft, and recreational vehicles ("RV"). 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 segment's products are primarily marketed through a national network of approximately 8,000 automobile, marine, and RV dealers. A network of direct employee sales representatives and general agents distribute these products to the dealer market.

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

For The Year Ended December 31,	Sales	
	(Dollars In Millions)	
2010	\$	343
2011		416
2012		451
2013		470
2014		487

In 2014, all of the segment's sales were through the automobile, RV, marine, and powersports dealer distribution channel and approximately 79% of the segment's sales were extended service contracts. A portion of the sales and resulting premiums are reinsured with producer-affiliated reinsurers.

## Corporate and Other

The Corporate and Other segment primarily consists of net investment income 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. The earnings of this segment may fluctuate from year to year.

## Investments

As of December 31, 2014, the Company's investment portfolio was approximately \$45.7 billion. The types of assets in which the Company may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, the Company invests in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. For further information regarding the Company's investments, the maturity of and the concentration of risk among the Company's invested assets, derivative financial instruments, and liquidity, see Note 2, *Summary of Significant Accounting Policies*, Note 6, *Investment Operations*, Note 24, *Derivative Financial Instruments* to consolidated financial statements, and Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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

For The Year Ended December 31,	Cash, Accrued Investment Income, and Investments as of December 31,	Net Investment Income	Percentage Earned on Average of Cash and Investments	Realized Investment Gains (Losses)	
				Derivative Financial Instruments	All Other Investments
(Dollars In Thousands)					
2010	\$ 31,970,632	\$ 1,683,676	5.4%	\$ (138,249)	\$ 112,856
2011	35,558,958	1,820,643	5.3	(155,251)	187,473
2012	37,640,971	1,862,332	4.9	(238,480)	172,149
2013	44,751,600	1,918,081	4.9	188,131	(145,984)
2014	46,531,371	2,197,724	4.7	(346,878)	198,127

## Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2014, the Company's mortgage loan holdings were approximately \$5.1 billion. The Company

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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 based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten and funded by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition. For more information regarding the Company's investment in mortgage loans, refer to Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 7, *Mortgage Loans* to the consolidated financial statements included herein.

**Ratings**

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

Ratings	Standard &			
	A.M. Best	Fitch	Poor's	Moody's
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A+	AA	A2
West Coast Life Insurance Company	A+	A+	AA	A2
Protective Life and Annuity Insurance Company	A+	A+	AA	
Lyndon Property Insurance Company	A			
MONY Life Insurance Company	A+	A+	A+	A2

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

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



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### Life Insurance In-Force

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

	<b>For The Year Ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars In Thousands)</b>				
<b>New Business Written</b>					
Life Marketing	\$ 35,967,402	\$ 39,107,963	\$ 20,488,483	\$ 19,357,654	\$ 30,626,739
Asset Protection	878,671	1,040,593	1,013,484	1,093,770	1,191,268
<b>Total</b>	<b>\$ 36,846,073</b>	<b>\$ 40,148,556</b>	<b>\$ 21,501,967</b>	<b>\$ 20,451,424</b>	<b>\$ 31,818,007</b>
<b>Business Acquired</b>					
Acquisitions	\$	\$ 44,812,977	\$	\$ 16,233,361	\$ 13,185,627
<b>Insurance In-Force at End of Year<sup>(1)</sup></b>					
Life Marketing	\$ 546,994,786	\$ 535,747,678	\$ 521,829,874	\$ 541,899,176	\$ 552,590,776
Acquisitions	215,223,031	235,552,325	212,812,930	217,216,920	217,101,363
Asset Protection	2,055,873	2,149,324	2,243,597	2,367,047	2,625,886
<b>Total</b>	<b>\$ 764,273,690</b>	<b>\$ 773,449,327</b>	<b>\$ 736,886,401</b>	<b>\$ 761,483,143</b>	<b>\$ 772,318,025</b>

(1) Reinsurance assumed has been included, reinsurance ceded (2014 \$388,890,060; 2013 \$416,809,287; 2012 \$444,950,866; 2011 \$469,530,487; 2010 \$495,056,077) has not been deducted.

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

<b>As of December 31,</b>	<b>Ratio of Voluntary Termination</b>
2010	4.8%
2011	5.0
2012	5.0
2013	5.1
2014	4.7

### Investment Products In-Force

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

<b>As of December 31,</b>	<b>Stable Value Products</b>	<b>Fixed Annuities</b>	<b>Variable Annuities</b>
<b>(Dollars In Thousands)</b>			

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2010	\$	3,076,233	\$	10,139,687	\$	5,622,111
2011		2,769,510		10,436,281		7,252,526
2012		2,510,559		10,107,365		10,152,515
2013		2,559,552		10,832,956		13,083,735
2014		1,959,488		10,724,849		13,383,309

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**Underwriting**

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

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

The Company utilizes an advanced underwriting system, TeleLife®, for certain product lines in life business. TeleLife® streamlines the application process through a telephonic interview of the applicant, schedules medical exams, accelerates the underwriting process and the ultimate issuance of a policy mostly through electronic means, and reduces the number of attending physician statements.

The Company's maximum retention limit on directly issued business is \$2,000,000 for any one life on certain of its traditional life and universal life products.

**Reinsurance Ceded**

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

For approximately 10 years prior to mid-2005, the Company entered into reinsurance contracts in which the Company ceded approximately 90% of its newly written traditional life insurance business on a first dollar quota share basis under coinsurance contracts. In mid-2005, the Company substantially discontinued coinsuring its newly written traditional life insurance and moved to yearly renewable term ("YRT") reinsurance. The amount of insurance retained by the Company on any one life on traditional life insurance was \$500,000 in years prior to mid-2005. In 2005, this retention amount was increased to \$1,000,000 for certain policies, and during 2008, was increased to \$2,000,000 for certain policies.

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

**Policy Liabilities and Accruals**

The applicable insurance laws under which the Company's insurance subsidiaries operate require that each insurance company report policy liabilities to meet future obligations on the outstanding policies. These liabilities are the amounts which, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated in accordance with applicable law to be

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sufficient to meet the various policy and contract obligations as they mature. These laws specify that the liabilities shall not be less than liabilities calculated using certain named mortality tables and interest rates.

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

### **Federal Taxes**

Existing laws and regulations affect the taxation of the Company's products. Income taxes that would otherwise be payable by policyholders on investment income that is earned inside certain types of insurance and annuity policies are deferred during these products' accumulation period. This favorable tax treatment gives certain of the Company's products a competitive advantage over non-insurance products. If the individual income tax laws are revised such that there is an elimination or scale-back of the tax-deferred status of these insurance products, or competing non-insurance products are granted a tax-deferred status, then the relative attractiveness of the Company's products may be reduced or eliminated.

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

The Company is subject to the corporate income tax within the U.S. and various states. It currently benefits from certain special tax benefits, such as deductions relating to its variable products' separate accounts and its future policy benefits and claims. Tax legislation could be enacted that would cause the Company to lose some or all of these deductions and therefore incur additional income tax expense. In addition, life insurance products are often used to fund estate tax obligations. Changes to estate tax laws may affect the demand for life insurance products. In general, there is general uncertainty regarding the taxes to which the Company and its products will be subject to in the future. The Company cannot predict what changes to tax law will occur.

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

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

### **Competition**

Life and health insurance is a mature and highly competitive industry. In recent years, the industry has experienced a decline in life insurance sales, though the aging population has increased the demand for

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retirement savings products. The Company encounters significant competition in all lines of business from other insurance companies, many of which have greater financial resources than the Company and which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have lower profitability expectations. The Company also faces competition from other providers of financial services. Competition could result in, among other things, lower sales or higher lapses of existing products.

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

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

**Risk Management**

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

**Regulation**

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

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

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

In addition, many states, including the states in which the Company's insurance subsidiaries are domiciled, have enacted legislation or adopted regulations regarding insurance holding company systems. These laws require registration of and periodic reporting by insurance companies domiciled within the jurisdiction which control or are controlled by other corporations or persons so as to constitute an insurance holding company system. These laws also affect the acquisition of control of insurance companies as well as transactions between insurance companies and companies controlling them. Most states, including Tennessee, where PLICO is domiciled, require administrative approval of the acquisition of control of an insurance company domiciled in the state or the acquisition of control of an insurance holding company whose insurance subsidiary is incorporated in the state. In Tennessee, the acquisition of 10% of the voting securities of an entity is deemed to be the acquisition of control for the purpose of the insurance holding company statute and requires not only the filing of detailed information concerning the acquiring parties and the plan of acquisition, but also administrative approval prior to the acquisition. Holding company legislation has been adopted in certain states where the Company's insurance subsidiaries are domiciled, which subjects the subsidiaries to increased reporting requirements. Holding company legislation has also been proposed in additional states, which, if adopted, will subject any domiciled subsidiaries to additional reporting and supervision requirements (see further discussion under the heading "Recent Development Dai-ichi Merger" related to the Company's merger).

The states in which the Company's insurance subsidiaries are domiciled also impose certain restrictions on the subsidiaries' ability to pay dividends to the Company. These restrictions are based in part on the prior year's statutory income and surplus. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval. Dividends in larger amounts are subject to approval by the insurance commissioner of the state of domicile. The maximum amount that would qualify as ordinary dividends to the Company by its insurance subsidiaries in 2015 is approximately, in the aggregate, \$588.2 million. No assurance can be given that more stringent restrictions will not be adopted from time to time by states in which the Company's insurance subsidiaries are domiciled; such restrictions could have the effect, under certain circumstances, of significantly reducing dividends or other amounts payable to the Company by such subsidiaries without affirmative prior approval by state regulatory authorities.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer. The NAIC may also be influenced by the initiatives or regulatory structures or schemes of international regulatory bodies, and those initiatives or regulatory structures or schemes may not translate readily into the regulatory structures or schemes or the legal system (including the interpretation or application of standards by juries), under which U.S. insurers must operate. Changes in laws and regulations, or in interpretations thereof, as well as initiatives or regulatory structures or schemes of international regulatory bodies, applicable to the Company could have a significant adverse impact on the Company. Some NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Also, regulatory actions with prospective impact can potentially have a significant adverse impact on currently sold products.

At the federal level, bills are routinely introduced in both chambers of the United States Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, pre-empting state law in certain respects to the regulation of reinsurance,

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increasing federal oversight in areas such as consumer protection and solvency regulation, and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, the impact of such legislation on the Company.

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to, the following: the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareholders, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Since the enactment of Dodd-Frank, many regulations have been enacted. However, there are still several studies and regulations yet to be written. Additionally, this is currently an area of activity and change. Both regulators and legislators continue to study, write regulations, and introduce and pass legislation related to Dodd-Frank. Any of these actions could significantly impact the Company.

Dodd-Frank also created the Consumer Financial Protection Bureau ("CFPB"), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the SEC or the U.S. Commodity Futures Trading Commission. Certain of the Company's subsidiaries sell products that may be regulated by the CFPB. In addition, Dodd-Frank includes a new framework of regulation of over-the-counter ("OTC") derivatives markets which requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The Company uses derivatives to mitigate a wide range of risks in connection with its business, including those arising from its VA products with guaranteed benefit features. The derivative clearing requirements of Dodd-Frank could continue to have an impact on the Company.

The Company may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans and individual investors that are governed by the Employee Retirement Income Security Act ("ERISA"). The Department of Labor is expected to re-propose a rule that would change the circumstances under which one who works with employee benefit plans and Individual Retirement Accounts would be considered a fiduciary under ERISA. Severe penalties are imposed for breach of duties under ERISA and the Company cannot predict the impact that the Department of Labor's re-proposed rule may have on its operations.

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Certain equity and debt securities, policies, contracts, and annuities offered by the Company are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority ("FINRA") examine or investigate the activities of broker dealers and investment advisors, including the Company's affiliated broker dealers and investment advisors. These examinations often focus on the activities of the registered representatives and registered investment advisors doing business through such entities.

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting practices, antitrust laws, minimum solvency requirements, state securities laws, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws and because the Company owns and operates real property, state, federal, and local environmental laws.

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

### **Employees**

As of December 31, 2014, the Company had approximately 2,457 employees, of which 2,441 were full-time and 16 were part-time employees. Included in the total were approximately 1,437 employees in Birmingham, Alabama, of which 1,429 were full-time and 8 were part-time employees. The Company believes its relations with its employees are satisfactory. Most employees are covered by contributory major medical, dental, vision, group life, and long-term disability insurance plans. The cost of these benefits to the Company in 2014 was approximately \$12.3 million. In addition, substantially all of the employees may participate in a defined benefit pension plan and 401(k) plan. The Company matches employee contributions to its 401(k) plan. See Note 15, *Stock-Based Compensation* and Note 16, *Employee Benefit Plans* to our consolidated financial statements for additional information.

### **Available Information**

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

The Company makes available free of charge through its website, [www.protective.com](http://www.protective.com), the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. The information found on the Company's website is not part of this or any other report filed with or furnished to the SEC. The Company will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

The Company has adopted a Code of Business Conduct, which applies to all directors, officers and employees of the Company and its wholly owned subsidiaries. The Code of Business Conduct incorporates a code of ethics that applies to the principal executive officer and all financial officers (including the Chief Financial Officer and Chief Accounting Officer) of the Company and its subsidiaries. The Code of Conduct is available on the Company's website, [www.protective.com](http://www.protective.com).



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**Executive Officers**

As of December 31, 2014 and the date of this filing, the Company's executive officers were as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
John D. Johns	63	Chairman of the Board, President, Chief Executive Officer and a Director
Richard J. Bielen	54	Vice Chairman, Chief Financial Officer and a Director
Deborah J. Long	61	Executive Vice President, Secretary and General Counsel
Michael G. Temple	52	Executive Vice President, Chief Risk Officer
Carl S. Thigpen	58	Executive Vice President, Chief Investment Officer
D. Scott Adams	50	Senior Vice President, Chief Human Resources Officer
Steven G. Walker	55	Senior Vice President, Controller and Chief Accounting Officer

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

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

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

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

Mr. Temple has been Executive Vice President and Chief Risk Officer of the Company since December 2012. Prior to joining the Company, Mr. Temple served as Senior Vice President and Chief Risk Officer at Unum Group in Chattanooga, Tennessee.

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

Mr. Adams has been Senior Vice President and Chief Human Resources Officer of the Company since April 2006.

Mr. Walker has been Senior Vice President since March 2004. Mr. Walker has been Controller and Chief Accounting Officer of the Company since September 2003. Mr. Walker has been employed by the Company and its subsidiaries since 2002.

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

**Item 1A. Risk Factors**

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

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**Risks Related to the Dai-ichi Merger and our Status as a Subsidiary of Dai-ichi Life**

*Uncertainty following the Merger could adversely affect our business and operations.*

The completion of the Merger or our status as a subsidiary of a foreign global insurer could cause disruptions to the Company's business and business relationships, which could have an adverse impact on the Company's results of operations, liquidity and financial condition. For example, the attention of the Company's management may be directed to post-Merger related considerations, the Company's current and prospective employees may experience uncertainty about their future roles with the Company which may adversely affect our ability to retain and hire key personnel, and parties with which the Company has business relationships, including customers, potential customers and distributors, may experience uncertainty as to the future of such relationships and seek alternative relationships with third parties or seek to alter their present business relationships with us in a manner that negatively impacts the Company.

*Our debt ratings and the financial strength ratings of our insurance subsidiaries may be adversely affected by our being a subsidiary of Dai-ichi Life.*

Rating organizations regularly review our debt ratings and the financial strength ratings of our insurance subsidiaries. Those organizations may take various actions, positive or negative, with respect to our debt and financial strength ratings, including as a result of our status as a subsidiary of Dai-ichi Life. Any negative action by a ratings organization could have a material adverse impact on the Company's financial condition or results of operations.

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

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

**General Risk Factors**

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

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural or man-made disaster or catastrophe, including a severe weather or geological event such as a storm, tornado, fire, flood, or earthquake, disease, epidemic, pandemic, malicious act, terrorist act, or the occurrence of climate change, could cause the Company's workforce to be unable to engage in operations at one or more of its facilities or result in short or long-term interruptions in the Company's business operations, any of which could be material to the Company's operating results for a particular period. In addition, such events could adversely affect the mortality, morbidity, or other experience of the Company

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or its reinsurers and have a significant negative impact on the Company. In addition, claims arising from the occurrence of such events or conditions could have a material adverse effect on the Company's financial condition and results of operations. Such events or conditions could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. The Company's risk management efforts and other precautionary plans and activities may not adequately predict the impact on the Company from such events.

In addition, such events or conditions could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of the Company's business within such geographic areas and/or the general economic climate, which in turn could have an adverse effect on the Company. Such events or conditions could also result in additional regulation or restrictions on the Company in the conduct of its business. The possible macroeconomic effects of such events or conditions could also adversely affect the Company's asset portfolio, as well as many other aspects of the Company's business, financial condition, and results of operations.

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

In conducting its business, the Company relies extensively on various electronic systems, including computer systems, networks, data processing and administrative systems, and communication systems. The Company's business partners, counter parties, service providers and distributors also rely on such systems, as do securities exchanges and financial markets that are important to the Company's ability to conduct its business. These systems could be disrupted, damaged or destroyed by intentional or unintentional acts or events such as cyber-attacks, viruses, sabotage, acts of war or terrorism, human error, system failures, failures of power or water supply, and the loss or malfunction of other utilities or services. They may also be disrupted, damaged or destroyed by natural events such as storms, tornadoes, fires, floods or earthquakes. While the Company and others on whom it depends try to identify threats and implement measures to protect their systems, such protective measures may not be sufficient. Disruption, damage or destruction of any of these systems could cause the Company or others on whom the Company relies to be unable to conduct business for an extended period of time, which could materially adversely impact the Company's business and its financial condition and results of operations.

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

In the course of conducting its business, the Company retains confidential information, including information about its customers and proprietary business information. The Company retains confidential information in various electronic systems, including computer systems, data processing and administrative systems, and communication systems. The Company maintains physical, administrative, and technical safeguards to protect the information and it relies on commercial technologies to maintain the security of its systems and to maintain the security of its transmission of such information to other parties, including its business partners, counter parties and service providers. The Company's business partners, counter parties and service providers likewise maintain confidential information, including, in some cases, customer information, on behalf of the Company. An intentional or unintentional breach or compromise of the security measures of the Company or such other parties could result in the disclosure, misappropriation, misuse, alteration or destruction of the confidential information retained by or on behalf of the Company, which could damage the Company's business and reputation, and adversely affect its financial condition and results of operations by, among other things, causing harm to the Company's customers, deterring customers and others from doing business with the Company, subjecting the Company to significant regulatory, civil, and criminal liability, and requiring the Company to incur significant legal and other expenses. As cyber threats continue to evolve, the Company may be required to

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expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. While the Company has experienced cyber-attacks in the past, to date the Company has not suffered any material harm or loss relating to cyber-attacks or other information security breaches at the Company or its counterparties, there can be no assurance that the Company will not suffer such losses in the future.

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

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

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

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

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

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

The Company's acquisitions of companies and acquisitions or coinsurance of blocks of insurance business have increased its earnings in part by allowing the Company to position itself to realize certain operating efficiencies. However, there can be no assurance that the Company will have future suitable opportunities for, or sufficient capital available to fund, such transactions. If our competitors have access to capital on more favorable terms or at a lower cost, our ability to compete for acquisitions may be diminished. In addition, there can be no assurance that the Company will realize the anticipated financial results from such transactions.

The Company may be unable to complete an acquisition transaction. Completion of an acquisition transaction may be more costly or take longer than expected, or may have a different or more costly financing structure than initially contemplated. In addition, the Company may not be able to complete or

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manage multiple acquisition transactions at the same time, or the completion of such transactions may be delayed or be more costly than initially contemplated. The Company or other parties to the transaction may be unable to obtain regulatory approvals required to complete an acquisition transaction. If the Company identifies and completes suitable acquisitions, it may not be able to successfully integrate the business in a timely or cost-effective manner. In addition, there may be unforeseen liabilities that arise in connection with businesses or blocks of insurance business that the Company acquires.

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

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

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

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

***The Company is dependent on the performance of others.***

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

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

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

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

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

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

The Company's performance is highly dependent on its ability to manage risks that arise from a large number of its day-to-day business activities, including: policy pricing, reserving and valuation; underwriting; claims processing; policy administration and servicing; administration of reinsurance; execution of its investment and hedging strategy; financial and tax reporting; and other activities, many of which are very complex. The Company also may rely on third parties for such activities. The Company seeks to monitor and control its exposure to risks arising out of or related to these activities through a variety of internal controls, management review processes, and other mechanisms. However, the occurrence of unforeseen or un-contemplated risks, or the occurrence of risks of a greater magnitude than expected, including those arising from a failure in processes, procedures or systems implemented by the Company or a failure on the part of employees or third parties upon which the Company relies in this regard, may have a material adverse effect on the Company's financial condition or results of operations.

**Risks Related to the Financial Environment**

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

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

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

The Company's expectation for future interest earnings and spreads is an important component in amortization of deferred acquisition costs ("DAC") and value of business acquired ("VOBA"), and significantly lower interest earnings or spreads may cause it to accelerate amortization, thereby reducing

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net income in the affected reporting period. Sustained periods of low interest rates could also result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with the Company's products.

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

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

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

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

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

Significant continued financial and credit market volatility, changes in interest rates and credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions, either alone or in combination, could have a material adverse impact on the

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

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

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

Equity market volatility can also affect the profitability of variable products in other ways, in particular as a result of death benefit and withdrawal benefit guarantees in these products. The estimated cost of providing guaranteed minimum death benefits ("GMDB") and guaranteed minimum withdrawal benefits ("GMWB") incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets or increased equity market volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income and an adverse impact to the statutory capital and risk-based capital ratios of the Company's insurance subsidiaries.

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

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

The Company uses derivative financial instruments within its risk management strategy to mitigate risks to which it is exposed, including the adverse effects of domestic and/or international credit and/or equity market and/or interest rate levels or volatility on its fixed indexed annuity and variable annuity products with guaranteed benefit features. These derivative financial instruments may not effectively offset the changes in the carrying value of the guarantees due to, among other things, the time lag between changes in the value of such guarantees and the changes in the value of the derivative financial instruments purchased by the Company, extreme credit and/or equity market and/or interest rate levels or volatility, contract holder behavior that differs from the Company's expectations, and divergence between the performance of the underlying funds of such variable annuity products with guaranteed benefit features and the indices utilized by the Company in estimating its exposure to such guarantees.

The Company may also use derivative financial instruments within its risk management strategy to mitigate risks arising from its exposure to investments in individual issuers or sectors of issuers and to mitigate the adverse effects of distressed domestic and/or international credit and/or equity markets and/or interest rate levels or volatility on its overall financial condition or results of operations.

The use of derivative financial instruments by the Company may have an adverse impact on the level of statutory capital and the risk-based capital ratios of the Company's insurance subsidiaries. The Company employs strategies in the use of derivative financial instruments that are intended to mitigate such adverse impacts, but the Company's strategies may not be effective.



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The Company may also choose not to hedge, in whole or in part, these or other risks that it has identified, due to, for example, the availability and/or cost of a suitable derivative financial instrument or, in reaction to extreme credit, equity market and/or interest rate levels or volatility. Additionally, the Company's estimates and assumptions made in connection with its use of any derivative financial instrument may fail to reflect or correspond to its actual long-term exposure in respect to identified risks. Derivative financial instruments held or purchased by the Company may also otherwise be insufficient to hedge the risks in relation to the Company's obligations. In addition, the Company may fail to identify risks, or the magnitude thereof, to which it is exposed. The Company is also exposed to the risk that its use of derivative financial instruments within its risk management strategy may not be properly designed and/or may not be properly implemented as designed.

The Company is also subject to the risk that its derivative counterparties or clearinghouse may fail or refuse to meet their obligations to the Company under derivative financial instruments. If the Company's derivative counterparties or clearinghouse fail or refuse to meet their obligations to the Company in this regard, the Company's efforts to mitigate risks to which it is subject through the use of such derivative financial instruments may prove to be ineffective or inefficient.

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

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

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

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

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

The ability of the Company to implement financing solutions designed to fund a portion of statutory reserves on both the traditional and universal life blocks of business is dependent upon factors such as the

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ratings of the Company, the size of the blocks of business affected, the mortality experience of the Company, the credit markets, and other factors. The Company cannot predict the continued availability of such solutions or the form that the market may dictate. To the extent that such financing solutions were desired but are not available, the Company's financial position could be adversely affected through impacts including, but not limited to, higher borrowing costs, surplus strain, lower sales capacity, and possible reduced earnings.

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

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

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

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

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

Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions, ratings of parent companies, and circumstances outside the rated company's control. Factors identified by rating agencies that could lead to negative rating actions with respect to the Company or its

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

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

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

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

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

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

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

The Company's business and results of operations could be materially affected by difficult general economic conditions. Stressed economic conditions and volatility and disruptions in capital markets, particular markets or financial asset classes can have an adverse effect on the Company due to the size of

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the Company's investment portfolio and the sensitive nature of insurance liabilities to changing market factors. Disruptions in one market or asset class can also spread to other markets or asset classes. Volatility in financial markets can also affect the Company's business by adversely impacting general levels of economic activity, employment and customer behavior.

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

Economic trends may worsen in 2015, thus contributing to increased volatility and diminished expectations for the economy, markets, and financial asset classes. The Company cannot predict the occurrence of economic trends or the likelihood or timing of improvement in such trends.

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

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

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

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

The Company relies on its credit facility as a potential source of liquidity. The availability of these funds could be critical to the Company's credit and financial strength ratings and its ability to meet obligations, particularly when alternative sources of credit are either difficult to access or costly. The availability of the Company's credit facility is dependent in part on the ability of the lenders to provide funds under the facility. The Company's credit facility contains various affirmative and negative covenants and events of default, including covenants requiring the Company to maintain a specified minimum consolidated net worth. The Company's right to make borrowings under the facility is subject to the fulfillment of certain conditions, including its compliance with all covenants. The Company's failure to comply with the covenants in the credit facility could restrict its ability to access this credit facility when needed. The Company's inability to access some or all of the line of credit under the credit facility could have a material adverse effect on its financial condition and results of operations.

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

The Company is a member of the Federal Home Loan Bank (the "FHLB") of Cincinnati, which provides the Company with access to FHLB financial services, including advances that provide an attractive funding source for short-term borrowing and for the sale of funding agreements. In recent years, the Federal Housing Finance Agency ("FHFA") has released proposed rules, which include revised

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member participation standards, and advisory bulletins addressing concerns associated with insurance company (as opposed to federally-backed bank) access to FHLB financial services, the state insurance regulatory framework and FHLB creditor status in the event of member insurer insolvency. In response to FHFA actions, FHLB members, the NAIC and trade groups developed model legislation that would enable insurers to access FHLB funding on similar collateral terms as federally insured depository institutions. While members of the FHLB and NAIC were not able to agree on certain points, legislation based on this model has been introduced in several states and is not being opposed by the NAIC. It is unclear at this time whether or to what extent additional or new legislation or regulatory action regarding continued membership in and access to FHLB financial services will be enacted or adopted. Any developments that limit access to FHLB financial services or eliminate the Company's eligibility for continued FHLB membership could have a material adverse effect on the Company.

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

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

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

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

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

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

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

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for life insurance companies establishes capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors including the following: the amount of statutory income or losses generated by the Company's insurance subsidiaries (which itself is sensitive to equity market and credit market conditions); the amount of additional capital its insurance subsidiaries must hold to support business growth; changes in the Company's reserve requirements; the Company's ability to secure capital market solutions to provide reserve relief; changes in equity market levels; the value of certain fixed-income and equity securities in its investment portfolio; the credit ratings of investments held in its portfolio, including those issued by, or explicitly or implicitly guaranteed by, a government; the value of certain derivative instruments; changes in interest rates and foreign currency exchange rates; credit market volatility; changes in consumer behavior; and changes to the NAIC RBC formula. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of its insurance company subsidiaries. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital the Company must hold in order to maintain its current ratings. In addition, rating agencies may downgrade the investments held in the Company's portfolio, which could result in a reduction of the Company's capital and surplus and/or its RBC ratio.

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

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

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

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

**Industry Related Risks**

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

The Company is subject to government regulation in each of the states in which it conducts business. In many instances, the regulatory models emanate from the National Association of Insurance Commissioners ("NAIC"). Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve

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requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, insurer use of captive reinsurance companies, acquisitions, mergers, capital adequacy, claims practices and the remittance of unclaimed property. In addition, some state insurance departments may enact rules or regulations with extra-territorial application, effectively extending their jurisdiction to areas such as permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator.

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

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations.

The NAIC and the Company's state regulators may be influenced by the initiatives of international regulatory bodies, and those initiatives may not translate readily into the legal system under which U.S. insurers must operate. There is increasing pressure to conform to international standards due to the globalization of the business of insurance and the most recent financial crisis.

In addition to developments at the NAIC and in the United States, the Financial Stability Board ("FSB"), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated.

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

The IAIS is also in the process of developing a common framework for the supervision of internationally active insurance groups ("IAIGs"), which is targeted to be implemented in 2019. Under the proposed framework, insurance groups deemed to be IAIGs may be required by their regulators to comply with new global capital requirements, which may exceed the sum of state or other local capital requirements. In addition, the IAIS is developing a model framework for the supervision of IAIGs that contemplates "group wide supervision" across national boundaries, which requires each IAIG to conduct its own risk and solvency assessment to monitor and manage its overall solvency. It is possible that, as a result of the Merger, the combined group may be deemed an IAIG, in which case it may be subject to supervision and capital requirements beyond those applicable to any competitors who are not designated as an IAIG.

While it is not yet known how or if these actions will impact the Company, such regulation could result in increased costs of compliance, increased disclosure, less flexibility in capital management and more burdensome regulation and capital requirements for specific lines of business, and could impact the Company and its reserve and capital requirements, financial condition or results of operations.

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

The NAIC has announced more focused inquiries on certain matters that could have an impact on the Company's financial condition and results of operations. Such inquiries concern, for example, examination of statutory accounting disclosures for separate accounts, insurer use of captive reinsurance companies, certain aspects of insurance holding company reporting and disclosure, reserving for universal life products with secondary guarantees, reinsurance, and risk-based capital calculations. In addition, the NAIC continues to consider various initiatives to change and modernize its financial and solvency requirements and regulations. It is considering changing to, or has considered and passed, a principles-based reserving method for life insurance and annuity reserves, changes to the accounting and risk-based capital regulations, changes to the governance practices of insurers, and other items. Some of these proposed changes, including implementing a principles-based reserving methodology, would require the approval of state legislatures. The Company cannot provide any estimate as to what impact these more focused inquiries or proposed changes, if they occur, will have on its product mix, product profitability, reserve and capital requirements, financial condition or results of operations.

With respect to reserving requirements for universal life policies with secondary guarantees ("ULSG"), in 2012 the NAIC adopted revisions to Actuarial Guideline XXXVIII ("AG38") addressing those requirements. Some of the regulatory participants in the AG38 revision process appeared to believe that one of the purposes of the revisions was to calculate reserves for ULSG similarly to reserves for guaranteed level term life insurance contracts with the same guarantee period. The effect of the revisions was to increase the level of reserves that must be held by insurers on ULSG with certain product designs that are issued on and after January 1, 2013, and to cause insurers to test the adequacy of reserves, and possibly increase the reserves, on ULSG with certain product designs that were issued before January 1, 2013. The Company developed and introduced a new ULSG product for sales in 2013. The Company cannot predict future regulatory actions that could negatively impact the Company's ability to market this or other products. Such regulatory reactions could include, for example, withdrawal of state approvals of the product, or adoption of further changes to AG38 or other adverse action including retroactive regulatory action that could negatively impact the Company's product. A disruption of the Company's ability to sell financially viable life insurance products or an increase in reserves on ULSG policies issued either before or after January 1, 2013, could have a material adverse impact on the Company's financial condition or results of operations.

The Company currently uses affiliated captive reinsurance companies in various structures to finance certain statutory reserves based on a regulation entitled "Valuation of Life Insurance Policies Model



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Regulation," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies Model Regulation," commonly known as "Guideline AXXX, which are associated with term life insurance and universal life insurance with secondary guarantees, respectively, as well as to reduce the volatility in statutory risk based capital associated with certain guaranteed minimum withdrawal and death benefit riders associated with the Company's variable annuity products. The NAIC, through various committees, subgroups and dedicated task forces, has undertaken a review of the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers (including traditional reinsurers) (the "Affected Business"). The Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, recently adopted the "conceptual framework" contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the "Rector Report"), that contains numerous recommendations pertaining to the regulation and use of captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in various stages of discussions regarding recommendations. One recommendation of the Rector Report has been adopted as Actuarial Guideline XL VIII ("AG48"). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. Other recommendations in the Rector Report are subject to ongoing comment and revision. It is unclear at this time to what extent the recommendations in the Rector Report, or additional or revised recommendations relating to captive transactions or reinsurance transactions in general, will be adopted by the NAIC. If the recommendations proposed in the Rector Report are implemented, it will likely be difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Rector Report, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. Additionally, in some circumstances AG48 and the implementation of the recommendations in the Rector Report could impact the Company's ability to engage in certain reinsurance transactions with non-affiliates.

The NAIC's Financial Regulation Standards and Accreditation (F) Committee is considering a proposal to include insurer-owned captives and special purpose vehicles that are single-state licensed but assume reinsurance from cedants operating in multiple states within the definition of "multi-state insurer" found in the preambles to Parts A and B of the NAIC Financial Regulation Standards and Accreditation Program. If adopted, the revised definition would subject captives (on a prospective basis, as proposed) to all of the Accreditation Standards applicable to other traditional multi-state insurers, including standards related to capital and surplus requirements, risk-based capital requirements, investment laws and credit for reinsurance laws. Such application would likely have a significant and adverse impact on the Company's ability to engage in captive transactions on the same or a similar basis as in past periods.

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

Recently, new laws and regulations have been adopted in certain states that require life insurers to search for unreported deaths. The National Conference of Insurance Legislators ("NCOIL") has adopted

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the Model Unclaimed Life Insurance Benefits Act (the "Unclaimed Benefits Act") and legislation has been enacted in various states that is similar to the Unclaimed Benefits Act, although each state's version differs in some respects. The Unclaimed Benefits Act would impose new requirements on insurers to periodically compare their in-force life insurance and annuity contracts and retained asset accounts against a Death Database, investigate any potential matches to confirm the death and determine whether benefits are due, and to attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. Other states in which the Company does business may also consider adopting legislation similar to the Unclaimed Benefits Act. The Company cannot predict whether such legislation will be proposed or enacted in additional states. Additionally, the NAIC Unclaimed Life Insurance Benefits (A) Working Group recently recommended to its parent committee the development of an NAIC model unclaimed property law that, if developed, would overlap with the NCOIL based laws already adopted in several states. Other life insurance industry associations and regulatory associations are also considering these matters.

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

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

Certain of the Company's subsidiaries as well as certain other insurance companies from whom the Company has coinsured blocks of life insurance and annuity policies are subject to unclaimed property audits and/or targeted multistate examinations by insurance regulators similar to those described above. It is possible that the audits, examinations and/or the enactment of state laws similar to the Unclaimed Benefits Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, payment of administrative penalties and/or examination fees to state authorities, and changes to the Company's procedures for identifying unreported deaths and escheatment of abandoned property. It is possible any such additional payments and any costs related to changes in

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Company procedures could materially impact the Company's financial results from operations. It is also possible that life insurers, including the Company, may be subject to claims, regulatory actions, law enforcement actions, and civil litigation arising from their prior business practices. Any resulting liabilities, payments or costs, including initial and ongoing costs of changes to the Company's procedures or systems, could be significant and could have a material adverse effect on the Company's financial condition or results of operations.

During December 2012, the West Virginia Treasurer filed actions against the Company's subsidiaries Protective Life Insurance Company and West Coast Life Insurance Company in West Virginia state court (*State of West Virginia ex rel. John D. Perdue v. Protective Life Insurance Company, State of West Virginia ex rel. John D. Perdue v. West Coast Life Insurance Company; Defendants' Motions to Dismiss granted on December 27, 2013; Notice of Appeal filed on January 27, 2014*). The actions, which also name numerous other life insurance companies, allege that the companies violated the West Virginia Uniform Unclaimed Property Act, seek to compel compliance with the Act, and seek payment of unclaimed property, interest, and penalties. While the legal theory or theories that may give rise to liability in the West Virginia Treasurer litigation are uncertain, it is possible that other jurisdictions may pursue similar actions. The Company does not currently believe that losses, if any, arising from the West Virginia Treasurer litigation will be material. The Company cannot, however, predict whether other jurisdictions will pursue similar actions or, if they do, whether such actions will have a material impact on the Company's financial results from operations. Additionally, the California Controller has recently sued several insurance carriers for alleged failure to comply with audit requests from an appointed third party auditor. The Company cannot predict whether California might pursue a similar action against the Company and further cannot predict whether other jurisdictions might pursue similar actions. The Company does not believe however that any such action would have a material impact on the Company's financial condition or results of operations.

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

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

At the federal level, bills are routinely introduced in both chambers of the United States Congress ("Congress") that could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, whether the enacted legislation will positively or negatively affect the Company or whether any effects will be material.

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

The Company is subject to various conditions and requirements of the Healthcare Act. The Healthcare Act makes significant changes to the regulation of health insurance and may affect the Company in various ways. The Healthcare Act may affect the small blocks of business the Company has

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offered or acquired over the years that are, or are deemed to constitute, health insurance. The Healthcare Act may also affect the benefit plans the Company sponsors for employees or retirees and their dependents, the Company's expense to provide such benefits, the tax liabilities of the Company in connection with the provision of such benefits, and the Company's ability to attract or retain employees. In addition, the Company may be subject to regulations, guidance or determinations emanating from the various regulatory authorities authorized under the Healthcare Act. The Company cannot predict the effect that the Healthcare Act, or any regulatory pronouncement made thereunder, will have on its results of operations or financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") enacted in July 2010 made sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to the following: the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker-dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareowners, and the imposition of additional regulation over credit rating agencies.

Dodd-Frank also created the Financial Stability Oversight Council (the "FSOC"), which has issued a final rule and interpretive guidance setting forth the methodology by which it will determine whether a non-bank financial company is a systemically important financial institution ("SIFI"). A non-bank financial company, such as the Company, that is designated as a SIFI by the FSOC will become subject to supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is not currently supervised by the Federal Reserve. Such supervision could impact the Company's requirements relating to capital, liquidity, stress testing, limits on counterparty credit exposure, compliance and governance, early remediation in the event of financial weakness and other prudential matters, and in other ways the Company currently cannot anticipate. FSOC-designated non-bank financial companies will also be required to prepare resolution plans, so-called "living wills," that set out how they could most efficiently be liquidated if they endangered the U.S. financial system or the broader economy. The FSOC has conducted two rounds of SIFI designation consideration. However, this process is still very new, and the FSOC continues to make changes to its process for designating a company as a SIFI. The FSOC has made its initial SIFI designations, and the Company was not designated as such. However, the Company could be considered and designated at any time. Because the process is in its initial stages, the Company is at this time unable to predict the impact on an entity that is supervised as a SIFI by the Federal Reserve Board. The Company is not able to predict whether the capital requirements or other requirements imposed on SIFIs may impact the requirements applicable to the Company even if it is not designated as a SIFI. The uncertainty about regulatory requirements could influence the Company's product line or other business decisions with respect to some product lines. There is a similarly uncertain international designation process. The Financial Stability Board, appointed by the G-20 Summit, recently designated nine insurers as "G-SIIs," or global systemically-important insurers. As with the designation of SIFIs, it is unclear at this time how additional capital and other requirements affect the insurance and financial industries. The insurers designated as G-SIIs to date represent organizations larger than the Company, but the possibility remains that the Company could be so designated.

Additionally, Dodd-Frank created the Consumer Financial Protection Bureau ("CFPB"), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, other than investment products already regulated by the United States Securities and Exchange Commission (the "SEC") or the U.S. Commodity Futures Trading Commission. CFPB has issued a rule to bring under its supervisory authority certain non-banks whose activities or products it determines pose risks to consumers. It is unclear at this time which activities or products will be covered by this rule. Certain of the Company's subsidiaries sell products that may be regulated by the CFPB. CFPB continues to bring enforcement actions involving a growing number of issues, including actions using state Attorney's General, which could directly or indirectly affect the

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Company or use any of its subsidiaries. Additionally, the CFPB is exploring the possibility of helping Americans manage their retirement savings and is considering the extent of its authority in that area. The Company is unable at this time to predict the impact of these activities on the Company.

Dodd-Frank includes a new framework of regulation of over-the-counter ("OTC") derivatives markets which requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The types of transactions to be cleared are expected to increase in the future. The new framework could potentially impose additional costs, including increased margin requirements and additional regulation on the Company. Increased margin requirements on the Company's part, combined with restrictions on securities that will qualify as eligible collateral, could continue to reduce its liquidity and require an increase in its holdings of cash and government securities with lower yields causing a reduction in income. The Company uses derivative financial instruments to mitigate a wide range of risks in connection with its businesses, including those arising from its variable annuity products with guaranteed benefit features. The derivative clearing requirements of Dodd-Frank could continue to increase the cost of the Company's risk mitigation and expose it to the risk of a default by a clearinghouse with respect to the Company's cleared derivative transactions.

Numerous provisions of Dodd-Frank require the adoption of implementing rules and/or regulations. The process of adopting such implementing rules and/or regulations have in some instances been delayed beyond the timeframes imposed by Dodd-Frank. Until the various final regulations are promulgated pursuant to Dodd-Frank, the full impact of the regulations on the Company will remain unclear. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, the Company, its competitors or the entities with which the Company does business. Legislative or regulatory requirements imposed by or promulgated in connection with Dodd-Frank may impact the Company in many ways, including but not limited to the following: placing the Company at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for the Company to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, causing historical market behavior or statistics utilized by the Company in connection with its efforts to manage risk and exposure to no longer be predictive of future risk and exposure or otherwise have a material adverse effect on the overall business climate as well as the Company's financial condition and results of operations.

The Company may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans and individual investors that are governed by the Employee Retirement Income Security Act ("ERISA"). The Department of Labor is expected to re-propose a rule that would change the circumstances under which one who works with employee benefit plans and Individual Retirement Accounts would be considered a fiduciary under ERISA. Severe penalties are imposed for breach of duties under ERISA and the Company cannot predict the impact that the Department of Labor's re-proposed rule may have on its operations.

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

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In addition, the SEC is reviewing the standard of conduct applicable to brokers, dealers, and investment advisers when those entities provide personalized investment advice about securities to retail customers. FINRA has also issued a report addressing how its member firms might identify and address conflicts of interest including conflicts related to the introduction of new products and services and the compensation of the member firms' associated persons. These regulatory initiatives could have an impact on Company operations and the manner in which broker-dealers and investment advisers distribute the Company's products.

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

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

Other types of regulation that could affect the Company and its subsidiaries include insurance company investment laws and regulations, state statutory accounting and reserving practices, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws (including laws in Alabama where over half of the Company's employees are located), and because the Company owns and operates real property, state, federal, and local environmental laws. Under some circumstances, severe penalties may be imposed for breach of these laws.

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

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

Under the Internal Revenue Code of 1986, as amended (the "Code"), income taxes payable by policyholders on investment earnings is deferred during the accumulation period of most life insurance and annuity products. This favorable tax treatment provides some of the Company's products with a competitive advantage over products offered by non-insurance companies. To the extent that the Code is revised to either reduce the tax-deferred status of life insurance and annuity products, or to establish the tax-deferred status of competing products, then all life insurance companies, including the Company's subsidiaries, would be adversely affected with respect to their ability to sell such products. Furthermore, depending upon grandfathering provisions, such changes could cause increased surrenders of existing life insurance and annuity products. For example, new legislation that further restricts the deductibility of interest on funds borrowed to purchase corporate-owned life insurance products could result in increased surrenders of these products.

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The Company is subject to the federal corporate income tax in the U.S. Certain tax provisions, such as the dividends-received deduction, the deferral of current taxation on certain types of derivatives' and securities' economic income, and the deduction for future policy benefits and claims, are beneficial to the Company. The Obama Administration and Congress have separately made proposals that either materially change or eliminate these benefits. Most of the foregoing proposals would cause the Company to pay higher current taxes, offset (in whole or in part) by a reduction in its deferred taxes. However, the proposal regarding the dividends-received deduction would cause the Company's net income and earnings per share to decrease. Whether these proposals will be enacted, and if so, whether they will be enacted as described above, is uncertain.

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

There is general uncertainty regarding the taxes to which the Company and its products will be subject in the future. The Company cannot predict what changes to tax law or interpretations of existing tax law may ultimately be enacted or adopted, or whether such changes will adversely affect the Company.

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

A number of judgments have been returned against insurers, broker-dealers, and other providers of financial services involving, among other things, sales, underwriting practices, product design, product disclosure, product administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the company does business, payment of sales or other contingent commissions, and other matters. Often these legal proceedings have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given legal proceeding. Arbitration awards are subject to very limited appellate review. In addition, in some legal proceedings, companies have made material settlement payments. In some instances, substantial judgments may be the result of a party's perceived ability to satisfy such judgments as opposed to the facts and circumstances regarding the claims.

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

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

The Company, like other financial services companies in the ordinary course of business, is involved in legal proceedings and regulatory actions. The occurrence of such matters may become more frequent and/or severe when general economic conditions have deteriorated. In addition, while the Company has entered into a Memorandum of Understanding to settle class action litigation related to the recent merger transaction, we can provide no assurances that other lawsuits will not be filed or as to the ultimate outcome of any pending or similar future lawsuits. The Company may be unable to predict the outcome of such

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matters and may be unable to provide a reasonable range of potential losses. Given the inherent difficulty in predicting the outcome of such matters, it is possible that an adverse outcome in certain such matters could be material to the Company's results for any particular reporting period.

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

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

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

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

The FASB is working on several projects in conjunction with the International Accounting Standards Board, which could result in significant changes as GAAP and International Financial Reporting Standards ("IFRS") attempt to converge. Furthermore, the SEC is considering whether and how to incorporate IFRS into the U.S. financial reporting system. The changes to GAAP and potential incorporation of IFRS into the U.S. financial reporting system will impose special demands on issuers in the areas of governance, employee training, internal controls, contract fulfillment and disclosure and will likely affect how we manage our business, as it will likely affect other business processes such as design of compensation plans, product design, etc. The Company is unable to predict whether, and if so, when these projects and ultimately convergence with IFRS will be adopted and/or implemented.

In addition, the Company's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals either are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect the Company. The NAIC is also currently working to reform model regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. The Company cannot predict whether or in what form reforms will be enacted by state legislatures and, if so, whether the enacted reforms will positively or negatively affect the Company. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart



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from SAP by granting them permitted accounting practices. The Company cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of the Company's insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. The Company can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on the Company. For additional information regarding pending NAIC reforms, please see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

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

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

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

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

The Company's results and its ability to compete are affected by the availability and cost of reinsurance. Premium rates charged by the Company are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, a reinsurer may increase the rate it charges the Company for the reinsurance, including rates for new policies the Company is issuing and rates related to policies that the Company has already issued. The Company may not be able to increase the premium rates it charges for policies it has already issued, and for competitive reasons it may not be able to raise the premium rates it charges for new policies to offset the increase in rates charged by reinsurers. If the cost of reinsurance were to increase, if reinsurance were to become unavailable, if alternatives to reinsurance were not available to the Company, or if a reinsurer should fail to meet its obligations, the Company could be adversely affected.

In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market results in increased concentration of risk for insurers, including the Company. If the reinsurance market further contracts, the Company's ability to continue to offer its products on terms favorable to it could be adversely impacted.

In addition, reinsurers are facing many challenges regarding illiquid credit and/or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions, and other factors negatively impacting the financial services industry. Concerns over the potential default on the sovereign debt of several European Union member states, and its impact on the European financial sector have increased liquidity concerns, particularly for those reinsurers with significant exposure to European capital and/or credit markets. If such events cause a reinsurer to fail to meet its obligations, the Company would be adversely impacted.

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

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

The Company's results may fluctuate from period to period due to fluctuations in the amount of policy claims received. In addition, certain of the Company's lines of business may experience higher claims if the economy is growing slowly or in recession, or if equity markets decline. Also, insofar as the Company continues to retain a larger percentage of the risk of newly written life insurance products than it has in the past, its financial results may have greater variability due to fluctuations in mortality results.

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

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

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

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

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

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

Additionally, a decrease in persistency of existing business may result in higher or more rapid amortization of deferred policy acquisition costs and thus higher unit costs and lower reported earnings. Although many of the Company's products contain surrender charges, the charges decrease over time and may not be sufficient to cover the unamortized deferred policy acquisition costs with respect to the insurance policy or annuity contract being surrendered. Some of the Company's products do not contain

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surrender charge features and such products can be surrendered or exchanged without penalty. A decrease in persistency may also result in higher claims.

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

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

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

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

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

The Company leases administrative and marketing office space in 19 cities, including 24,090 square feet in Birmingham (excluding the home office building), with most leases being for periods of three to ten years. The aggregate annualized rent is approximately \$6.5 million.

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

**Item 3. Legal Proceedings**

After the entry into the Merger Agreement on June 3, 2014, four lawsuits were filed against the Company, our then current directors, Dai-ichi Life and DL Investment (Delaware), Inc. on behalf of alleged Company shareowners. On June 11, 2014, a putative class action lawsuit styled *Edelman, et al. v. Protective Life Corporation, et al.*, Civil Action No. 01-CV-2014-902474.00, was filed in the Circuit Court of Jefferson County, Alabama. On July 30, 2014, the plaintiff in *Edelman* filed an amended complaint. Three

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putative class action lawsuits were filed in the Court of Chancery of the State of Delaware, *Martin, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9794-CB, filed June 19, 2014, *Leyendecker, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9931-CB, filed July 22, 2014 and *Hilburn, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9937-CB, filed July 23, 2014. The Delaware Court of Chancery consolidated the *Martin*, *Leyendecker*, and *Hilburn* actions under the caption *In re Protective Life Corp. Stockholders Litigation*, Consolidated Civil Action No. 9794-CB, designated the *Hilburn* complaint as the operative consolidated complaint (the "Delaware Action") and appointed Charlotte Martin, Samuel J. Leyendecker, Jr., and Deborah J. Hilburn to serve as co-lead plaintiffs. These lawsuits allege that our Board of Directors breached its fiduciary duties to our shareowners, that the Merger involves an unfair price, an inadequate sales process, and unreasonable deal protection devices that purportedly preclude competing offers, and that the preliminary proxy statement filed with the SEC on July 10, 2014 failed to disclose purportedly material information. The complaints also alleged that the Company, Dai-ichi Life and DL Investment (Delaware), Inc. aided and abetted those alleged breaches of fiduciary duties. The complaints seek injunctive relief, including enjoining or rescinding the Merger, and attorneys' and other fees and costs, in addition to other relief. The Delaware Action also seeks an award of unspecified damages.

With respect to the *Edelman* lawsuit, on September 5, 2014, the court held a hearing to address motions to dismiss the lawsuit filed on behalf of the Company, the members of the Company's Board, and DL Investment (Delaware), Inc. On September 19, 2014, the court granted those motions and dismissed the *Edelman* lawsuit in its entirety and with prejudice, pending a possible appeal by the plaintiff. With respect to the Delaware Action, on September 24, 2014, the Company, each of the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. entered into a Memorandum of Understanding (the "MOU") with the plaintiffs in that case, which sets forth the parties' agreement in principle for a settlement of the Delaware Action. As set forth in the MOU, the Company, the members of the Company's Board, Dai-ichi Life, and DL Investment (Delaware), Inc. agreed to the settlement solely to eliminate the burden, expense, distraction, and uncertainties inherent in further litigation, and without admitting any liability or wrongdoing. The MOU contemplates that the parties will seek to enter into a stipulation of settlement providing for the certification of a mandatory non opt-out class, for settlement purposes only, to include any and all record and beneficial owners of shares (excluding the members of the Company's Board and their immediate family members, any entity in which any member of the Company's Board has a controlling interest, and any successors in interest thereto) that held shares at any time during the period beginning on June 3, 2014, through the date of consummation or termination of the Merger, including any and all of their respective successors in interest, successors, predecessors in interest, representatives, trustees, executors, administrators, heirs, assigns, or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, together with their predecessors, successors and assigns, and a global release of claims relating to the Merger as set forth in the MOU. As part of the settlement, the Company agreed to make certain additional disclosures related to the Merger which are set forth in the Company's Form 8-K filed on September 25, 2014 and which supplement the information contained in the Company's definitive proxy statement filed with the SEC on August 25, 2014, as amended on August 27, 2014. Nothing in the Form 8-K or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality of any of the disclosures set forth in the Form 8-K. The claims in the Delaware Action will not be released until the stipulation of settlement is approved by the Court of Chancery of the State of Delaware. The proposed settlement would have no effect on the consideration received by Company stockholders in connection with the completion of the Merger. There can be no assurance, however, that the court will approve the proposed settlement, nor can there be any assurance as to the size of any award of attorneys' fees and expenses to the plaintiffs' counsel. The Company cannot provide assurances as to the ultimate settlement of the Delaware Action or with respect to any lawsuits regarding the Merger that may be filed in the future.

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For additional information regarding legal proceedings see Item 1A, *Risk Factors* and Note 13, *Commitments and Contingencies* of the Notes to the Consolidated Financial Statements, each included herein.

**Item 4. Mine Safety Disclosure Not Applicable**

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

As of February 1, 2015 the Company became a wholly owned subsidiary of Dai-ichi Life, and as of the date of this report there is no market for our Common Stock. Prior to February 1, 2015 the Company's Common Stock was listed on the New York Stock Exchange, but was delisted in connection with our becoming a wholly owned subsidiary of Dai-ichi Life.

On December 31, 2014, there were approximately 1,019 owners of record of the Company's common stock.

The Company did not pay any dividends after December 31, 2014. In the future, the Company expects to pay cash dividends to its parent, Dai-ichi Life, subject to its earnings and financial condition, regulatory requirements, capital needs, and other relevant factors. The Company's ability to pay cash dividends is dependent in part on cash dividends received by the Company from its life insurance subsidiaries and regulatory requirements. See Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, "Liquidity and Capital Resources" included herein. Such subsidiary dividends are restricted by the various insurance laws of the states in which the subsidiaries are domesticated. See Item 1, *Business*, "Regulation". The historical trading ranges of the Company's equity shares and related dividends are set forth below for the noted periods.

	Range			
	High	Low	Dividends	
<b>2014</b>				
First Quarter	\$ 53.86	\$ 46.34	\$ 0.200	
Second Quarter	69.72	48.95	0.240	
Third Quarter	69.69	69.20	0.240	
Fourth Quarter	69.97	69.15	0.240	
<b>2013</b>				
First Quarter	\$ 35.86	\$ 28.95	\$ 0.180	
Second Quarter	39.33	34.67	0.200	
Third Quarter	45.05	38.78	0.200	
Fourth Quarter	51.09	42.42	0.200	

**Purchases of Equity Securities by the Issuer**

During the year ended December 31, 2014, the Company did not repurchase any of its common stock.

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**Performance Comparison**

**Comparison of 5 Year Cumulative Total Return\*  
Among Protective Life Corporation, the S&P 500 Index and a Peer Group**

\*  
\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

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	12/09	12/10	12/11	12/12	12/13	12/14
Protective Life Corporation	100.00	165.19	143.89	187.14	338.28	472.35
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
Peer Group	100.00	128.00	101.78	126.74	204.66	215.59

\*  
\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends.

Fiscal year ending December 31.

Source: Research Data Group, Inc.

The graph shown above compares total returns on the Company's common stock over the last five fiscal years to the S&P 500 Stock Index ("S&P 500") and to a peer comparison group ("Peer Group"). The graph assumes that \$100 was invested on December 31, 2009, and that all dividends were reinvested. Points on the graph represent performance as of the last business day of each of the years indicated.

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The following companies are included in the Peer Group index for the previous chart presented. The index weighs individual company returns for stock market capitalization.

Aflac Inc	FBL Financial Group, Inc.	Principal Financial Group, Inc.
American Equity Investment Life Holding Inc	Genworth Financial, Inc.	Protective Life Corporation
American International Group, Inc.	Horace Mann Educators Corp	Prudential Financial, Inc.
American National Insurance Co	Kansas City Life Insurance Co	Reinsurance Group of America, Inc.
Ameriprise Financial, Inc.	Lincoln National Corp	StanCorp Financial Group, Inc.
Assurant, Inc.	MetLife, Inc.	Symetra Financial Corporation
Citizen, Inc.	National Western Life Insurance Co	Torchmark Corporation
CNO Financial Group, Inc.	Primerica Inc.	Unum Group

There were no changes made to the composition of the Peer Group from the group used in last year's performance graph.



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**Item 6. Selected Financial Data**

	For The Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars In Thousands, Except Per Share Amounts)				
<b>INCOME STATEMENT DATA</b>					
Premiums and policy fees	\$ 3,297,768	\$ 2,981,651	\$ 2,814,278	\$ 2,800,140	\$ 2,625,394
Reinsurance ceded	(1,373,597)	(1,377,195)	(1,345,836)	(1,394,675)	(1,408,340)
Net of reinsurance ceded	1,924,171	1,604,456	1,468,442	1,405,465	1,217,054
Net investment income	2,197,724	1,918,081	1,862,332	1,820,643	1,683,676
Realized investment gains (losses):					
Derivative financial instruments	(346,878)	188,131	(238,480)	(155,251)	(138,249)
All other investments	205,402	(123,537)	231,035	234,915	154,366
Other-than-temporary impairment losses	(2,589)	(10,941)	(66,188)	(62,332)	(75,341)
Portion recognized in other comprehensive income (before taxes)	(4,686)	(11,506)	7,302	14,890	33,831
Net impairment losses recognized in earnings	(7,275)	(22,447)	(58,886)	(47,442)	(41,510)
Other income	430,428	394,315	358,563	307,812	222,418
Total revenues	4,403,572	3,958,999	3,623,006	3,566,142	3,097,755
Total benefits and expenses	3,820,283	3,368,626	3,170,035	3,095,666	2,762,983
Income tax expense	198,414	196,909	150,519	154,839	109,903
<b>Net income</b>	384,875	393,464	302,452	315,637	224,869
Less: Net income (loss) attributable to noncontrolling interests				245	(445)
<b>Net income available to PLC's common shareowners<sup>(1)</sup></b>	\$ 384,875	\$ 393,464	\$ 302,452	\$ 315,392	\$ 225,314
<b>PER SHARE DATA</b>					
Net income from continuing operations basic	\$ 4.81	\$ 4.96	\$ 3.73	\$ 3.70	\$ 2.60
Net income available to PLC's common shareowners basic	\$ 4.81	\$ 4.96	\$ 3.73	\$ 3.70	\$ 2.60
Average shares outstanding basic	80,065,217	79,395,622	81,066,338	85,208,612	86,567,069
Net income from continuing operations diluted	\$ 4.73	\$ 4.86	\$ 3.66	\$ 3.65	\$ 2.57
Net income available to PLC's common shareowners diluted	\$ 4.73	\$ 4.86	\$ 3.66	\$ 3.65	\$ 2.57
Average shares outstanding diluted	81,375,496	80,925,713	82,723,016	86,475,229	87,675,857
Cash dividends paid	\$ 0.92	\$ 0.78	\$ 0.70	\$ 0.62	\$ 0.54
Total Protective Life Corporation's Shareowners' Equity	\$ 62.58	\$ 47.28	\$ 59.06	\$ 45.45	\$ 33.17

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars In Thousands)				
<b>BALANCE SHEET DATA</b>					
Total assets	\$ 70,480,306	\$ 68,757,363	\$ 57,384,672	\$ 52,143,369	\$ 46,803,623
Total stable value products and annuity account balances	12,910,217	13,684,805	13,169,022	13,716,358	13,667,838
Non-recourse funding obligations	582,404	562,448	586,000	407,800	532,400

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Debt	1,300,000	1,585,000	1,400,000	1,520,000	1,501,852
Subordinated debt securities	540,593	540,593	540,593	524,743	524,743
Total Protective Life Corporation's shareowners' equity	4,964,884	3,714,794	4,615,183	3,711,517	2,841,188

(1)

Protective Life Corporation ("PLC")

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

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

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

**FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE**

This report reviews our financial condition and results of operations, including our liquidity and capital resources. Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like "believe," "expect," "estimate," "project," "budget," "forecast," "anticipate," "plan," "will," "shall," "may," and other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments, or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results* included herein.

**OVERVIEW**

***Our Business***

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

We have several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments 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 fixed universal life ("UL"), indexed universal life ("IUL"), variable universal life ("VUL"), bank-owned life insurance ("BOLI"), and level premium term insurance

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("traditional") products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.

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

The Company reported strong financial results for 2014. The following are notable accomplishments:

On February 1, 2015, we completed the merger with DL Investment (Delaware), Inc. and became a wholly owned subsidiary of Dai-ichi Life.

Pre-tax operating income reached a record level of \$652.2 million, an increase of 27% over 2013.

Net income during the year was \$384.9 million which reflects a \$44.9 million impact of realized losses due to assumption changes used in the valuation of the guaranteed minimum withdrawal benefit embedded derivative associated with our variable annuity products.

Operating return on average equity was 12.7%, an increase of 12% over 2013.

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Our book value excluding accumulated other comprehensive income increased 10% over 2013.

We completed the integration of the MONY acquisition which contributed \$107.1 million to our 2014 pre-tax operating income.

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

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**RECENT DEVELOPMENTS DAI-ICHI MERGER**

As described in Note 5, *Dai-ichi Merger*, to the consolidated financial statements, on June 3, 2014, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Dai-ichi Life and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi Life, which provides for the merger of DL Investment (Delaware), Inc. with and into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi Life. The Merger was completed as of February 1, 2015 with appropriate approvals from both our current shareholders of record and all relevant or required regulatory bodies, and as a result, each share of our common stock, par value of \$0.50 per share, issued and outstanding immediately prior to the merger, other than certain excluded shares, was converted into the right to receive \$70 in cash, without interest, (the "Per Share Merger Consideration"). Shares of common stock held by Dai-ichi Life or the Company or their respective direct or indirect wholly owned subsidiaries were not entitled to receive the Per Share Merger Consideration. Stock appreciation rights, restricted stock units and performance shares issued under various benefit plans will be paid out as described in Note 5, *Dai-ichi Merger*, to the consolidated financial statements included in this report, under the heading "Treatment of Benefit Plans".

For additional information regarding the Merger and related matters, including the treatment of benefit plans, please refer to our Current Reports on Form 8-K filed with the SEC on June 4, 2014, September 25, 2014, and February 3, 2015, our definitive proxy statement filed with the SEC on August 25, 2014, as amended on August 27, 2014, and Note 5, *Dai-ichi Merger*, to the consolidated financial statements included in this report.

**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:

*Risks Related to the Dai-ichi Merger and our Status as a Subsidiary of Dai-ichi Life*

uncertainty following the Merger could adversely affect our business and operations;

our debt ratings and the financial strength ratings of our insurance subsidiaries may be adversely affected by our being a subsidiary of Dai-ichi Life;

we are controlled by Dai-ichi Life, which has the ability to make important decisions affecting our business;

*General*

exposure to the risks of natural and man-made disasters and catastrophes, diseases, epidemics, 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 the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;

our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;

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

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

we are dependent on the performance of others;



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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;

adverse actions of certain funds or their advisers could have a detrimental impact on our ability to sell our variable life and annuity products, or maintain current levels of assets in those products;

the amount of statutory capital 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 such amounts are 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 and are subject to routine audits, examinations, and actions by regulators, law enforcement agencies, and self-regulatory agencies;



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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;

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

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

use of reinsurance introduces variability in our statements of income;

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

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

*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 I, Item 1A of this report.

**CRITICAL ACCOUNTING POLICIES**

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

***Fair value of financial instruments*** FASB guidance defines fair value for GAAP and establishes a framework for measuring fair value as well as a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. The term "fair value" in this document is defined in accordance with GAAP. The standard describes three levels of inputs that may be used to measure fair value. For more information, see Note 2, *Summary of Significant Accounting Policies* and Note 23, *Fair Value of Financial Instruments*.

Available-for-sale securities and trading account securities are recorded at fair value, which is primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Liquidity is a significant factor in the determination of the fair value for these securities. Market price quotes may not be readily available for some positions or for some positions within a market sector where trading activity has slowed significantly or ceased. These situations are generally triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, fair value is determined based on limited available market information and other factors, principally from reviewing the issuer's financial position, changes in credit ratings, and cash flows on the investments. As of December 31, 2014, \$2.2 billion of available-for-sale and trading account assets, excluding other long-term investments, were classified as Level 3 fair value assets.

The fair values of derivative assets and liabilities include adjustments for market liquidity, counterparty credit quality, and other deal specific factors, where appropriate. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices, and indices to generate continuous yield or pricing curves and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources. Estimation risk is greater for derivative financial instruments that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price, or index scenarios are used in determining fair values. As of December 31, 2014, the Level 3 fair values of derivative assets and liabilities determined by these quantitative models were \$67.9 million and \$754.9 million, respectively.

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The liabilities of certain of our annuity account balances are calculated at fair value using actuarial valuation models. These models use various observable and unobservable inputs including projected future cash flows, policyholder behavior, our credit rating, and other market conditions. As of December 31, 2014, the Level 3 fair value of these liabilities was \$97.8 million.

For securities that are priced via non-binding independent broker quotations, we assess whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. We use a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if we determine that there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. As of December 31, 2014, we did not adjust any prices received from independent brokers.

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

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

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

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

During the years ended December 31, 2014, 2013, and 2012, we recorded pre-tax other-than-temporary impairments of investments of \$2.6 million, \$10.9 million, and \$66.2 million, respectively. Credit impairments recorded in earnings during the year ended December 31, 2014, were \$7.3 million. During the year ended December 31, 2013, \$11.5 million of non-credit losses previously recorded in other comprehensive income (loss) were recorded in earnings as credit losses. Of the \$66.2 million of impairments for the year ended December 31, 2012, \$58.9 million was recorded in earnings and \$7.3 million was recorded in other comprehensive income.

For the year ended December 31, 2014, there were no other-than-temporary impairments related to equity securities, and for the year ended December 31, 2013, there were \$3.3 million of other-than-temporary impairments related to equity securities. For the year ended December 31, 2012, there were no other-than-temporary impairments related to equity securities. For the years ended December 31, 2014, 2013, and 2012, there were \$2.6 million, \$7.6 million, and \$66.2 million of other-than-temporary impairments related to debt securities, respectively.

For the years ended December 31, 2014, 2013, and 2012, there were no other-than-temporary impairments related to debt or equity securities that we intend to sell or expect to be required to sell.

Our specific accounting policies related to our invested assets are discussed in Note 2, *Summary of Significant Accounting Policies*, and Note 6, *Investment Operations*, to the consolidated financial statements. As of December 31, 2014, we held \$34.0 billion of available-for-sale investments, including \$4.1 billion in investments with a gross unrealized loss of \$213.5 million, and \$435.0 million of held-to-maturity investments, none of which were in an unrealized loss position.

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**Derivatives** We utilize a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, foreign exchange, and equity market risk. Assessing the effectiveness of the hedging programs and evaluating the carrying values of the related derivatives often involve a variety of assumptions and estimates. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. The fair values of most of our derivatives are determined using exchange prices or independent broker quotes, but certain derivatives, including embedded derivatives, are valued based upon industry standard models which calculate the present-value of the projected cash flows of the derivatives using current and implied future market conditions. These models include market-observable estimates of volatility and interest rates in the determination of fair value. The use of different assumptions may have a material effect on the estimated fair value amounts, as well as the amount of reported net income. In addition, measurements of ineffectiveness of hedging relationships are subject to interpretations and estimations, and any differences may result in material changes to our results of operations. As of December 31, 2014, the fair value of derivatives reported on our balance sheet in "other long-term investments" and "other liabilities" was \$294.0 million and \$820.7 million, respectively.

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

Our reinsurance is ceded to a diverse group of reinsurers. The collectability of reinsurance is largely a function of the solvency of the individual reinsurers. We perform periodic credit reviews on our reinsurers, focusing on, among other things, financial capacity, stability, trends, and commitment to the reinsurance business. We also require assets in trust, letters of credit, or other acceptable collateral to support balances due from reinsurers not authorized to transact business in the applicable jurisdictions. Despite these measures, a reinsurer's insolvency, inability, or unwillingness to make payments under the terms of a reinsurance contract could have a material adverse effect on our results of operations and financial condition. As of December 31, 2014, our third party reinsurance receivables amounted to \$6.1 billion. These amounts include ceded reserve balances and ceded benefit payments.

We account for reinsurance as required by Financial Accounting Standards Board ("FASB") guidance under the ASC Financial Services Topic as applicable. In accordance with this guidance, costs for reinsurance are amortized as a level percentage of premiums for traditional life products and a level percentage of estimated gross profits for universal life products. Accordingly, ceded reserve and deferred acquisition cost balances are established using methodologies consistent with those used in establishing direct policyholder reserves and deferred acquisition costs. Establishing these balances requires the use of various assumptions including investment returns, mortality, persistency, and expenses. The assumptions made for establishing ceded reserves and ceded deferred acquisition costs are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs.

Assumptions are also made regarding future reinsurance premium rates and allowance rates. Assumptions made for mortality, persistency, and expenses are consistent with those used for establishing direct policyholder reserves and deferred acquisition costs. Assumptions made for future reinsurance premium and allowance rates are consistent with rates provided for in our various reinsurance agreements. For certain of our reinsurance agreements, premium and allowance rates may be changed by reinsurers on a prospective basis, assuming certain contractual conditions are met (primarily that rates are changed for

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all companies with which the reinsurer has similar agreements). We do not anticipate any changes to these rates and, therefore, have assumed continuation of these non-guaranteed rates. To the extent that future rates are modified, these assumptions would be revised and both current and future results would be affected. For traditional life products, assumptions are not changed unless projected future revenues are expected to be less than future expenses. For universal life products, assumptions are periodically updated whenever actual experience and/or expectations for the future differ from that assumed. When assumptions are updated, changes are reflected in the income statement as part of an "unlocking" process. For the year ended December 31, 2014, we adjusted our estimates of future reinsurance costs in both the Acquisitions and Life Marketing segments, resulting in a favorable unlocking impact of \$0.6 million.

**Deferred Acquisition Costs and Value of Business Acquired** We incur significant costs in connection with acquiring new insurance business. Portions of these costs, which are determined to be incremental direct costs associated with successfully acquired policies and coinsurance of blocks of policies, are deferred and amortized over future periods. The recovery of such costs is dependent on the future profitability of the related policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These costs are amortized over the expected lives of the contracts, based on the level and timing of either gross profits or gross premiums, depending on the type of contract. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts. As of December 31, 2014, we had deferred acquisition costs ("DAC")/value of business acquired ("VOBA") of \$3.3 billion.

We periodically review and update as appropriate our key assumptions on certain life and annuity products including future mortality, expenses, lapses, premium persistency, investment yields, and interest spreads. Changes to these assumptions result in adjustments which increase or decrease DAC amortization and/or benefits and expenses. When we refer to DAC amortization or unlocking, we are referring to changes in balance sheet components amortized over estimated gross profits.

In conjunction with the acquisition of a block of insurance policies or investment contracts, a portion of the purchase price is allocated to the right to receive future gross profits from the acquired insurance policies or investment contracts. This intangible asset, called VOBA, represents the actuarially estimated present value of future cash flows from the acquired policies. The estimated present value of future cash flows is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. These assumptions are to be best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. We amortize VOBA in proportion to gross premiums for traditional life products and in proportion to expected gross profits ("EGPs") for interest sensitive products, including accrued interest credited to account balances of up to approximately 8.75%. VOBA is subject to annual recoverability testing.

**Goodwill** 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. We evaluate the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, we first determine through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, we compare our estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. We utilize a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying

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value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. Our material goodwill balances are attributable to certain of our operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of our reporting units are dependent on a number of significant assumptions. Our estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. As of December 31, 2014, we performed our annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. As of December 31, 2014, we had goodwill of \$102.4 million.

**Insurance Liabilities and Reserves** Establishing an adequate liability for our obligations to policyholders requires the use of assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency, and other assumptions based on our historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for our property and casualty insurance products also requires the use of assumptions, including the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. Our results depend significantly upon the extent to which our actual claims experience is consistent with the assumptions that we used in determining our reserves and pricing our products. Our reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. We cannot determine with precision the ultimate amounts that we will pay for actual claims or the timing of those payments. In addition, we fair value the liability related to our equity indexed annuity product at each balance sheet date, with changes in the fair value recorded through earnings. Changes in this liability may be significantly affected by interest rate fluctuations. As of December 31, 2014, we had total policy liabilities and accruals of \$31.5 billion.

**Guaranteed Minimum Death Benefits** We establish liabilities for guaranteed minimum death benefits ("GMDB") on our VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. We assume age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience, with attained age factors varying from 49% - 80%. Future declines in the equity market would increase our GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB as of December 31, 2014, is subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2014, the GMDB liability was \$26.3 million.

**Guaranteed Minimum Withdrawal Benefits** We establish reserves for guaranteed minimum withdrawal benefits ("GMWB") on our VA products. The GMWB is carried at fair value and is impacted by current implied volatilities for the equity indices. The methods used to estimate the liabilities employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. We assume 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 44.5% - 100%. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. As of December 31, 2014, our net GMWB liability held was \$245.1 million.

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

appropriate weighted average discount rate;

estimated rate of increase in the compensation of employees; and

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expected long-term rate of return on the plan's assets.

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

**Stock-Based Payments** Accounting for stock-based compensation plans may require the use of option pricing models to estimate our obligations. Assumptions used in such models relate to equity market movements and volatility, the risk-free interest rate at the date of grant, expected dividend rates, and expected exercise dates. See Note 15, *Stock-Based Compensation*, to the consolidated financial statements included in this report for further information.

**Deferred Taxes and Uncertain Tax Positions** Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to net unrealized gains (losses), deferred policy acquisition costs and value of business acquired, and future policy benefits and claims. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such differences reverse. We evaluate deferred tax assets for impairment quarterly at the taxpaying component level within each tax jurisdiction. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some or all of such assets will not be realized as future reductions of current taxes. In determining the need for a valuation allowance we consider the reversal of existing temporary differences, future taxable income, and tax planning strategies. The determination of any valuation allowance requires management to make certain judgments and assumptions regarding future operations that are based on our historical experience and our expectations of future performance.

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

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

## RESULTS OF OPERATIONS

We use the same accounting policies and procedures to measure segment operating income (loss) and assets as we use to measure consolidated net income 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 DAC, VOBA, and benefits and settlement expenses. Segment operating income (loss) also excludes 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 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



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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 year ended December 31, 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 net income calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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, investment yields, interest spreads, and equity market returns. Changes to these assumptions result in adjustments which increase or decrease DAC/VOBA amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as "unlocking". When referring to DAC/VOBA 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.

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

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>Segment Operating Income (Loss)</b>					
Life Marketing	\$ 121,448	\$ 110,298	\$ 105,032	10.1%	5.0%
Acquisitions	254,021	154,003	171,060	64.9	(10.0)
Annuities	227,611	184,130	119,092	23.6	54.6
Stable Value Products	73,354	80,561	60,329	(8.9)	33.5
Asset Protection	32,480	26,795	16,454	21.2	62.8
Corporate and Other	(56,720)	(40,562)	(3,203)	(39.8)	n/m
<b>Total segment operating income</b>	<b>652,194</b>	<b>515,225</b>	<b>468,764</b>	<b>26.6</b>	<b>9.9</b>
Realized investment gains (losses) investments <sup>(1)</sup>	207,307	(172,720)	186,186		
Realized investment gains (losses) derivatives	(276,212)	247,868	(201,979)		
Income tax expense	(198,414)	(196,909)	(150,519)		
<b>Net income</b>	<b>\$ 384,875</b>	<b>\$ 393,464</b>	<b>\$ 302,452</b>	<b>(2.2)</b>	<b>30.1</b>
Investment gains (losses) <sup>(2)</sup>	\$ 198,127	\$ (145,984)	\$ 172,149		
Less: amortization related to DAC/VOBA and benefits and settlement expenses	(9,180)	26,736	(14,037)		
<b>Realized investment gains (losses) investments</b>	<b>\$ 207,307</b>	<b>\$ (172,720)</b>	<b>\$ 186,186</b>		
Derivative gains (losses) <sup>(3)</sup>	\$ (346,878)	\$ 188,131	\$ (238,480)		
Less: VA GMWB economic cost	(70,666)	(59,737)	(36,501)		
<b>Realized investment gains (losses) derivatives</b>	<b>\$ (276,212)</b>	<b>\$ 247,868</b>	<b>\$ (201,979)</b>		

- (1) Includes credit related other-than-temporary impairments of \$7.3 million, \$22.4 million, and \$58.9 million for the years ended December 31, 2014, 2013, and 2012, respectively.
- (2) Includes realized investment gains (losses) before related amortization.
- (3) Includes realized gains (losses) on derivatives before the VA GMWB economic cost.

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*For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013*

Net income for the year ended December 31, 2014 included a \$137.0 million, or 26.6%, increase in segment operating income. The increase was primarily related to an \$11.2 million increase in the Life Marketing segment, a \$100.0 million increase in the Acquisitions segment, a \$43.5 million increase in the Annuities segment, and a \$5.7 million increase in the Asset Protection segment. These increases were partially offset by a \$7.2 million decrease in the Stable Value Products segment and a \$16.2 million decrease in the Corporate and Other segment.

We experienced net realized losses of \$148.8 million for the year ended December 31, 2014, as compared to net realized gains of \$42.1 million for the year ended December 31, 2013. The losses realized for the year ended December 31, 2014 were primarily related to \$7.3 million for other-than-temporary impairment credit-related losses, net losses of \$235.3 million of derivatives related to VA contracts, net losses of \$6.1 million of derivatives related to fixed indexed annuity ("FIA") contracts, and \$13.9 million of losses related to other investment and derivative activity. The net losses on derivatives related to VA contracts were impacted by changes in the policyholder behavior assumptions, primarily the lowering of assumed lapses and increased utilization rates, used to value the GMWB embedded derivatives. Partially offsetting these losses were gains of \$77.0 million related to investment securities sale activity and \$36.7 million of gains related to the net activity of the modified coinsurance portfolio.

Life Marketing segment operating income was \$121.4 million for the year ended December 31, 2014, representing an increase of \$11.2 million, or 10.1%, from the year ended December 31, 2013. The increase was primarily due to higher premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional life mortality. These increases were largely offset by less favorable universal life mortality, unfavorable prospective unlocking compared to 2013, and higher operating expenses.

Acquisitions segment operating income was \$254.0 million for the year ended December 31, 2014 an increase of \$100.0 million, or 64.9%, as compared to the year ended December 31, 2013 primarily due to increased earnings from the MONY acquisition and a favorable change in prospective unlocking of \$16.0 million. The MONY acquisition operating income was \$109.5 million for the year ended December 31, 2014, an increase of \$84.3 million compared to 2013. This increase was due to a full year of MONY results being included in 2014 compared to only one quarter in 2013. Expected runoff offset other favorable items.

Annuities segment operating income was \$227.6 million for the year ended December 31, 2014, as compared to \$184.1 million for the year ended December 31, 2013, an increase of \$43.5 million, or 23.6%. This increase was a result of higher net policy fees and other income in the VA line, lower credited interest, and a favorable change in single premium immediate annuities ("SPIA") mortality results. These favorable increases were partially offset by an unfavorable change in unlocking and other operating expenses. The segment recorded a favorable \$8.0 million of unlocking for the year ended December 31, 2014, as compared to favorable unlocking of \$13.8 million for the year ended December 31, 2013.

Stable Value Products operating income was \$73.4 million and decreased \$7.2 million, or 8.9%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The decrease in operating earnings resulted from a decrease in participating mortgage income and a decline in average account values offset by higher operating spreads and lower expenses. Participating mortgage income for the year ended December 31, 2014 was \$4.9 million, as compared to \$12.1 million for the year ended December 31, 2013. The adjusted operating spread, which excludes participating income and other income, increased by 4 basis points for the year ended December 31, 2014 over the prior year.

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Asset Protection segment operating income was \$32.5 million, representing an increase of \$5.7 million, or 21.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Service contract earnings increased \$4.9 million primarily due to lower loss ratios and higher sales. Credit insurance earnings increased \$1.7 million primarily due to lower loss ratios and lower expenses in 2014. Earnings from the GAP product line decreased \$0.9 million primarily resulting from higher loss ratios.

Corporate and Other segment operating loss was \$56.7 million for the year ended December 31, 2014, as compared to an operating loss of \$40.6 million for the year ended December 31, 2013. The decrease was primarily due to a \$16.9 million unfavorable variance related to other operating expenses, and a \$9.6 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. Partially offsetting these negative variances was a \$9.5 million increase in net investment income.

***For The Year Ended December 31, 2013 as compared to The Year Ended December 31, 2012***

Net income for the year ended December 31, 2013, included a \$46.5 million, or 9.9%, increase in segment operating income. The increase was primarily related to a \$5.3 million increase in the Life Marketing segment, a \$65.0 million increase in the Annuities segment, a \$20.2 million increase in the Stable Value Products segment, and a \$10.3 million increase in the Asset Protection segment. These increases were partially offset by a \$17.1 million decrease in the Acquisitions segment and a \$37.4 million decrease in the Corporate and Other segment.

We experienced net realized gains of \$42.1 million for the year ended December 31, 2013, as compared to net realized losses of \$66.3 million for the year ended December 31, 2012. The gains realized for the year ended December 31, 2013, were primarily related to \$66.5 million of gains related to investment securities sale activity, \$27.0 million of gains related to the net activity of the modified coinsurance portfolio, \$3.0 million related to interest rate swaps, and net gains of \$1.1 million of derivatives related to FIA contracts. Partially offsetting these gains were losses of \$22.4 million for other-than-temporary impairment credit-related losses, net losses of \$21.1 million of derivatives related to VA contracts, and \$11.9 million of losses related to other investment and derivative activity.

Life Marketing segment operating income was \$110.3 million for the year ended December 31, 2013, representing an increase of \$5.3 million, or 5.0%, from the year ended December 31, 2012. The increase was primarily due to higher premiums and policy fees, higher investment income due to growth of the block of business and favorable prospective unlocking. These increases were largely offset by less favorable traditional mortality and higher universal life claims due to growth in in-force and an increase in non-deferred expenses resulting from higher sales.

Acquisitions segment operating income was \$154.0 million for the year ended December 31, 2013, a decrease of \$17.1 million, or 10.0%, as compared to the year ended December 31, 2012, primarily due to less favorable mortality, an unfavorable change in prospective unlocking, lower spread income, the impact of increased reinsurance, and the expected runoff of business, partly offset by the favorable impact of \$25.2 million from the MONY acquisition in the fourth quarter of 2013.

Annuities segment operating income was \$184.1 million for the year ended December 31, 2013, as compared to \$119.1 million for the year ended December 31, 2012, an increase of \$65.0 million, or 54.6%. This variance included a favorable change due to higher net policy fees and other income of \$55.0 million in the VA line associated with growth in account balances, lower benefits and settlement expenses, and a favorable change in unlocking. Partially offsetting these favorable changes was an unfavorable change of \$17.5 million in the SPIA mortality results and an increase in non-deferred expenses.

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Stable Value Products operating income was \$80.6 million and increased \$20.2 million, or 33.5%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase in operating earnings resulted from an increase in participating mortgage income, higher operating spreads, and lower expenses offset by a decline in average account values. Participating mortgage income for the year ended December 31, 2013 was \$12.1 million as compared to \$5.5 million for the year ended December 31, 2012. The adjusted operating spread, which excludes participating income and other income, increased by 58 basis points for the year ended December 31, 2013 over the prior year.

Asset Protection segment operating income was \$26.8 million, representing an increase of \$10.3 million, or 62.8%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. Service contract earnings increased \$5.5 million primarily due to \$4.1 million of expense incurred in 2012 to write off previously capitalized costs associated with developing internal-use software. In addition, the line experienced higher volume and lower general expenses in 2013. Credit insurance earnings increased \$4.0 million primarily due to \$3.1 million in legal settlement and related costs incurred in 2012 and lower expenses in 2013. Earnings from the GAP product line increased \$0.8 million primarily resulting from lower expenses, somewhat offset by higher losses.

Corporate and Other segment operating loss was \$40.6 million for the year ended December 31, 2013, as compared to an operating loss of \$3.2 million for the year ended December 31, 2012. The decrease was primarily due to an \$18.4 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. For the year ended December 31, 2013, \$20.0 million of pre-tax gains were generated from the repurchase of non-recourse funding obligations compared to \$38.4 million of pre-tax gains during 2012. In addition, the segment experienced a \$2.8 million decrease related to a portfolio of securities designated for trading, a \$4.0 million unfavorable variance related to income on called securities, lower core investment income, and higher other operating expenses. These decreases were partially offset by an \$11.2 million deferred issue cost write-off recorded during the twelve months ended December 31, 2012.

Table of Contents**Life Marketing****Segment Results of Operations**

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>REVENUES</b>					
Gross premiums and policy fees	\$ 1,684,393	\$ 1,634,132	\$ 1,575,074	3.1%	3.7%
Reinsurance ceded	(830,207)	(838,023)	(831,713)	0.9	(0.8)
Net premiums and policy fees	854,186	796,109	743,361	7.3	7.1
Net investment income	554,004	521,665	486,463	6.2	7.2
Other income	128,073	123,155	117,109	4.0	5.2
Total operating revenues	1,536,263	1,440,929	1,346,933	6.6	7.0
Realized gains (losses) investment <sup>(1)</sup>	12,931	3,877		n/m	n/m
Realized gains (losses) derivatives <sup>(1)</sup>	157			n/m	n/m
Total revenues	1,549,351	1,444,806	1,346,933	7.2	7.3
<b>BENEFITS AND EXPENSES</b>					
Benefits and settlement expenses	1,073,660	1,142,619	1,054,645	(6.0)	8.3
Amortization of deferred policy acquisition costs	171,782	24,838	45,079	n/m	(44.9)
Other operating expenses	169,373	163,174	142,177	3.8	14.8
Operating benefits and expenses	1,414,815	1,330,631	1,241,901	6.3	7.1
Amortization related to benefits and settlement expenses	1,726	513		n/m	n/m
Amortization of DAC related to realized gains (losses) investment <sup>(1)</sup>	4,025	936		n/m	n/m
Total benefits and expenses	1,420,566	1,332,080	1,241,901	6.6	7.3
<b>INCOME BEFORE INCOME TAX</b>	128,785	112,726	105,032	14.2	7.3
Less: realized gains (losses) <sup>(1)</sup>	13,088	3,877			
Less: amortization related to benefits and settlement expenses	(1,726)	(513)			
Less: related amortization of DAC <sup>(1)</sup>	(4,025)	(936)			
<b>OPERATING INCOME</b>	\$ 121,448	\$ 110,298	\$ 105,032	10.1	5.0

(1) During the year ended December 31, 2013, we began allocating realized gains and losses and associated amortization of DAC and benefits and settlement expenses to certain of our segments to better reflect the economics of the investments supporting these segments. Prior year realized gains and losses are not comparable to the current year presentation.

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

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>Sales By Product</b>					
Traditional	\$ 501	\$ 1,293	\$ 1,115	(61.3)%	16.0%
Universal life	129,508	153,428	117,099	(15.6)	31.0
BOLI	22		3,253	n/m	n/m
	\$ 130,031	\$ 154,721	\$ 121,467	(16.0)	27.4

**Sales By Distribution Channel**

Independent agents	\$ 98,755	\$ 108,180	\$ 73,692	(8.7)	46.8
Stockbrokers / banks	28,588	44,343	42,973	(35.5)	3.2
BOLI / other	2,688	2,198	4,802	22.3	(54.2)
	\$ 130,031	\$ 154,721	\$ 121,467	(16.0)	27.4

**Average Life Insurance In-force<sup>(1)</sup>**

Traditional	\$ 400,127,927	\$ 424,012,114	\$ 449,462,487	(5.6)	(5.7)
Universal life	139,824,061	109,131,467	80,331,839	28.1	35.9
	\$ 539,951,988	\$ 533,143,581	\$ 529,794,326	1.3	0.6

**Average Account Values**

Universal life	\$ 7,178,418	\$ 6,965,424	\$ 6,501,025	3.1	7.1
Variable universal life	559,566	475,064	387,424	17.8	22.6
	\$ 7,737,984	\$ 7,440,488	\$ 6,888,449	4.0	8.0

<sup>(1)</sup> Amounts are not adjusted for reinsurance ceded.

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#### *Operating Expenses Detail*

Other operating expenses for the segment were as follows:

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>Insurance companies:</b>					
First year commissions	\$ 154,263	\$ 169,619	\$ 124,045	(9.1)%	36.7%
Renewal commissions	31,824	34,855	35,232	(8.7)	(1.1)
First year ceding allowances	(2,309)	(4,139)	(4,537)	44.2	8.8
Renewal ceding allowances	(148,599)	(167,853)	(166,445)	11.5	(0.8)
General & administrative	180,981	175,641	147,589	3.0	19.0
Taxes, licenses, and fees	28,192	36,823	35,439	(23.4)	3.9
Other operating expenses incurred	244,352	244,946	171,323	(0.2)	43.0
Less: commissions, allowances and expenses capitalized	(196,643)	(198,661)	(139,483)	1.0	(42.4)
Other insurance company operating expenses	47,709	46,285	31,840	3.1	45.4
<b>Marketing companies:</b>					
Commissions	90,496	86,342	80,390	4.8	7.4
Other operating expenses	31,168	30,547	29,947	2.0	2.0
Other marketing company operating expenses	121,664	116,889	110,337	4.1	5.9
<b>Other operating expenses</b>	<b>\$ 169,373</b>	<b>\$ 163,174</b>	<b>\$ 142,177</b>	<b>3.8</b>	<b>14.8</b>

### *For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013*

#### *Segment Operating Income*

Operating income was \$121.4 million for the year ended December 31, 2014, representing an increase of \$11.2 million, or 10.1%, from the year ended December 31, 2013. The increase was primarily due to higher premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional life mortality. These increases were largely offset by less favorable universal life mortality, unfavorable prospective unlocking compared to 2013, and higher operating expenses.

#### *Operating Revenues*

Total operating revenues for the year ended December 31, 2014, increased \$95.3 million, or 6.6%, as compared to the year ended December 31, 2013. This increase was driven by higher premiums and policy fees due to continued growth in the universal life block and higher investment income due to increases in net in-force reserves.

#### *Net Premiums and Policy Fees*

Net premiums and policy fees increased by \$58.1 million, or 7.3%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to an increase in premium and policy fees associated with growth of the universal life block of business and the impact from a reinsurance settlement on ceded premiums, which was almost entirely offset in benefit and settlement expense during 2014. The increase was partially offset by decreases in traditional life premiums.



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#### *Net Investment Income*

Net investment income in the segment increased \$32.3 million, or 6.2%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Of the increase in net investment income, \$19.2 million was the result of a net increase in universal life reserves. Additionally, traditional life investment income increased \$10.4 million due to a net increase in reserves.

#### *Other Income*

Other income increased \$4.9 million, or 4.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase related primarily to higher revenue in the segment's non-insurance operations.

#### *Benefits and Settlement Expenses*

Benefits and settlement expenses decreased by \$69.0 million, or 6.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to the impact of unlocking and favorable traditional life mortality, partially offset by growth in retained universal life insurance in-force and less favorable universal life mortality. Universal life and BOLI unlocking decreased policy and settlement expenses \$50.2 million in 2014, as compared to an increase of \$50.5 million in 2013. Unlocking in 2014 was largely driven by assumption changes to mortality, reinsurance, and portfolio yields. Reinsurance, lapses, yields, and credited interest contributed to the unlocking in 2013. Of the total impact due to unlocking, \$23.5 million is offset by the decline in ceded premiums during 2014 due to the reinsurance settlement noted above.

#### *Amortization of DAC*

DAC amortization increased \$146.9 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to differing impacts of unlocking. Unlocking during 2014 increased DAC amortization by \$94.0 million, as compared to a decrease of \$47.6 million in 2013. The unlocking of DAC during 2014 was largely offset by favorable unlocking impacting benefit and settlement expenses.

#### *Other Operating Expenses*

Other operating expenses increased \$6.2 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013. This increase reflects higher marketing company expenses of \$4.8 million and higher general administrative expenses, offset by reduced new business acquisition costs associated with lower sales.

#### *Sales*

Sales for the segment decreased \$24.7 million, or 16.0%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. Universal life sales decreased \$23.9 million due to sales in 2013 of a product that we are no longer marketing.

### ***For The Year Ended December 31, 2013 as compared to The Year Ended December 31, 2012***

#### *Segment Operating Income*

Operating income was \$110.3 million for the year ended December 31, 2013, representing an increase of \$5.3 million, or 5.0%, from the year ended December 31, 2012. The increase was primarily due to higher premiums and policy fees, higher investment income due to growth of the block of business and favorable prospective unlocking. These increases were largely offset by less favorable traditional mortality and higher

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universal life claims due to growth in in-force and an increase in non-deferred expenses resulting from higher sales.

#### *Operating Revenues*

Total operating revenues for the year ended December 31, 2013, increased \$94.0 million, or 7.0%, as compared to the year ended December 31, 2012. This increase was driven by higher premiums and policy fees due to increased sales, higher investment income due to increases in net in-force reserves, and higher revenue in the segment's marketing companies.

#### *Net Premiums and Policy Fees*

Net premiums and policy fees increased by \$52.7 million, or 7.1%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to an increase in premium 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 \$35.2 million, or 7.2%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. Of the increase in net investment income, \$25.1 million was the result of a net increase in universal life reserves. Additionally, traditional life investment income increased \$8.8 million due to a net increase in reserves.

#### *Other Income*

Other income increased \$6.0 million, or 5.2%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase related primarily to higher revenue in the segment's non-insurance operations.

#### *Benefits and Settlement Expenses*

Benefits and settlement expenses increased by \$88.0 million, or 8.3%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, due to growth in retained universal life insurance in-force, higher credited interest on universal life products resulting from increases in account values, and higher claims from growth in the universal life block and less favorable mortality in the traditional life block. Unlocking during 2013 and 2012 increased benefit and settlement expenses by \$50.5 million and \$51.0 million, respectively.

#### *Amortization of DAC*

DAC amortization decreased \$20.2 million, or 44.9%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to differing impacts of unlocking. Unlocking during 2013 and 2012 decreased DAC amortization by \$47.6 million and \$39.3 million, respectively.

#### *Other Operating Expenses*

Other operating expenses increased \$21.0 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012. This increase reflects higher new business acquisition costs associated with higher sales, higher marketing company expenses of \$6.6 million, higher general administrative expenses, and a \$4.0 million increase in interest expense associated with reserve financing costs.

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*Sales*

Sales for the segment increased \$33.3 million, or 27.4%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. Universal life sales increased \$36.3 million due to more competitive product positioning. BOLI sales decreased by \$3.3 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* to our consolidated financial statements included in this report.

Table of Contents**Impact of Reinsurance**

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

**Life Marketing Segment  
Line Item Impact of Reinsurance**

For The Year Ended December 31,

2014                      2013                      2012

(Dollars In Thousands)

<b>REVENUES</b>			
Reinsurance ceded	\$ (830,207)	\$ (838,023)	\$ (831,713)
<b>BENEFITS AND EXPENSES</b>			
Benefits and settlement expenses	(819,301)	(818,597)	(823,510)
Amortization of deferred policy acquisition costs	(57,270)	(45,574)	(41,734)
Other operating expenses <sup>(1)</sup>	(148,062)	(144,801)	(142,169)
<b>Total benefits and expenses</b>	<b>(1,024,633)</b>	<b>(1,008,972)</b>	<b>(1,007,413)</b>
<b>NET IMPACT OF REINSURANCE</b>	<b>\$ 194,426</b>	<b>\$ 170,949</b>	<b>\$ 175,700</b>
<b>Allowances received</b>	<b>\$ (150,908)</b>	<b>\$ (169,552)</b>	<b>\$ (170,982)</b>
Less: Amount deferred	2,846	24,751	28,813
<b>Allowances recognized (ceded other operating expenses)<sup>(1)</sup></b>	<b>\$ (148,062)</b>	<b>\$ (144,801)</b>	<b>\$ (142,169)</b>

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

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies' profitability on the business that we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 100% to 200%. The Life Marketing segment's reinsurance programs do not materially impact the "other income" line of our income statement.

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

*For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013*

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The decrease in ceded premiums for 2014 as compared to 2013 was caused primarily by lower ceded universal life premiums and policy fees of \$5.0 million and lower ceded traditional life premiums of

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\$2.3 million. Ceded universal life premiums decreased for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This was due to a \$23.5 million reduction in ceded premiums from a reinsurance settlement, which more than offset the increase in ceded universal life in-force during the year. Ceded traditional life premiums decreased from the year ended December 31, 2014 as compared to the year ended December 31, 2013, primarily due to fluctuations in the number of policies entering their post level period.

Ceded benefits and settlement expenses were higher for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to higher ceded claims, largely offset by a decrease in ceded reserves. Traditional ceded benefits decreased \$3.6 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to lower ceded death benefits, largely offset by an increase in ceded reserves. Universal life ceded benefits increased \$5.4 million for the year ended December 31, 2014, as compared to the year ended December 31, 2013, due to higher ceded claims, largely offset by a decrease in ceded reserves due to the impact of unlocking on ceded premium. Ceded universal life claims were \$72.4 million higher for the year ended December 31, 2014, as compared to the year ended December 31, 2013.

Ceded amortization of deferred policy acquisitions costs increased for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the differences in unlocking between the two periods.

Total allowances recognized for the year ended December 31, 2014, increased from the year ended December 31, 2013, with the impact of the allowance pattern on older universal life business and changes in the mix of business. This increase more than offset the impact of the continued reduction in our traditional life reinsurance allowances due to runoff from the number of policies reaching their post level period.

***For The Year Ended December 31, 2013 as compared to The Year Ended December 31, 2012***

The increase in ceded premiums for 2013 as compared to 2012 was caused primarily by higher ceded universal life premiums and policy fees of \$35.4 million, offset by lower ceded traditional life premiums of \$28.6 million.

Ceded benefits and settlement expenses were lower for the year ended December 31, 2013, as compared to the year ended December 31, 2012, due to a smaller increase in ceded reserves, largely offset by higher ceded claims. Traditional ceded benefits decreased \$5.9 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012, due to a smaller increase in ceded reserves, largely offset by higher ceded death benefits. Universal life ceded benefits increased \$0.6 million for the year ended December 31, 2013, as compared to the year ended December 31, 2012, due to higher ceded claims, largely offset by a smaller increase in the ceded reserves. Ceded universal life claims were \$10.9 million higher for the year ended December 31, 2013, as compared to the year ended December 31, 2012.

Ceded amortization of deferred policy acquisitions costs increased for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to the differences in unlocking between the two periods.

Total allowances recognized for the year ended December 31, 2013, increased slightly from the year ended December 31, 2012, as the impact of growth in the universal life product line more than offset the impact of the continued reduction in our traditional life reinsurance allowances.

Table of Contents**Acquisitions****Segment Results of Operations**

Segment results were as follows:

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>REVENUES</b>					
Gross premiums and policy fees	\$ 1,171,550	\$ 929,125	\$ 847,080	26.1%	9.7%
Reinsurance ceded	(399,530)	(409,648)	(387,245)	2.5	(5.8)
Net premiums and policy fees	772,020	519,477	459,835	48.6	13.0
Net investment income	874,653	617,298	550,334	41.7	12.2
Other income	15,963	6,924	6,003	n/m	15.3
Total operating revenues	1,662,636	1,143,699	1,016,172	45.4	12.5
Realized gains (losses) investments	162,310	(160,065)	178,941	n/m	n/m
Realized gains (losses) derivatives	(104,767)	202,945	(130,818)	n/m	n/m
Total revenues	1,720,179	1,186,579	1,064,295	45.0	11.5
<b>BENEFITS AND EXPENSES</b>					
Benefits and settlement expenses	1,227,751	839,616	716,893	46.2	17.1
Amortization of value of business acquired	58,515	71,836	76,505	(18.5)	(6.1)
Other operating expenses	122,349	78,244	51,714	56.4	51.3
Operating benefits and expenses	1,408,615	989,696	845,112	42.3	17.1
Amortization related to benefits and settlement expenses <sup>(1)</sup>	20,085	11,770		70.6	n/m
Amortization of VOBA related to realized gains (losses) investments	1,516	926	746	63.7	24.1
Total benefits and expenses	1,430,216	1,002,392	845,858	42.7	18.5
<b>INCOME BEFORE INCOME TAX</b>					
	289,963	184,187	218,437	57.4	(15.7)
Less: realized gains (losses)	57,543	42,880	48,123		
Less: amortization related to benefits and settlement expenses <sup>(1)</sup>	(20,085)	(11,770)			
Less: related amortization of VOBA	(1,516)	(926)	(746)		
<b>OPERATING INCOME</b>	\$ 254,021	\$ 154,003	\$ 171,060	64.9	(10.0)

<sup>(1)</sup> During the year ended December 31, 2013, we began allocating benefits and settlement expenses associated with realized gains and losses to the Acquisitions segment. Prior period amounts of amortization related to benefits and settlement expenses are not comparable.

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The following table summarizes key data for the Acquisitions segment:

	For The Year Ended December 31,			Change	
	2014	2013	2012	2014	2013
(Dollars In Thousands)					
<b>Average Life Insurance In-Force<sup>(1)(4)</sup></b>					
Traditional	\$ 188,466,828	\$ 167,594,421	\$ 179,586,818	12.5%	(6.7)%
Universal life	34,995,011	27,771,451	30,351,626	26.0	(8.5)
	\$ 223,461,839	\$ 195,365,872	\$ 209,938,444	14.4	(6.9)
<b>Average Account Values<sup>(5)</sup></b>					
Universal life	\$ 4,555,949	\$ 3,330,496	\$ 3,418,753	36.8	(2.6)
Fixed annuity <sup>(2)</sup>	3,780,914	3,033,811	3,187,616	24.6	(4.8)
Variable annuity	1,474,256	583,758	597,467	n/m	(2.3)
	\$ 9,811,119	\$ 6,948,065	\$ 7,203,836	41.2	(3.6)
<b>Interest Spread UL &amp; Fixed Annuities<sup>(5)</sup></b>					
Net investment income yield <sup>(3)</sup>	5.64%	5.73%	5.83%		
Interest credited to policyholders	3.99	4.00	3.99		
Interest spread	1.65%	1.73%	1.84%		

(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.

(4) Excludes \$44,812,977 related to the MONY acquisition for the year ended December 31, 2013.

(5) Excludes the MONY acquisition for the year ended December 31, 2013.

### **For The Year Ended December 31, 2014 as compared to The Year Ended December 31, 2013**

#### *Segment Operating Income*

Operating income was \$254.0 million for the year ended December 31, 2014 an increase of \$100.0 million, or 64.9%, as compared to the year ended December 31, 2013 primarily due to increased earnings from the MONY acquisition and a favorable change in unlocking of \$19.3 million. The MONY acquisition operating income was \$109.5 million for the year ended December 31, 2014, an increase of \$84.3 million compared to 2013. This increase was due to a full year of MONY results being included in 2014 compared to only one quarter in 2013. Expected runoff offset other favorable items.



*Operating Revenues*

Net premiums and policy fees increased \$252.5 million, or 48.6%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The impact of the MONY acquisition increased \$277.4 million in 2014 compared to 2013, which reflects four quarters in 2014 as compared to one quarter in 2013. In addition, a 2014 reinsurance recapture increased net premiums compared to 2013. This increase was partly offset by expected runoff. Net investment income increased \$257.3 million, or 41.7%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013, primarily due to the MONY acquisition, which was offset by expected runoff of other blocks of business.

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*Total Benefits and Expenses*

Total benefits and expenses increased \$427.8 million, or 42.7%, for the year ended December 31, 2014, as compared to the year ended December 31, 2013. The increase was due to a \$493.6 million impact from the MONY acquisition which was partly offset by more favorable unlocking, a reinsurance recapture, and the expected runoff of the in-force business. Unlocking was favorable \$14.1 million for the year ended December 31, 2014, as compared to unfavorable unlocking of \$5.2 million for the year ended December 31, 2013.

***For The Year Ended December 31, 2013 as compared to The Year Ended December 31, 2012***

*Segment Operating Income*

Operating income was \$154.0 million for the year ended December 31, 2013, a decrease of \$17.1 million, or 10.0%, as compared to the year ended December 31, 2012, primarily due to less favorable mortality, an unfavorable change in prospective unlocking, lower spread income, the impact of increased reinsurance, and the expected runoff of business, partly offset by the favorable impact of \$25.2 million from the MONY acquisition in the fourth quarter of 2013.

*Operating Revenues*

Net premiums and policy fees increased \$59.6 million, or 13.0%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to the MONY acquisition which added \$104.3 million in 2013. This increase was partly offset by a reinsurance transaction in 2013, the favorable impact of a reinsurance recapture in 2012, and expected runoff. Net investment income increased \$67.0 million, or 12.2%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012, primarily due to the MONY acquisition. This was offset by expected runoff related to other blocks of business.

*Total Benefits and Expenses*

Total benefits and expenses increased \$156.5 million, or 18.5%, for the year ended December 31, 2013, as compared to the year ended December 31, 2012. The increase was due to a \$175.9 million impact from the MONY acquisition, less favorable mortality and less favorable unlocking, which was partly offset by reinsurance changes, and the expected runoff of the in-force business.

***Reinsurance***

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

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*Impact of Reinsurance*

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

**Acquisitions Segment  
Line Item Impact of Reinsurance**

For The Year Ended December 31,  
2014                      2013                      2012  
(Dollars In Thousands)

<b>REVENUES</b>			
	2014	2013	2012
Reinsurance ceded	\$ (399,530)	\$ (409,648)	