

PROTECTIVE LIFE CORP  
Form 10-K  
March 02, 2018

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

---

FORM 10-K

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

or

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

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

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 95-2492236

(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification Number)

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

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

Large accelerated filer

Accelerated filer

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

Emerging Growth company

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

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

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

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

Documents Incorporated by Reference: None

---

Table of Contents

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

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

Table of Contents

## PART I

## Item 1. Business

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

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

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

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

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

## Life Marketing

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

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

| Successor Company                                       | Sales<br>(Dollars<br>In<br>Millions) |
|---|--------------------------------------|
| For The Year Ended December 31,                         |                                      |
| 2017  | \$ 172                               |
| 2016  | 170                                  |
| For the period of February 1, 2015 to December 31, 2015 | 144                                  |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

3

---

Table of Contents

Acquisitions

The Acquisitions segment focuses on acquiring, converting, and servicing policies and contracts from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. The Company expects acquisition opportunities to continue to be available. However, the Company believes it may face increased competition and evolving capital requirements that may affect the environment and the form of future acquisitions. Most acquisitions completed by the Acquisitions segment have not included the acquisition of an active sales force, thus policies acquired through the segment are typically blocks of business where no new policies are being marketed. Therefore, earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage, unless new acquisitions are made. The segment's revenues and earnings may fluctuate from year to year depending upon the level of acquisition activity. In transactions where some marketing activity was included, the Company may cease future marketing efforts, redirect those efforts to another segment of the Company, or elect to continue marketing new policies as a component of other segments. The Company believes that its focused and disciplined approach to the acquisition process and its experience in the assimilation, conservation, and servicing of acquired policies provides a significant competitive advantage. On occasion, the Company's other operating segments have acquired companies and/or blocks of policies, such as the December 2016 acquisition of USWC Holding Company which is included in the Asset Protection segment. These acquisitions are not included in the Acquisitions segment. The results of these acquisitions are included in the respective segment's financial results.

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

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

Annuities

The Annuities segment markets fixed and variable annuity ("VA") products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers. The Company's variable annuities offer the policyholder the opportunity to invest in various investment accounts and offer optional features that guarantee the death and withdrawal benefits of the underlying annuity. The Company's fixed annuities include indexed annuities, single premium deferred annuities, and single premium immediate annuities. The Company's fixed annuities also include modified guaranteed annuities which guarantee an

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

Table of Contents

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

## Successor Company

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

## Predecessor Company

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

## Stable Value Products

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

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

The following table presents Stable Value Products sales:

## Successor Company

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

## Predecessor Company

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





Table of Contents

## Asset Protection

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

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

## Successor Company

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

## Predecessor Company

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

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

## Corporate and Other

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

Table of Contents

## Investments

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

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

## Successor Company

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

## Predecessor Company

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

## Predecessor Company

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

#### Mortgage Loans

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

Table of Contents

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

**Ratings**

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

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

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

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



Table of Contents

## Investment Products In-Force

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

## Successor Company

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

## Predecessor Company

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

## Underwriting

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

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

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

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

## Reinsurance Ceded

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

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

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

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



## Table of Contents

### Policy Liabilities and Accruals

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

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

### Federal Taxes

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

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

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

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

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

### Competition

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

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

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

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

Table of Contents

Risk Management

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

Regulation

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

### Employees

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

### Available Information

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

The Company makes available free of charge through its website, [www.protective.com](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.

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

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



Table of Contents

## Executive Officers

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1A. Risk Factors

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

## Table of Contents

### General Risk Factors

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

The Company is dependent on the performance of others.

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

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

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

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

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

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

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

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

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



Table of Contents

Risks Related to the Financial Environment

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

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

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

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

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

## Industry and Regulatory Related Risks

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

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

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

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

## Table of Contents

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

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

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

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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



## Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

## Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

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



Table of Contents

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosure—Not Applicable

Table of Contents

PART II

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

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

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

Table of Contents

## Item 6. Selected Financial Data

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

**BALANCE SHEET DATA**

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

37

---

Table of Contents

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

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

**FORWARD-LOOKING STATEMENTS—CAUTIONARY LANGUAGE**

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

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

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

**IMPORTANT INVESTOR INFORMATION**

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

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

**OVERVIEW**

**Our Business**

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

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

and make adjustments to our segment reporting as needed.

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

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

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

Table of Contents

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

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

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

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

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

**RECENT DEVELOPMENTS**

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

Table of Contents

RISKS AND UNCERTAINTIES

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

General

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

Financial Environment

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



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

#### Industry and Regulation

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

## Table of Contents

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

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

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

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

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

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

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

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

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

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

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

use of reinsurance introduces variability in our statements of income;

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

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

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

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

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

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

### CRITICAL ACCOUNTING POLICIES

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

in an approximate \$28.9 million unfavorable impact.

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

Table of Contents

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

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

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

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

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

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

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



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

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

Table of Contents

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

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

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

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

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

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

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

## RESULTS OF OPERATIONS

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

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

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

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

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

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

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

47

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

(2) Amounts are not adjusted for reinsurance ceded.

## Operating Expenses Detail

Other operating expenses for the segment were as follows:

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

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

## Pre-tax Adjusted Operating Income

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

## Operating Revenues

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

## Net Premiums and Policy Fees

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

## Net Investment Income

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

## Other Income

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



#### Benefits and Settlement Expenses

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

#### Amortization of DAC/VOBA

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

#### Other Operating Expenses

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

#### Sales

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

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

#### Pre-tax Adjusted Operating Income

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

#### Net Premiums and Policy Fees

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

#### Net Investment Income

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

#### Other Income

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

#### Benefits and Settlement Expenses

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

#### Amortization of DAC and VOBA

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

#### Other Operating Expenses

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

Sales

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

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

Pre-tax Adjusted Operating Income (Loss)

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

Net Premiums and Policy Fees

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

Net Investment Income

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA

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

Other Operating Expenses

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

Sales

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

Reinsurance

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

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

## Impact of Reinsurance

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

## Life Marketing Segment

## Line Item Impact of Reinsurance

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Acquisitions

## Segment Results of Operations

Segment results were as follows:

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

The following table summarizes key data for the Acquisitions segment:

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

(1) Amounts are not adjusted for reinsurance ceded.

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

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

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

#### Pre-tax Adjusted Operating Income

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

#### Operating revenues

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

#### Total benefits and expenses

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

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

#### Pre-tax Adjusted Operating Income

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

#### Operating Revenues

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

#### Total Benefits and Expenses

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

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

Pre-tax Adjusted Operating Income

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

### Operating Revenues

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

### Total Benefits and Expenses

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

### Reinsurance

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

### Impact of Reinsurance

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

### Acquisitions Segment

### Line Item Impact of Reinsurance

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

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

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

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

revenues. For the year ended December 31, 2017 (Successor Company), ceded revenues decreased by \$20.1 million, while ceded benefits and expenses decreased by \$4.6 million primarily due to lower operating expenses.

The net impact of reinsurance activity for the period of February 1, 2015 to December 31, 2015 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims. Ceded claims included an unusually elevated level of claims in a block that is assumed and then one hundred percent ceded to a third party.

The net impact of reinsurance activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

## Annuities

## Segment Results of Operations

Segment results were as follows:

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



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

The following table summarizes key data for the Annuities segment:

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

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

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

(3) Interest spread on average general account values.

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

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

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

|                                     | Successor Company         |            |
|-------------------------------------|---------------------------|------------|
|                                     | As of December 31,        |            |
|                                     | 2017                      | 2016       |
|                                     | (Dollars In<br>Thousands) |            |
| GMDB—Net amount at risk             | \$72,825                  | \$ 123,091 |
| GMDB Reserves                       | 30,944                    | 31,695     |
| GLWB and GMAB Reserves              | 111,760                   | 115,370    |
| Account value subject to GLWB rider | 9,718,263                 | 9,486,773  |
| GLWB Benefit Base                   | 10,560,890                | 10,559,907 |
| GMAB Benefit Base                   | 3,298                     | 3,770      |
| S&P 500® Index                      | 2,674                     | 2,239      |

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

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

#### Pre-tax Adjusted Operating Income

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

#### Operating revenues

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

#### Benefits and settlement expenses

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

#### Amortization of DAC and VOBA

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

#### Other operating expenses

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

#### Sales

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

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

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

Pre-tax Adjusted Operating Income

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

#### Operating Revenues

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

#### Benefits and Settlement Expenses

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

#### Amortization of DAC and VOBA

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

#### Other Operating Expenses

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

#### Sales

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

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

#### Pre-tax Adjusted Operating Income

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

#### Operating Revenues

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

#### Benefits and Settlement Expenses

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

#### Amortization of DAC and VOBA

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

#### Other Operating Expenses

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

#### Sales

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

## Stable Value Products

## Segment Results of Operations

Segment results were as follows:

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

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

|                             | Successor Company                    |                                      |                                       | Predecessor Company                 |
|-----------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                             | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                             | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| <b>Sales<sup>(1)</sup></b>  |                                      |                                      |                                       |                                     |
| GIC                         | \$ 115,500                           | \$ 189,800                           | \$ 114,700                            | \$ —                                |
| GFA                         | 1,650,000                            | 1,667,178                            | 699,648                               | —                                   |
|                             | \$ 1,765,500                         | \$ 1,856,978                         | \$ 814,348                            | \$ —                                |
| Average Account Values      | \$ 4,143,568                         | \$ 2,753,636                         | \$ 1,933,838                          | \$ 1,932,722                        |
| Ending Account Values       | \$ 4,698,371                         | \$ 3,501,636                         | \$ 2,131,822                          | \$ 1,911,751                        |
| <b>Operating Spread</b>     |                                      |                                      |                                       |                                     |
| Net investment income yield | 4.50                                 | % 3.96                               | % 4.36                                | % 4.28                              |
| Other income yield          | —                                    | 0.01                                 | 0.01                                  | —                                   |
| Interest credited           | 1.79                                 | 1.53                                 | 1.12                                  | 1.40                                |
| Operating expenses          | 0.16                                 | 0.15                                 | 0.15                                  | 0.07                                |
| Operating spread            | 2.55                                 | % 2.29                               | % 3.10                                | % 2.81                              |

Adjusted operating spread<sup>(2)</sup> 1.74      % 1.82      % 1.88      % 2.76      %

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

(2) Excludes participating mortgage loan income.

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

Pre-tax Adjusted Operating Income

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

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

Pre-tax Adjusted Operating Income

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

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

Pre-tax Adjusted Operating Income

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



## Asset Protection

## Segment Results of Operations

Segment results were as follows:

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

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

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

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

(2) Incurred claims as a percentage of earned premiums

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

Pre-tax Adjusted Operating Income

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

66

---

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

#### Net premiums and policy fees

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

#### Other income

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

#### Benefits and settlement expenses

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

#### Amortization of DAC and VOBA and Other operating expenses

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

#### Sales

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

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

#### Pre-tax Adjusted Operating Income

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

#### Net Premiums and Policy Fees

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

#### Other Income

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

#### Benefits and Settlement Expenses

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

#### Amortization of DAC and VOBA and Other Operating Expenses

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

#### Sales

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

Pre-tax Adjusted Operating Income

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

Net Premiums and Policy Fees

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

Other Income

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

Benefits and Settlement Expenses

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

Amortization of DAC and VOBA and Other Operating Expenses

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

Sales

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

Reinsurance

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

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

Asset Protection Segment

Line Item Impact of Reinsurance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Pre-tax Adjusted Operating Income (Loss)

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

Operating Revenues

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

Other Income

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

Total Benefits and Expenses

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





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

Pre-tax Adjusted Operating Income (Loss)

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

Operating Revenues

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

Total Benefits and Expenses

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

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

Pre-tax Adjusted Operating Income (Loss)

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

Operating Revenues

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

Total Benefits and Expenses

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

## CONSOLIDATED INVESTMENTS

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

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

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

Table of Contents

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

## Fixed Maturity Investments

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

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

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

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

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

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



Table of Contents

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

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

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

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

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





Table of Contents

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

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

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

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

## Estimated Fair Value of Security by Year of Security Origination

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

(1)Included in Residential Mortgage-Backed securities.

Table of Contents

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

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

## Estimated Fair Value of Security by Year of Security Origination

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

## (1) Included in Residential Mortgage-Backed securities

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

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

## Mortgage Loans

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

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

Table of Contents

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

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

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

## Commercial Mortgage Loan Portfolio Profile

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

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

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

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

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

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

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

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

Table of Contents

## Unrealized Gains and Losses—Available-for-Sale Securities

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

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

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

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

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

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

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

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

Table of Contents

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

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



Table of Contents

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

## Risk Management and Impairment Review

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

83

---

Table of Contents

## Realized Gains and Losses

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

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

## Derivatives related to VA contracts:

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

## Derivatives related to FIA contracts:

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

## Derivatives related to IUL contracts:

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

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

utilize capital loss carryforwards.

84

---



Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

**Debt and other capital resources**

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

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

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

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

**Successor Company**

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

**2016**

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

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

Successor Company

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

Table of Contents

## Liquidity

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

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

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

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

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

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

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

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

#### Statutory Capital

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



Table of Contents

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

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

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

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

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

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

#### Captive Reinsurance Companies

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

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

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

Table of Contents

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

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

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

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

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

**Ratings**

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

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

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

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

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

Table of Contents

## LIABILITIES

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

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

## Contractual Obligations

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

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

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

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

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

(1) Debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.

Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, \$1.7 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. Additionally, \$2.7 billion relates to the Golden Gate transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate receives from notes issued by a nonconsolidated variable interest entity. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.

(3) Subordinated debt securities includes all principal amounts and interest payments due over the term of the obligations.

- (4) Anticipated stable value product cash flows including interest.
- (5) Includes all lease payments required under operating lease agreements.
- (6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term.
- (7) Represents secured borrowings and accrued interest as part of our repurchase program as well as liabilities associated with securities lending transactions.  
Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.
- (8)
- (9) Excluded from this table are certain pension obligations.

#### Employee Benefit Plans

We sponsor a tax-qualified defined benefit pension plan ("Qualified Pension Plan") covering substantially all of our employees. In addition, we sponsor an unfunded, nonqualified excess benefit pension plan ("Nonqualified Excess Pension Plan") and provide other postretirement benefits to eligible employees.

## Table of Contents

We report the net funded status of our pension and other postretirement plans in the consolidated balance sheet. The net funded status represents the differences between the fair value of plan assets and the projected benefit obligation. Our funding policy is to contribute amounts to the Qualified Pension Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA") plus such additional amounts as we may determine to be appropriate from time to time. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. We may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage ("AFTAP") of at least 80% and to avoid certain Pension Benefit Guaranty Corporation ("PBGC") reporting triggers.

We have not yet determined the total amount we will fund during 2018, but may contribute an amount that would eliminate the PBGC variable-rate premiums payable in 2018. The Company currently estimates that amount will be between \$10 million and \$20 million.

For a complete discussion of our benefit plans, additional information related to the funded status of our benefit plans, and our funding policy, see Note 16, Employee Benefit Plans, to the consolidated financial statements included in this report.

### OFF-BALANCE SHEET ARRANGEMENTS

We have entered into indemnity agreements with each of our directors as well as operating leases that do not result in an obligation being recorded on the balance sheet. Refer to Note 15, Commitments and Contingencies, of the consolidated financial statements for more information.

### MARKET RISK EXPOSURES

Our financial position and earnings are subject to various market risks including changes in interest rates, the yield curve, spreads between risk-adjusted and risk-free interest rates, foreign currency rates, used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk. See Note 7, Derivative Financial Instruments, to the consolidated financial statements included in this report for additional information on our financial instruments.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one year of one another, although, from time to time, a broader interval may be allowed.

We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us, net of collateral held, based upon current market conditions. In addition, we periodically assess exposure related to potential payment obligations between us and our counterparties. We minimize the credit risk in derivative financial instruments by entering into transactions with high quality counterparties (A-rated or higher at the time we enter into the contract), and we maintain credit support annexes with certain of those counterparties.

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

Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We attempt to minimize our credit risk by entering into transactions with highly rated counterparties. We manage the

market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions. Our inflation risk management strategy involves the use of swaps that require us to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index ("CPI").

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

We may use the following types of derivative contracts to mitigate our exposure to certain guaranteed benefits related to VA contracts and fixed indexed annuities:

Foreign Currency Futures



Table of Contents

- Variance Swaps
- Interest Rate Futures
- Equity Options
- Equity Futures
- Credit Derivatives
- Interest Rate Swaps
- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps

We believe that our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements, implied volatility, policyholder behavior, and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

The following table sets forth the estimated market values of our fixed maturity investments and mortgage loans resulting from a hypothetical immediate 100 basis point increase in interest rates from levels prevailing as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), and the percent change in fair value the following estimated fair values would represent:

Successor Company

| As of December 31, | Amount     | Percent |
|--------------------|------------|---------|
|                    | (Dollars   | Change  |
|                    | In         |         |
|                    | Millions)  |         |
| 2017               |            |         |
| Fixed maturities   | \$40,286.8 | (8.2 )% |
| Mortgage loans     | 6,369.5    | (5.5 )  |
| 2016               |            |         |
| Fixed maturities   | \$37,689.5 | (8.0 )% |
| Mortgage loans     | 5,621.4    | (5.2 )  |

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

In the ordinary course of our commercial mortgage lending operations, we may commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates.

As of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), we had outstanding mortgage loan commitments of \$572.3 million at an average rate of 4.1% and \$855.3 million at an average rate of 4.2%, respectively, with estimated fair values of \$583.0 million and \$863.3 million, respectively (using discounted cash flows from the first call date). The following table sets forth the estimated fair value of our

mortgage loan commitments resulting from a hypothetical immediate 100 basis point increase in interest rate levels prevailing as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company), and the percent change in fair value that the following estimated fair values would represent:

Successor Company

| As of December 31, | Amount                      | Percent |
|--------------------|-----------------------------|---------|
|                    | (Dollars<br>In<br>Millions) | Change  |
| 2017               | \$ 557.0                    | (4.5 )% |
| 2016               | \$ 817.8                    | (5.3 )% |

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

Table of Contents

As previously discussed, we utilize a risk management strategy that involves the use of derivative financial instruments. Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures.

As of December 31, 2017 (Successor Company), total derivative contracts with a notional amount of \$26.3 billion were in a \$644.8 million net loss position. Included in the \$26.3 billion is a notional amount of \$2.5 billion in a \$214.2 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$9.6 billion in a \$111.8 million net loss position that relates to our GLWB embedded derivatives, \$2.0 billion in a \$218.7 million net loss position that relates to our FIA embedded derivatives, and \$168.3 million in a \$80.2 million net loss position that relates to our IUL embedded derivatives.

As of December 31, 2016 (Successor Company), total derivative contracts with a notional amount of \$25.5 billion were in a \$444.6 million net loss position. Included in the \$25.5 billion is a notional amount of \$2.5 billion in a \$138.7 million net loss position that relates to our Modco trading portfolio. Also included in the total, is \$10.6 billion in a \$115.4 million net loss position that relates to our GLWB embedded derivatives, \$1.5 billion in a \$147.4 million net loss position that relates to our FIA embedded derivatives, and \$103.8 million in a \$46.1 million net loss position that relates to our IUL embedded derivatives.

We recognized losses of \$305.8 million, \$40.3 million, and gains of \$30.0 million related to derivative financial instruments for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company) and for the period of February 1, 2015 to December 31, 2015 (Successor Company), respectively.

The following table sets forth the notional amount and fair value of our interest rate risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing as of December 31:

Successor Company

|                          | Notional Amount | Fair Value as of December 31, | Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Interest Rates <sup>(1)(2)</sup> |           |
|--------------------------|-----------------|-------------------------------|--|-----------|
|                          |                 |                               | +100 bps   | -100 bps  |
| (Dollars In Millions)    |                 |                               |  |           |
| 2017                     |                 |                               |  |           |
| Futures                  | \$1,302.3       | \$ 2.3                        | \$(41.2)   | \$57.8    |
| Interest Rate Swaptions  | 225.0           | —                             | 2.3  | —         |
| Floating to fixed Swaps  | —               | —                             | —  | —         |
| Fixed to floating Swaps  | 1,862.5         | 52.5                          | (145.9)  | 290.8     |
| GLWB embedded derivative | 9,615.4         | (111.8)                       | 175.1  | (491.3)   |
| Total                    | \$13,005.2      | \$ (57.0)                     | \$(9.7)  | \$(142.7) |
| 2016                     |                 |                               |  |           |
| Futures                  | \$1,096.4       | \$ (5.7)                      | \$(80.0)   | \$84.3    |
| Interest Rate Swaptions  | 225.0           | 2.5                           | 12.3   | —         |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                          |            |            |          |           |
|--------------------------|------------|------------|----------|-----------|
| Floating to fixed Swaps  | 70.0       | 0.5        | 3.2      | (2.2 )    |
| Fixed to floating Swaps  | 1,640.0    | 60.9       | (136.6)  | 301.8     |
| GLWB embedded derivative | 10,563.7   | (115.4 )   | 171.1    | (498.3 )  |
| Total                    | \$13,595.1 | \$ (57.2 ) | \$(30.0) | \$(114.4) |

(1) Interest rate change scenario subject to floor, based on treasury rates as of December 31, 2017 and 2016.

(2) Includes an effect for inflation.

Table of Contents

The following table sets forth the notional amount and fair value of our equity risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in equity level from levels prevailing as of December 31:

Successor Company

|                          | Notional<br>Amount | Fair Value<br>as of<br>December 31, | Fair Value<br>Resulting From an<br>Immediate<br>+/- 10% Change<br>in the Underlying<br>Reference Index<br>Equity Level |           |
|--------------------------|--------------------|-------------------------------------|--|-----------|
|                          |                    |                                     | +10%   | -10%      |
| (Dollars In Millions)    |                    |                                     |  |           |
| 2017                     |                    |                                     |  |           |
| Futures                  | \$381.1            | \$ (2.4 )                           | \$(32.2 )  | \$27.3    |
| Options                  | 7,549.4            | 166.4                               | 157.7  | 177.0     |
| Total return swaps       | 434.3              | (0.2 )                              | (43.6 )  | 43.2      |
| GLWB embedded derivative | 9,615.4            | (111.8 )                            | (12.4 )  | (234.6 )  |
| FIA embedded derivative  | 1,951.7            | (218.7 )                            | (232.9 )   | (186.7 )  |
| IUL embedded derivative  | 168.3              | (80.2 )                             | 82.7   | 70.4      |
| Total                    | \$20,100.2         | \$ (246.9 )                         | \$(80.7 )  | \$(103.4) |
| 2016                     |                    |                                     |  |           |
| Futures                  | \$756.8            | \$ 2.9                              | \$(70.2 )  | \$75.9    |
| Options                  | 6,534.8            | 171.8                               | 155.0  | 196.4     |
| GLWB embedded derivative | 10,563.7           | (115.4 )                            | (11.7 )  | (238.3 )  |
| FIA embedded derivative  | 1,496.3            | (147.4 )                            | (159.0 )   | (124.6 )  |
| IUL embedded derivative  | 103.8              | (46.1 )                             | (48.2 )  | (41.2 )   |
| Total                    | \$19,455.4         | \$ (134.2 )                         | \$(134.1 )   | \$(131.8) |

Table of Contents

The following table sets forth the notional amount and fair value of our currency risk related derivative financial instruments and the estimated fair value resulting from a hypothetical immediate plus and minus ten percentage point change in currency level from levels prevailing as of December 31:

Successor Company

| Notional Amount       | Fair Value as of December 31, | Fair Value Resulting From an Immediate +/- 10% Change in the Underlying Reference in Currency Level |                 |
|-----------------------|-------------------------------|---|-----------------|
|                       |                               | +10%  | -10%            |
| (Dollars In Millions) |                               |   |                 |
| 2017                  |                               |   |                 |
| Currency futures      | \$256.4                       | \$ (2.1 )   | \$(27.9) \$23.7 |
| Swaps Fixed to Fixed  | 117.2                         | 6.0   | 19.7 (7.7 )     |
|                       | \$373.6                       | \$ 3.9  | \$(8.2 ) \$16.0 |
| 2016                  |                               |   |                 |
| Currency futures      | \$340.1                       | \$ 7.9  | \$(25.3) \$41.1 |
| Swaps Fixed to Fixed  | 117.2                         | 0.1   | 13.3 (13.0 )    |
|                       | \$457.3                       | \$ 8.0  | \$(12.0) \$28.1 |

Estimated gains and losses were derived using pricing models specific to derivative financial instruments. While these estimated gains and losses provide an indication of how sensitive our derivative financial instruments are to changes in interest rates, volatility, equity levels, and credit spreads, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Our stable value contract and annuity products tend to be more sensitive to market risks than our other products. As such, many of these products contain surrender charges and other features that reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue. Additionally, approximately \$0.6 billion of our stable value contracts have no early termination rights.

As of December 31, 2017 (Successor Company), we had \$4.7 billion of stable value product account balances with an estimated fair value of \$4.7 billion (using discounted cash flows) and \$10.9 billion of annuity account balances with an estimated fair value of \$10.5 billion (using discounted cash flows). As of December 31, 2016 (Successor Company), we had \$3.5 billion of stable value product account balances with an estimated fair value of \$3.5 billion (using discounted cash flows) and \$10.6 billion of annuity account balances with an estimated fair value of \$10.3 billion (using discounted cash flows).

The following table sets forth the estimated fair values of our stable value and annuity account balances resulting from a hypothetical immediate plus and minus 100 basis points change in interest rates from levels prevailing and the percent change in fair value that the following estimated fair values would represent:

Successor Company

| Fair Value as of December 31, | Fair Value Resulting From an Immediate +/- 100 bps Change in the Underlying Reference in Interest Rates |          |
|-------------------------------|---|----------|
|                               | +100 bps  | -100 bps |
|                               |   |          |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

+100      -100 bps  
 bps  
 (Dollars In Millions)

2017

Stable value product account balances \$4,698.9 \$4,592.7 \$4,805.1

Annuity account balances 10,497.1 10,341.3 10,612.7

2016

Stable value product account balances \$3,488.9 \$3,403.7 \$3,574.0

Annuity account balances 10,314.8 10,164.0 10,424.5

Estimated fair values from the hypothetical changes in interest rates were derived from the durations of our stable value and annuity account balances. While these estimated fair values provide an indication of how sensitive the fair values of our stable

96

---

Table of Contents

value and annuity account balances are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Certain of our liabilities relate to products whose profitability could be significantly affected by changes in interest rates. In addition to traditional whole life and term insurance, many universal life policies with secondary guarantees that insurance coverage will remain in force (subject to the payment of specified premiums) have such characteristics. These products do not allow us to adjust policyholder premiums after a policy is issued, and most of these products do not have significant account values upon which we credit interest. If interest rates fall, these products could have both decreased interest earnings and increased amortization of deferred acquisition costs and VOBA, and the converse could occur if interest rates rise.

**Impact of Continued Low Interest Rate Environment**

Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between the interest rate earned on investments and the interest rate credited to in-force policies and contracts. In addition, certain of our insurance and investment products guarantee a minimum guaranteed interest rate ("MGIR"). In periods of prolonged low interest rates, the interest spread earned may be negatively impacted to the extent our ability to reduce policyholder crediting rates is limited by the guaranteed minimum credited interest rates. Additionally, those policies without account values may exhibit lower profitability in periods of prolonged low interest rates due to reduced investment income.



Table of Contents

The tables below present account values by range of current minimum guaranteed interest rates and current crediting rates for our universal life and deferred fixed annuity products as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company):

## Credited Rate Summary

As of December 31, 2017 (Successor Company)

| Minimum Guaranteed Interest Rate<br>Account Value | At<br>MGIR | 1 - 50<br>bps<br>above<br>MGIR | More<br>than<br>50 bps<br>above<br>MGIR | Total    |   |
|---|------------|--------------------------------|---|----------|---|
| (Dollars In Millions)                             |            |                                |   |          |   |
| Universal Life Insurance                          |            |                                |   |          |   |
| >2% - 3%  | \$206      | \$1,252                        | \$2,006                                 | \$3,464  |   |
| >3% - 4%  | 4,146      | 993                            | 8                                       | 5,147    |   |
| >4% - 5%  | 1,987      | 13                             | 1                                       | 2,001    |   |
| >5% - 6%  | 199        | —                              | —                                       | 199      |   |
| Subtotal  | 6,538      | 2,258                          | 2,015                                   | 10,811   |   |
| Fixed Annuities                                   |            |                                |   |          |   |
| 1%  | \$571      | \$239                          | \$540                                   | \$1,350  |   |
| >1% - 2%  | 473        | 331                            | 70                                      | 874      |   |
| >2% - 3%  | 1,897      | 63                             | 4                                       | 1,964    |   |
| >3% - 4%  | 254        | —                              | —                                       | 254      |   |
| >4% - 5%  | 271        | —                              | —                                       | 271      |   |
| >5% - 6%  | 2          | —                              | —                                       | 2        |   |
| Subtotal  | 3,468      | 633                            | 614                                     | 4,715    |   |
| Total   | \$10,006   | \$2,891                        | \$2,629                                 | \$15,526 |   |
| Percentage of Total                               | 64         | % 19                           | % 17                                    | % 100    | % |

## Credited Rate Summary

As of December 31, 2016 (Successor Company)

| Minimum Guaranteed Interest Rate<br>Account Value | At<br>MGIR | 1 - 50<br>bps<br>above<br>MGIR | More<br>than<br>50 bps<br>above<br>MGIR | Total   |
|---|------------|--------------------------------|---|---------|
| (Dollars In Millions)                             |            |                                |   |         |
| Universal Life Insurance                          |            |                                |   |         |
| >2% - 3%  | \$202      | \$1,133                        | \$2,023                                 | \$3,358 |
| >3% - 4%  | 4,001      | 1,191                          | 11                                      | 5,203   |
| >4% - 5%  | 1,928      | 14                             | —                                       | 1,942   |
| >5% - 6%  | 208        | —                              | —                                       | 208     |
| Subtotal  | 6,339      | 2,338                          | 2,034                                   | 10,711  |
| Fixed Annuities                                   |            |                                |   |         |
| 1%  | \$670      | \$153                          | \$114                                   | \$937   |
| >1% - 2%  | 535        | 463                            | 103                                     | 1,101   |
| >2% - 3%  | 2,056      | 68                             | 7                                       | 2,131   |
| >3% - 4%  | 267        | —                              | —                                       | 267     |
| >4% - 5%  | 281        | —                              | —                                       | 281     |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                     |          |         |         |          |   |
|---------------------|----------|---------|---------|----------|---|
| >5% - 6%            | 3        | —       | —       | 3        |   |
| Subtotal            | 3,812    | 684     | 224     | 4,720    |   |
| Total               | \$10,151 | \$3,022 | \$2,258 | \$15,431 |   |
| Percentage of Total | 66       | % 19    | % 15    | % 100    | % |

98

---

Table of Contents

We are active in mitigating the impact of a continued low interest rate environment through product design, as well as adjusting crediting rates on current in-force policies and contracts. We also manage interest rate and reinvestment risks through our asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations; cash flow testing under various interest rate scenarios; and the regular rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk.

**Employee Benefit Plans**

Pursuant to the accounting guidance related to our obligations to employees under our pension plan and other postretirement benefit plans, we are required to make a number of assumptions to estimate related liabilities and expenses. Our most significant assumptions are those for the discount rate and expected long-term rate of return.

**Discount Rate Assumption**

The assumed discount rates used to determine the benefit obligations were based on an analysis of future benefits expected to be paid under the plans. The assumed discount rate reflects the interest rate at which an amount that is invested in a portfolio of high-quality debt instruments on the measurement date would provide the future cash flows necessary to pay benefits when they come due.

The following presents our estimates of the hypothetical impact to the December 31, 2017 (Successor Company) benefit obligation and to the 2017 benefit cost, associated with sensitivities related to the discount rate assumption:

|  | Defined<br>Benefit<br>Pension<br>Plan | Other<br>Postretirement<br>Benefit<br>Plans <sup>(1)</sup> |
|--|---------------------------------------|--|
| (Dollars in Thousands)                     |                                       |  |
| Increase (Decrease) in Benefit Obligation: |                                       |  |
| 100 basis point increase                   | \$(28,252)                            | \$ (4,834 )  |
| 100 basis point decrease                   | 34,139                                | 5,712  |
| Increase (Decrease) in Benefit Cost:       |                                       |  |
| 100 basis point increase                   | \$406                                 | \$ (57 )   |
| 100 basis point decrease                   | 1,081                                 | 196  |

(1) Includes excess pension plan, retiree medical plan, and postretirement life insurance plan.

**Long-Term Rate of Return Assumption**

To determine an appropriate long-term rate of return assumption for our defined benefit pension plan, we obtained 25 year annualized returns for each of the represented asset classes. In addition, we received evaluations of market performance based on the Company's asset allocation as provided by external consultants. A combination of these statistical analytics provided results that the Company utilized to determine an appropriate long-term rate of return assumption.

For our postretirement life insurance plan, we utilized 25 year average and annualized return results on the Barclay's short treasury index to determine an appropriate long-term rate of return assumption.

The following presents our estimates of the hypothetical impact to the 2017 benefit cost, associated with sensitivities related to the long-term rate of return assumption:

|                                      | Defined<br>Benefit<br>Pension<br>Plan | Postretirement<br>Life Insurance<br>Plan |
|--------------------------------------|---------------------------------------|--|
| (Dollars in Thousands)               |                                       |  |
| Increase (Decrease) in Benefit Cost: |                                       |  |
| 100 basis point increase             | \$(2,397)                             | \$ (51 )                                 |
| 100 basis point decrease             | 2,397                                 | 51                                       |

**IMPACT OF INFLATION**

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

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value

Table of Contents

and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising interest rates. During the periods covered by this report, we believe inflation has not had a material impact on our business.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements included in this report for information regarding recently issued accounting standards.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

**Index to Consolidated Financial Statements**

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

100

---

Table of Contents

|   | Page |
|---|------|
| <u>Consolidated Statements of Income For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>                     | 102  |
| <u>Consolidated Statements of Comprehensive Income (Loss) For The Year Ended Decmebe 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u> | 103  |
| <u>Consolidated Balance Sheets as of December 31, 2017 (Successor Company) and as of December 31, 2016 (Successor Company)</u>  | 104  |
| <u>Consolidated Statements of Shareowner's Equity For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>        | 106  |
| <u>Consolidated Statements of Cash Flows For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company)</u>                 | 107  |
| Notes to Consolidated Financial Statements:   |      |
| <u>1. Basis of Presentation</u>   | 109  |
| <u>2. Summary of Significant Accounting Policies</u>  | 109  |
| <u>3. Significant Transactions</u>  | 120  |
| <u>4. MONY Closed Block of Business</u>   | 122  |
| <u>5. Investment Operations</u>   | 124  |
| <u>6. Fair Value of Financial Instruments</u>   | 132  |
| <u>7. Derivative Financial Instruments</u>  | 144  |
| <u>8. Offsetting of Assets and Liabilities</u>  | 148  |
| <u>9. Mortgage Loans</u>  | 150  |
| <u>10. DAC and VOBA</u>   | 155  |
| <u>11. Goodwill</u>   | 155  |
| <u>12. Certain Nontraditional long duration contracts</u>   | 156  |
| <u>13. Reinsurance</u>  | 157  |
| <u>14. Debt and Other Obligations</u>   | 160  |
| <u>15. Commitments and Contingencies</u>  | 165  |
| <u>16. Employee Benefit Plans</u>   | 167  |
| <u>17. Accumulated Other Comprehensive Income (Loss)</u>  | 175  |
| <u>18. Income Taxes</u>   | 180  |
| <u>19. Supplemental Cash Flow</u>   | 183  |
| <u>20. Related Party Transactions</u>   | 184  |
| <u>21. Statutory Reporting Practices</u>  | 184  |
| <u>22. Operating Segments</u>   | 186  |
| <u>23. Consolidated Quarterly Information</u>   | 190  |
| <u>24. Subsequent Events</u>  | 191  |
| <u>Report of Independent Registered Public Accounting Firm</u>  | 193  |

Predecessor and Successor Company information is not comparable.

For supplemental quarterly financial information, please see Note 23, Consolidated Quarterly Results—Unaudited of the notes to consolidated financial statements included herein.

PROTECTIVE LIFE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

|   | Successor Company                             |   |   | Predecessor Company   |
|---|---|---|---|---|
|   | For The<br>Year Ended<br>December 31,<br>2017 | For the Year<br>Ended<br>December<br>31, 2016 | February 1,<br>2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January 31,<br>2015<br>(Dollars In<br>Thousands,<br>Except Per<br>Share<br>Amounts) |
|   | (Dollars In Thousands)                        |   |   |   |
| Revenues  |   |   |   |   |
| Premiums and policy fees  | \$3,477,419                                   | \$3,407,931                                   | \$3,008,050                                       | \$261,866   |
| Reinsurance ceded   | (1,360,735)                                   | (1,314,716)                                   | (1,154,978)                                       | (89,956)  |
| Net of reinsurance ceded  | 2,116,684                                     | 2,093,215                                     | 1,853,072   | 171,910   |
| Net investment income   | 2,051,588                                     | 1,942,456                                     | 1,632,948   | 175,180   |
| Realized investment gains (losses):   |   |   |   |   |
| Derivative financial instruments  | (305,828)                                     | (40,288)                                      | 29,997  | (123,274)   |
| All other investments   | 121,428                                       | 90,659  | (166,886)   | 81,153  |
| Other-than-temporary impairment losses  | (3,962)                                       | (32,075)                                      | (28,659)  | (636)   |
| Portion recognized in other comprehensive income (before taxes)   | (7,780)                                       | 14,327  | 1,666   | 155   |
| Net impairment losses recognized in earnings  | (11,742)                                      | (17,748)                                      | (26,993)  | (481)   |
| Other income  | 446,662                                       | 415,653                                       | 388,531   | 36,421  |
| Total revenues  | 4,418,792                                     | 4,483,947                                     | 3,710,669   | 340,909   |
| Benefits and expenses   |   |   |   |   |
| Benefits and settlement expenses, net of reinsurance ceded:<br>(Successor 2017 - \$1,242,797; Successor 2016 - \$1,181,960;<br>2015 - \$1,025,596); (Predecessor 2015 - \$87,674) | 2,957,270                                     | 2,880,435                                     | 2,539,943   | 267,287   |
| Amortization of deferred policy acquisition costs and value of<br>business acquired   | 78,221  | 149,064                                       | 94,056  | 4,072   |
| Other operating expenses, net of reinsurance ceded: (Successor<br>2017 - \$222,963; Successor 2016 - \$207,197; 2015 - \$191,346);<br>(Predecessor 2015 - \$35,036)               | 948,244                                       | 860,451                                       | 676,828   | 68,368  |
| Total benefits and expenses   | 3,983,735                                     | 3,889,950                                     | 3,310,827   | 339,727   |
| Income before income tax  | 435,057                                       | 593,997                                       | 399,842   | 1,182   |
| Income tax (benefit) expense  |   |   |   |   |
| Current   | 26,252  | (46,719)                                      | 1,471   | (31,118)  |
| Deferred  | (697,727)                                     | 247,687                                       | 130,072   | 30,791  |
| Total income tax (benefit) expense  | (671,475)                                     | 200,968                                       | 131,543   | (327)   |
| Net income  | \$1,106,532                                   | \$393,029                                     | \$268,299   | \$1,509   |
| Net income—basic  |   |   |   | \$0.02  |
| Net income—diluted  |   |   |   | \$0.02  |
| Cash dividends paid per share   |   |   |   | \$—   |
| Average shares outstanding—basic  |   |   |   | 80,452,848  |
| Average shares outstanding—diluted  |   |   |   | 81,759,287  |

See Notes to Consolidated Financial Statements

102

---



Table of ContentsPROTECTIVE LIFE CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|  | Successor Company                    |                                      |                                       | Predecessor Company                 |
|--|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|  | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|  | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Net income   | \$ 1,106,532                         | \$ 393,029                           | \$ 268,299                            | \$ 1,509                            |
| Other comprehensive income (loss):   |                                      |                                      |                                       |                                     |
| Change in net unrealized gains (losses) on investments, net of income tax: (Successor 2017 - \$329,801; 2016 - \$326,838; 2015 - \$(680,634)); (Predecessor 2015 - \$259,738)  | 700,536                              | 606,985                              | (1,264,034)                           | 482,370                             |
| Reclassification adjustment for investment amounts included in net income, net of income tax: (Successor 2017 - \$489; 2016 - \$(5,094); 2015 - \$9,349); (Predecessor 2015 - \$(2,244))   | 642                                  | (9,460)                              | 17,362                                | (4,166)                             |
| Change in net unrealized (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2017 - \$3,858; 2016 - \$(3,652); 2015 - \$(212)); (Predecessor 2015 - \$(131)) | 7,153                                | (6,782)                              | (393)                                 | (243)                               |
| Change in accumulated (loss) gain—derivatives, net of income tax: (Successor 2017 - \$(303); 2016 - \$370; 2015 - \$(45)); (Predecessor 2015 - \$5)  | (563)                                | 688                                  | (86)                                  | 9                                   |
| Reclassification adjustment for derivative amounts included in net income, net of income tax: (Successor 2017 - \$243; 2016 - \$21; 2015 - \$45); (Predecessor 2015 - \$13)  | 451                                  | 39                                   | 86                                    | 23                                  |
| Change in postretirement benefits liability adjustment, net of income tax: (Successor 2017 - \$(4,047); 2016 - \$(2,616); 2015 - \$3,194); (Predecessor 2015 - \$(6,475))  | (15,225)                             | (4,859)                              | 5,931                                 | (12,025)                            |
| Total other comprehensive income (loss)  | 692,994                              | 586,611                              | (1,241,134)                           | 465,968                             |
| Total comprehensive income (loss)  | \$ 1,799,526                         | \$ 979,640                           | \$ (972,835)                          | \$ 467,477                          |

See Notes to Consolidated Financial Statements

103

Table of ContentsPROTECTIVE LIFE CORPORATION  
CONSOLIDATED BALANCE SHEETS

|  | Successor Company<br>As of December 31, |              |
|--|---|--------------|
|  | 2017                                    | 2016         |
|  | (Dollars In Thousands)                  |              |
| Assets   |   |              |
| Fixed maturities, at fair value (amortized cost: Successor 2017 - \$41,153,551; 2016 - \$39,832,724) | \$41,176,052                            | \$38,183,337 |
| Fixed maturities, at amortized cost (fair value: Successor 2017 - \$2,776,327; 2016 - \$2,733,340)   | 2,718,904                               | 2,770,177    |
| Equity securities, at fair value (cost: Successor 2017 - \$740,813; 2016 - \$768,423)                | 754,360                                 | 754,489      |
| Mortgage loans (related to securitizations: Successor 2017 - \$226,409; 2016 - \$277,964)            | 6,817,723                               | 6,132,125    |
| Investment real estate, net of accumulated depreciation (Successor 2017 - \$132; 2016 - \$252)       | 8,355                                   | 8,060        |
| Policy loans   | 1,615,615                               | 1,650,240    |
| Other long-term investments  | 915,595                                 | 865,304      |
| Short-term investments   | 615,210                                 | 332,431      |
| Total investments  | 54,621,814                              | 50,696,163   |
| Cash   | 252,310                                 | 348,182      |
| Accrued investment income  | 491,802                                 | 482,388      |
| Accounts and premiums receivable   | 124,934                                 | 118,303      |
| Reinsurance receivables  | 5,075,698                               | 5,323,846    |
| Deferred policy acquisition costs and value of business acquired                                     | 2,199,577                               | 2,019,829    |
| Goodwill   | 793,470                                 | 793,470      |
| Other intangibles, net of accumulated amortization (Successor 2017 - \$140,368; 2016 - \$79,226)     | 663,572                                 | 688,083      |
| Property and equipment, net of accumulated depreciation (Successor 2017 - \$22,926; 2016 - \$17,450) | 111,417                                 | 106,111      |
| Other assets   | 227,357                                 | 170,004      |
| Income tax receivable  | 76,543                                  | 116,823      |
| Assets related to separate accounts  |   |              |
| Variable annuity   | 13,956,071                              | 13,244,252   |
| Variable universal life  | 1,035,202                               | 895,925      |
| Total assets   | \$79,629,767                            | \$75,003,379 |

See Notes to Consolidated Financial Statements

104

Table of Contents

PROTECTIVE LIFE CORPORATION  
 CONSOLIDATED BALANCE SHEETS  
 (continued)

|  | Successor Company<br>As of December 31, |              |
|--|---|--------------|
|  | 2017                                    | 2016         |
|  | (Dollars In Thousands)                  |              |
| Liabilities  |   |              |
| Future policy benefits and claims  | \$30,957,592                            | \$30,511,085 |
| Unearned premiums  | 875,405                                 | 848,495      |
| Total policy liabilities and accruals  | 31,832,997                              | 31,359,580   |
| Stable value product account balances  | 4,698,371                               | 3,501,636    |
| Annuity account balances   | 10,921,190                              | 10,642,115   |
| Other policyholders' funds   | 1,267,198                               | 1,165,749    |
| Other liabilities  | 2,353,565                               | 1,924,155    |
| Deferred income taxes  | 1,232,407                               | 1,599,764    |
| Non-recourse funding obligations   | 2,747,477                               | 2,796,474    |
| Secured financing liabilities  | 1,017,749                               | 797,721      |
| Debt   | 945,052                                 | 1,163,285    |
| Subordinated debt securities   | 495,289                                 | 441,202      |
| Liabilities related to separate accounts   |   |              |
| Variable annuity   | 13,956,071                              | 13,244,252   |
| Variable universal life  | 1,035,202                               | 895,925      |
| Total liabilities  | 72,502,568                              | 69,531,858   |
| Commitments and contingencies—Note 15  |   |              |
| Shareowner's equity  |   |              |
| Common Stock, Successor 2017 and 2016 - \$.01 par value; shares authorized: 5,000; shares issued: 1,000  | —                                       | —            |
| Additional paid-in-capital   | 5,554,059                               | 5,554,059    |
| Retained earnings  | 1,560,444                               | 571,985      |
| Accumulated other comprehensive income (loss):   |   |              |
| Net unrealized gains (losses) on investments, net of income tax: (Successor 2017 - \$6,883; 2016 - \$(349,541))  | 25,896                                  | (649,147 )   |
| Net unrealized losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2017 - \$(6); 2016 - \$(3,864)) | (22 )                                   | (7,175 )     |
| Accumulated loss - derivatives, net of income tax: (Successor 2017 - \$198; 2016 - \$391)  | 747                                     | 727          |
| Postretirement benefits liability adjustment, net of income tax: (Successor 2017 - \$(3,469); 2016 - \$578)  | (13,925 )                               | 1,072        |
| Total shareowner's equity  | 7,127,199                               | 5,471,521    |
| Total liabilities and shareowner's equity  | \$79,629,767                            | \$75,003,379 |

See Notes to Consolidated Financial Statements

105

Table of ContentsPROTECTIVE LIFE CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREOWNER'S EQUITY

|   | Common<br>Stock | Additional<br>Paid-In-<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>shareowners'<br>equity |
|---|-----------------|-----------------------------------|-------------------|----------------------|--|---------------------------------|
| (Dollars In Thousands)  |                 |                                   |                   |                      |  |                                 |
| Predecessor Company   |                 |                                   |                   |                      |  |                                 |
| Balance, December 31, 2014  | \$44,388        | \$ 606,125                        | \$(185,705)       | \$3,082,000          | \$ 1,418,076   | \$ 4,964,884                    |
| Net income for the period of January 1,<br>2015 to January 31, 2015           |                 |                                   |                   | 1,509                |  | 1,509                           |
| Other comprehensive income  |                 |                                   |                   |                      | 465,968  | 465,968                         |
| Comprehensive income for the period of<br>January 1, 2015 to January 31, 2015 |                 |                                   |                   |                      |  | 467,477                         |
| Stock-based compensation  |                 | 1,550                             |                   |                      |  | 1,550                           |
| Balance, January 31, 2015   | \$44,388        | \$ 607,675                        | \$(185,705)       | \$3,083,509          | \$ 1,884,044   | \$ 5,433,911                    |

|   | Common<br>Stock | Additional<br>Paid-In-<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total<br>Shareowner's<br>equity |
|---|-----------------|-----------------------------------|-------------------|----------------------|--|---------------------------------|
| (Dollars In Thousands)  |                 |                                   |                   |                      |  |                                 |
| Successor Company   |                 |                                   |                   |                      |  |                                 |
| Balance, February 1, 2015   | \$—             | \$5,554,059                       | \$ —              | —                    | \$ —   | \$ 5,554,059                    |
| Net income for the period of February 1, 2015 to<br>December 31, 2015         |                 |                                   |                   | 268,299              |  | 268,299                         |
| Other comprehensive loss  |                 |                                   |                   |                      | (1,241,134 )   | (1,241,134 )                    |
| Comprehensive loss for the period of February 1,<br>2015 to December 31, 2015 |                 |                                   |                   |                      |  | (972,835 )                      |
| Balance, December 31, 2015  | \$—             | \$5,554,059                       | \$ —              | —\$268,299           | \$(1,241,134 )   | \$ 4,581,224                    |
| Net income for 2016   |                 |                                   |                   | 393,029              |  | 393,029                         |
| Other comprehensive income  |                 |                                   |                   |                      | 586,611  | 586,611                         |
| Comprehensive income for 2016   |                 |                                   |                   |                      |  | 979,640                         |
| Dividends to parent   |                 |                                   |                   | (89,343 )            |  | (89,343 )                       |
| Balance, December 31, 2016  | \$—             | \$5,554,059                       | \$ —              | —\$571,985           | \$(654,523 )   | \$ 5,471,521                    |
| Net income for 2017   |                 |                                   |                   | 1,106,532            |  | 1,106,532                       |
| Other comprehensive income  |                 |                                   |                   |                      | 692,994  | 692,994                         |
| Comprehensive income for 2017   |                 |                                   |                   |                      |  | 1,799,526                       |
| Cumulative effect adjustments   |                 |                                   |                   | 25,775               | (25,775 )  | —                               |
| Dividends to parent   |                 |                                   |                   | (143,848 )           |  | (143,848 )                      |
| Balance, December 31, 2017  | \$—             | \$5,554,059                       | \$ —              | —\$1,560,444         | \$ 12,696  | \$ 7,127,199                    |

See Notes to Consolidated Financial Statements

Table of ContentsPROTECTIVE LIFE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Successor Company      |              |              | Predecessor Company    |
|---|------------------------|--------------|--------------|------------------------|
|   | For The                | For The Year | February     | January 1,             |
|   | Year Ended             | Ended        | 1, 2015      | 2015                   |
|   | December 31,           | December 31, | to           | to                     |
|   | 2017                   | 2016         | December     | January 31,            |
|   |                        |              | 31, 2015     | 2015                   |
|   | (Dollars In Thousands) |              |              | (Dollars In Thousands) |
| Cash flows from operating activities  |                        |              |              |                        |
| Net income  | \$1,106,532            | \$ 393,029   | \$268,299    | \$ 1,509               |
| Adjustments to reconcile net income to net cash provided by operating activities:                   |                        |              |              |                        |
| Realized investment (gains) losses  | 196,142                | (32,623 )    | 163,882      | 42,602                 |
| Amortization of deferred policy acquisition costs and value of business acquired                    | 78,221                 | 149,064      | 94,056       | 4,072                  |
| Capitalization of deferred policy acquisition costs   | (333,252 )             | (327,938 )   | (296,795 )   | (22,489 )              |
| Depreciation and amortization expense   | 62,609                 | 37,504       | 49,741       | 820                    |
| Deferred income tax   | (697,727 )             | 247,687      | 130,072      | 30,791                 |
| Accrued income tax  | 40,280                 | (162,619 )   | 65,415       | (32,803 )              |
| Interest credited to universal life and investment products   | 692,993                | 699,227      | 682,836      | 79,088                 |
| Policy fees assessed on universal life and investment products                                      | (1,354,685 )           | (1,262,166 ) | (1,056,092 ) | (90,288 )              |
| Change in reinsurance receivables   | 248,148                | 222,302      | 187,269      | (85,081 )              |
| Change in accrued investment income and other receivables   | (6,643 )               | (36,360 )    | 24,202       | (5,789 )               |
| Change in policy liabilities and other policyholders' funds of traditional life and health products | (294,205 )             | (208,075 )   | (164,232 )   | 176,980                |
| Trading securities:   |                        |              |              |                        |
| Maturities and principal reductions of investments  | 165,575                | 154,633      | 114,501      | 17,946                 |
| Sale of investments   | 281,441                | 459,802      | 135,465      | 26,422                 |
| Cost of investments acquired  | (355,410 )             | (532,429 )   | (220,094 )   | (27,289 )              |
| Other net change in trading securities  | 9,151                  | 22,427       | 73,376       | (26,901 )              |
| Amortization of premiums and accretion of discounts on investments and mortgage loans               | 319,582                | 375,044      | 373,636      | 12,930                 |
| Change in other liabilities   | 138,304                | 132,220      | (206,765 )   | 238,592                |
| Other, net  | (101,784 )             | (81,091 )    | (63,144 )    | (149,889 )             |
| Net cash provided by operating activities   | 195,272                | 249,638      | 355,628      | 191,223                |

See Notes to Consolidated Financial Statements

107

Table of Contents

PROTECTIVE LIFE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(continued)

|  | Successor Company      |             |             | Predecessor Company    |
|--|------------------------|-------------|-------------|------------------------|
|  | For The                | For The     | February    | January 1,             |
|  | Year                   | Year        | 1, 2015     | 2015                   |
|  | Ended                  | Ended       | to          | to                     |
|  | December               | December    | December    | January 31,            |
|  | 2017                   | 31, 2016    | 31, 2015    | 2015                   |
|  | (Dollars In Thousands) |             |             | (Dollars In Thousands) |
| Cash flows from investing activities                                   |                        |             |             |                        |
| Maturities and principal reductions of investments, available-for-sale | 696,574                | 1,299,753   | 1,052,198   | 59,028                 |
| Sale of investments, available-for-sale                                | 1,802,215              | 1,956,302   | 1,336,350   | 191,062                |
| Cost of investments acquired, available-for-sale                       | (4,029,233)            | (4,982,907) | (3,546,474) | (149,887 )             |
| Change in investments, held-to-maturity                                | 47,000                 | (2,181,000) | (65,000 )   | —                      |
| Mortgage loans:  |                        |             |             |                        |
| New lendings   | (1,671,929)            | (1,396,283) | (1,466,020) | (100,530 )             |
| Repayments   | 923,347                | 863,873     | 1,306,034   | 45,741                 |
| Change in investment real estate, net                                  | (104 )                 | 2,851       | (3,662 )    | 7                      |
| Change in policy loans, net  | 34,625                 | 49,268      | 52,364      | 6,365                  |
| Change in other long-term investments, net                             | (91,518 )              | (250,557 )  | (73,907 )   | (25,339 )              |
| Change in short-term investments, net                                  | (279,191 )             | (72,810 )   | (11,221 )   | (40,314 )              |
| Net unsettled security transactions                                    | (19,023 )              | 28,853      | (64,615 )   | 37,510                 |
| Purchase of property and equipment                                     | (37,533 )              | (5,295 )    | (8,862 )    | (649 )                 |
| Cash received from or paid for acquisitions, net of cash acquired      | —                      | 320,967     | —           | —                      |
| Net cash (used in) provided by investing activities                    | (2,624,770)            | (4,366,985) | (1,492,815) | 22,994                 |
| Cash flows from financing activities                                   |                        |             |             |                        |
| Borrowings under line of credit arrangements and debt                  | 1,035,000              | 265,000     | 330,000     | —                      |
| Principal payments on line of credit arrangement and debt              | (1,156,498)            | (633,074 )  | (338,093 )  | (60,000 )              |
| Issuance (repayment) of non-recourse funding obligations               | (47,000 )              | 2,094,700   | 65,000      | —                      |
| Secured financing liabilities  | 220,028                | 359,536     | 388,185     | —                      |
| Dividends to shareowners   | (143,848 )             | (89,343 )   | —           | —                      |
| Investment product and universal life deposits                         | 4,683,121              | 4,393,596   | 3,064,373   | 169,233                |
| Investment product and universal life withdrawals                      | (2,256,981)            | (2,320,958) | (2,438,916) | (240,147 )             |
| Other financing activities, net  | (196 )                 | —           | —           | (4 )                   |
| Net cash provided by (used in) financing activities                    | 2,333,626              | 4,069,457   | 1,070,549   | (130,918 )             |
| Change in cash   | (95,872 )              | (47,890 )   | (66,638 )   | 83,299                 |
| Cash at beginning of period  | 348,182                | 396,072     | 462,710     | 379,411                |
| Cash at end of period  | \$252,310              | \$348,182   | \$396,072   | \$462,710              |

See Notes to Consolidated Financial Statements

108

Table of Contents

PROTECTIVE LIFE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

Basis of Presentation

On February 1, 2015, Protective Life Corporation (the "Company") became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a kabushiki kaisha organized under the laws of Japan (now known as Dai-ichi Life Holdings, Inc., "Dai-ichi Life"), when DL Investment (Delaware), Inc. a wholly owned subsidiary of Dai-ichi Life, merged with and into the Company. Prior to February 1, 2015, and for the periods reported as "predecessor", the Company's stock was publicly traded on the New York Stock Exchange. Subsequent to the Merger date, the Company remains as an SEC registrant within the United States. The Company is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, credit life and disability insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company ("PLICO") is the Company's largest operating subsidiary.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities (see also Note 21, Statutory Reporting Practices and Other Regulatory Matters).

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

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates include those used in determining deferred policy acquisition costs ("DAC") and related amortization periods, goodwill recoverability, value of business acquired ("VOBA"), investment and certain derivatives fair values, other-than-temporary impairments, future policy benefits, pension and other postretirement benefits, provisions for income taxes, reserves for contingent liabilities, reinsurance risk transfer assessments, and reserves for losses in connection with unresolved legal matters.

Earnings Per Share - Predecessor Company

As of February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life, and on that date the Company's outstanding common stock was delisted from public exchanges, and there was no market for the Company's common stock, which is held entirely by Dai-ichi Life. Therefore, the Company will no longer disclose earnings per share information subsequent to the presentation for the predecessor company period.

Significant Accounting Policies

Valuation of Investment Securities

The Company determines the appropriate classification of investment securities at the time of purchase and periodically re-evaluates such designations. Investment securities are classified as either trading, available-for-sale, or held-to-maturity securities. Investment securities classified as trading are recorded at fair value with changes in fair value recorded in realized gains (losses). Investment securities purchased for long term investment purposes are classified as available-for-sale and are recorded at fair value with changes in unrealized gains and losses, net of taxes,

reported as a component of other comprehensive income (loss). Investment securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity and are reported at amortized cost. Interest income on available-for-sale and held-to-maturity securities includes the amortization of premiums and accretion of discounts and are recorded in investment income.

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data



Table of Contents

including market research publications. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which the Company purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party service or an independent broker quotation. Included in the pricing of other asset-backed securities, collateralized mortgage obligations ("CMOs"), and mortgage-backed securities ("MBS") are estimates of the rate of future prepayments of principal and underlying collateral support over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and rates of prepayments previously experienced at the interest rate levels projected for the underlying collateral. The basis for the cost of securities sold was determined at the Committee on Uniform Securities Identification Procedures ("CUSIP") level on a first in first out basis. The committee supplies a unique nine-character identification, called a CUSIP number, for each class of security approved for trading in the U.S., to facilitate clearing and settlement. These numbers are used when any buy and sell orders are recorded.

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

**Cash**

Cash includes all demand deposits reduced by the amount of outstanding checks and drafts. As a result of the Company's cash management system, checks issued from a particular bank but not yet presented for payment may create negative book cash balances with the bank at certain reporting dates. Such negative balances are included in other liabilities and were \$132.7 million as of December 31, 2017 (Successor Company) and \$79.2 million as of

December 31, 2016 (Successor Company), respectively. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of a material loss.

#### Deferred Policy Acquisition Costs

The incremental direct costs associated with successfully acquired insurance policies, are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products. DAC are subject to recoverability testing at the end of each accounting period. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization. The Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates (equal to the rate used to compute liabilities for future policy benefits, currently 1.0% to 7.8%) the Company expects to experience in future periods when determining the present value of estimated gross profits. These assumptions are best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life and investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

Table of Contents

## Value of Businesses Acquired

In conjunction with the Merger and the acquisition of insurance policies or investment contracts, a portion of the purchase price is allocated to the right to receive future gross profits from cash flows and earnings of associated insurance policies and investment contracts. This intangible asset, called VOBA, is based on the actuarially estimated present value of future cash flows from associated insurance policies and investment contracts acquired. The estimated present value of future cash flows used in the calculation of the VOBA is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. The Company amortizes VOBA in proportion to gross premiums for traditional life products, or estimated gross margins ("EGMs") for participating traditional life products within the MONY Life Insurance Company ("MONY") block. For interest sensitive products, the Company uses various amortization bases including expected gross profits ("EGPs"), revenues, or insurance in-force. VOBA is subject to annual recoverability testing.

## Intangible Assets

Intangible assets with definite lives are amortized over the estimated useful life of the asset and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Amortizable intangible assets primarily consist of distribution relationships, trade names, technology, and software. Intangible assets with indefinite lives, primarily insurance licenses, are not amortized, but are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Software is generally amortized over a three year useful life.

Intangible assets recognized by the Company included the following (excluding goodwill):

|   | Successor Company            |           |             |
|---|------------------------------|-----------|-------------|
|   | As of December 31, Estimated |           |             |
|   | 2017                         | 2016      | Useful Life |
|   | (Dollars In                  |           | (In Years)  |
|   | Thousands)                   |           |             |
| Distribution relationships                      | \$402,975                    | \$428,499 | 14-22       |
| Trade names                                     | 85,340                       | 92,049    | 13-17       |
| Technology                                      | 107,343                      | 121,253   | 7-14        |
| Other   | 35,914                       | 14,282    |             |
| Total intangible assets subject to amortization | 631,572                      | 656,083   |             |
| Insurance licenses                              | 32,000                       | 32,000    | Indefinite  |
| Total intangible assets                         | \$663,572                    | \$688,083 |             |

Identified intangible assets were valued using the excess earnings method, relief from royalty method or cost approach, as appropriate.

Amortizable intangible assets will be amortized straight line over their assigned useful lives. The following is a schedule of future estimated aggregate amortization expense:

| Year | Amount      |
|------|-------------|
|      | (Dollars In |
|      | Thousands)  |
| 2018 | \$ 56,011   |
| 2019 | 52,898      |
| 2020 | 49,897      |
| 2021 | 48,105      |
| 2022 | 45,771      |

## Property and Equipment

In conjunction with the Merger, property and equipment was recorded at fair value as of the Merger date and will be depreciated from this basis in future periods based on the respective estimated useful lives. Real estate assets were recorded at appraised values as of the acquisition date. The Company has estimated the remaining useful life of the home office building to be 25 years. Land is not depreciated.

The Company depreciates its assets using the straight-line method over the estimated useful lives of the assets. The Company's furniture is depreciated over a ten year useful life, office equipment and machines are depreciated over a five year useful life, and computers are depreciated over a three year useful life. Major repairs or improvements are capitalized and depreciated over the estimated useful lives of the assets. Other repairs are expensed as incurred. The cost and related accumulated depreciation of property and equipment sold or retired are removed from the accounts, and resulting gains or losses are included in income.

Table of Contents

Property and equipment consisted of the following:

|  | Successor Company         |           |
|--|---------------------------|-----------|
|  | As of December 31,        |           |
|  | 2017                      | 2016      |
|  | (Dollars In<br>Thousands) |           |
| Home office building                                 | \$68,123                  | \$67,279  |
| Data processing equipment                            | 24,102                    | 21,750    |
| Other, principally furniture and equipment           | 17,198                    | 9,612     |
| Total property and equipment subject to depreciation | 109,423                   | 98,641    |
| Accumulated depreciation                             | (22,926 )                 | (17,450 ) |
| Land   | 24,920                    | 24,920    |
| Total property and equipment                         | \$111,417                 | \$106,111 |

#### Separate Accounts

The separate account assets represent funds for which the Company does not bear the investment risk. These assets are carried at fair value and are equal to the separate account liabilities, which represent the policyholder's equity in those assets. The investment income and investment gains and losses on the separate account assets accrue directly to the policyholder. These amounts are reported separately as assets and liabilities related to separate accounts in the accompanying consolidated financial statements. Amounts assessed against policy account balances for the costs of insurance, policy administration, and other services are included in premiums and policy fees in the accompanying consolidated statements of income.

#### Stable Value Product Account Balances

The Stable Value Products segment sells fixed and floating rate funding agreements directly to qualified institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank ("FHLB"), and markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans. GICs are contracts which specify a return on deposits for a specified period and often provide flexibility for withdrawals at book value in keeping with the benefits provided by the plan.

The Company records its stable value contract liabilities in the consolidated balance sheets in "stable value product account balances" at the deposit amount plus accrued interest, adjusted for any unamortized premium or discount. Interest on the contracts is accrued based upon contract terms. Any premium or discount is amortized using the effective yield method.

The segment's products complement the Company's overall asset/liability management in that the terms may be tailored to the needs of PLICO as the seller of the contracts. Stable value product account balances include GICs and funding agreements the Company has issued. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company had \$3,337.9 million and \$1,872.5 million, respectively, of stable value product account balances marketed through structured programs. Most GICs and funding agreements the Company has written have maturities of one to twelve years.

As of December 31, 2017 (Successor Company), future maturities of stable value products were as follows:

| Year of Maturity | Amount                      |
|------------------|-----------------------------|
|                  | (Dollars<br>In<br>Millions) |
| 2018             | \$ 888.0                    |
| 2019 - 2020      | 2,479.5                     |
| 2021 - 2022      | 1,201.0                     |
| Thereafter       | 124.8                       |

#### Derivative Financial Instruments

The Company records its derivative financial instruments in the consolidated balance sheet in "other long-term investments" and "other liabilities" in accordance with GAAP, which requires that all derivative instruments be

recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in the statement of other comprehensive income (loss), depending upon whether the derivative instrument qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists. For cash flow hedges, the effective portion of their gain or loss is reported as a component of other comprehensive income (loss) and reclassified into earnings in the period during which the hedged item impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Effectiveness of the Company's hedge relationships is assessed on a quarterly basis. The Company reports changes in fair values of derivatives that are not part of a qualifying hedge relationship in earnings. Changes in the fair value of derivatives that are recognized in current earnings are

Table of Contents

reported in "Realized investment gains (losses)—Derivative financial instruments". For additional information, see Note 7, Derivative Financial Instruments.

**Insurance Liabilities and Reserves**

Establishing an adequate liability for the Company's obligations to policyholders requires the use of certain assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency, and other assumptions based on the Company's historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for the Company's property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. The Company's results depend significantly upon the extent to which its actual claims experience is consistent with the assumptions the Company used in determining its reserves and pricing its products. The Company's reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that it will pay for actual claims or the timing of those payments.

**Guaranteed Living Withdrawal Benefits**

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

**Goodwill**

The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of the Company's reporting units below its carrying amount. Accounting for goodwill requires an estimate of the future profitability of the associated lines of business within the Company's operating segments to assess the recoverability of the capitalized acquisition goodwill. The Company's material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If the qualitative analysis does not indicate that an impairment of segment goodwill is more likely than not then no other specific quantitative impairment testing is required.

If it is determined that it is more likely than not that impairment exists, the Company performs a quantitative assessment and compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes

a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The cash flows used to determine the fair value of the Company's reporting units are dependent on a number of significant assumptions. The Company's estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions.

#### Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. The Company has one life insurance subsidiary that is not eligible to be included in the consolidated federal income tax return and files a separate corporate tax return.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act"). Further information on the tax impacts of the Tax Reform Act is included in Note 18, Income Taxes.

The Company uses the asset and liability method of accounting for income taxes. Generally, most items in pretax book income are also included in taxable income in the same year. However, some items are recognized for book purposes and for tax purposes in different years or are never recognized for either book or tax purposes. Those differences that will never be recognized



Table of Contents

for either book or tax purposes are permanent differences (e.g., the dividends-received deduction). As a result, the effective tax rate reflected in the financial statements may differ from the statutory rate reflected in the tax return. Those differences that are reported in different years for book and tax purposes are temporary and will reverse over time (e.g., the valuation of future policy benefits). These temporary differences are accounted for in the intervening periods as deferred tax assets and liabilities. Deferred tax assets generally represent revenue that is taxable before it is recognized in financial income and expenses that are deductible after they are recognized in financial income. Deferred tax liabilities generally represent revenues that are taxable after they are recognized in financial income or expenses or losses that are deductible before they are recognized in financial income. Components of accumulated other comprehensive income (loss) ("AOCI") are presented net of tax, and it is the Company's policy to use the aggregate portfolio approach to clear the disproportionate tax effects that remain in AOCI as a result of tax rate changes and certain other events. Under the aggregate portfolio approach, disproportionate tax effects are cleared only when the portfolio of investments that gave rise to the deferred tax item is sold or otherwise disposed of in its entirety.

The application of GAAP requires the Company to evaluate the recoverability of the Company's deferred tax assets and establish a valuation allowance, if necessary, to reduce the Company's deferred tax assets to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance the Company may consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

GAAP prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process, the first step being recognition. The Company determines whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. The Company measures the tax position as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

The Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service ("IRS") or other taxing jurisdictions. Audit periods remain open for review until the statute of limitations expires. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards, the statute of limitations does not close until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The Company classifies all interest and penalties related to tax uncertainties as income tax expense. See Note 18, Income Taxes, for additional information regarding income taxes.

#### Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the FASB ASC (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and

compares those characteristics to applicable criteria to determine whether the entity is a Variable Interest Entity ("VIE"). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. For more information on the Company's investment in a VIE refer to Note 5, Investment Operations, to the consolidated financial statements.

Table of Contents

## Policyholder Liabilities, Revenues, and Benefits Expense

## Future Policy Benefits and Claims

Future policy benefit liabilities for the year indicated are as follows:

|  | Successor Company                        |              | As of December 31,        |             |
|--|--|--------------|---------------------------|-------------|
|  | As of December 31,<br>2017               | 2016         | 2017                      | 2016        |
|  | Total Policy Liabilities<br>and Accruals |              | Reinsurance<br>Receivable |             |
|  | (Dollars In Thousands)                   |              | (Dollars In Thousands)    |             |
| Life and annuity benefit reserves  | \$29,972,938                             | \$29,574,479 | \$3,898,079               | \$4,191,845 |
| Unpaid life claim liabilities  | 595,188                                  | 517,257      | 362,827                   | 323,630     |
| Life and annuity future policy benefits  | 30,568,126                               | 30,091,736   | 4,260,906                 | 4,515,475   |
| Other policy benefits reserves   | 157,101                                  | 170,519      | 92,330                    | 103,746     |
| Other policy benefits unpaid claim liabilities                                 | 232,365                                  | 248,830      | 185,826                   | 200,655     |
| Future policy benefits and claims and associated reinsurance<br>receivable     | \$30,957,592                             | \$30,511,085 | \$4,539,062               | \$4,819,876 |
| Unearned premiums  | 875,405                                  | 848,495      | 536,636                   | 503,970     |
| Total policy liabilities and accruals and associated reinsurance<br>receivable | \$31,832,997                             | \$31,359,580 | \$5,075,698               | \$5,323,846 |

Liabilities for life and annuity benefit reserves consist of liabilities for traditional life insurance, cash values associated with universal life insurance, immediate annuity benefit reserves, and other benefits associated with life and annuity benefits. The unpaid life claim liabilities consist of current pending claims as well as an estimate of incurred but not reported life insurance claims.

Other policy benefit reserves consist of certain health insurance policies that are in runoff. The unpaid claim liabilities associated with other policy benefits includes current pending claims, the present value of estimated future claim payments for policies currently receiving benefits and an estimate of claims incurred but not yet reported.

**Traditional Life, Health, and Credit Insurance Products**

Traditional life insurance products consist principally of those products with fixed and guaranteed premiums and benefits, and they include whole life insurance policies, term and term-like life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies. In accordance with ASC 805, the liabilities for future policy benefits on traditional life insurance products, when combined with the associated VOBA, were recorded at fair value on the date of the Merger. These values were computed using assumptions that include interest rates, mortality, lapse rates, expense estimates, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation.

Liabilities for future policy benefits on traditional life insurance products have been computed using a net level method including assumptions as to investment yields, mortality, persistency, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Reserve investment yield assumptions on December 31, 2017 (Successor Company), range from approximately 2.75% to 4.50%. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported. Policy claims are charged to expense in the period in which the claims are incurred.

Traditional life insurance premiums are recognized as revenue when due. Health and credit insurance premiums are recognized as revenue over the terms of the policies. Benefits and expenses are associated with earned premiums so that profits are recognized over the life of the contracts. This is accomplished by means of the provision for liabilities for future policy benefits and the amortization of DAC and VOBA. Gross premiums in excess of net premiums related to immediate annuities are deferred and recognized over the life of the policy.

**Universal Life and Investment Products**

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Premiums and policy fees for

universal life and investment products consist of fees that have been assessed against policy account balances for the costs of insurance, policy administration, and surrenders. Such fees are recognized when assessed and earned. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances.

Table of Contents

Interest rates credited to universal life products ranged from 1.0% to 8.75% and investment products ranged from 0.5% to 11.3% in 2017.

The Company establishes liabilities for fixed indexed annuity ("FIA") products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification") Topic 815 - Derivatives and Hedging which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The future changes in the fair value of the liability for these FIA products are recorded in Benefit and settlement expenses with the liability being recorded in Annuity account balances. For more information regarding the determination of fair value of annuity account balances please refer to Note 6, Fair Value of Financial Instruments. Premiums and policy fees for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

The Company currently markets a deferred fixed annuity with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB's ASC Topic 815 - Derivatives and Hedging. The Company did not elect to value these FIA products at fair value. As a result, the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in Other liabilities. Changes in the fair value of the embedded derivative are recorded in Realized investment gains (losses) - Derivative financial instruments. For more information regarding the determination of fair value of the FIA embedded derivative refer to Note 6, Fair Value of Financial Instruments. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 -Financial Services—Insurance and is recorded in Annuity account balances with any discount to the minimum account value being accreted using the effective yield method. Benefits and settlement expenses include accreted interest and benefit claims incurred during the period.

The Company markets universal life products with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB's ASC Topic 815 - Derivatives and Hedging. The Company did not elect to value these indexed universal life ("IUL") products at fair value prior to the Merger date. As a result, the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in Other liabilities. Changes in the fair value of the embedded derivative are recorded in Realized investment gains (losses) - Derivative financial instruments. For more information regarding the determination of fair value of the IUL embedded derivative refer to Note 6, Fair Value of Financial Instruments. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 - Financial Services - Insurance and is recorded in Future policy benefits and claims with any discount to the minimum account value being accreted using the effective yield method. Benefits and settlement expenses include accreted interest and benefit claims incurred during the period.

The Company's accounting policies with respect to variable universal life ("VUL") and VA are identical except that policy account balances (excluding account balances that earn a fixed rate) are valued at fair value and reported as components of assets and liabilities related to separate accounts.

The Company establishes liabilities for guaranteed minimum death benefits ("GMDB") on its VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. The Company assumes age-based mortality from the Ruark 2015 ALB table adjusted for company experience. Future declines in the equity market would increase the Company's GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB, as of December 31, 2017 (Successor Company), are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of December 31, 2017 (Successor Company), the GMDB reserve was \$34.0 million.

Property and Casualty Insurance Products

Property and casualty insurance products include service contract business, surety bonds, and guaranteed asset protection ("GAP"). Premiums for service contracts and GAP products are recognized based on expected claim patterns. For all other products, premiums are generally recognized over the terms of the contract on a pro-rata basis. Fee income from providing administrative services is recognized as earned when the related services are performed. Unearned premium reserves are maintained for the portion of the premiums that is related to the unexpired period of the policy. Benefit reserves are recorded when insured events occur. Benefit reserves include case basis reserves for known but unpaid claims as of the balance sheet date as well as incurred but not reported ("IBNR") reserves for claims where the insured event has occurred but has not been reported to the Company as of the balance sheet date. The case basis reserves and IBNR are calculated based on historical experience and on assumptions relating to claim severity and frequency, the level of used vehicle prices, and other factors. These assumptions are modified as necessary to reflect anticipated trends.

#### Reinsurance

The Company uses reinsurance extensively in certain of its segments and accounts for reinsurance and the recognition of the impact of reinsurance costs in accordance with the ASC Financial Services - Insurance Topic. The following summarizes some of the key aspects of the Company's accounting policies for reinsurance.

**Reinsurance Accounting Methodology**—Ceded premiums of the Company's traditional life insurance products are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the

Table of Contents

applicable financial reporting period. Expense allowances paid by the assuming companies which are allocable to the current period are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the "ultimate" or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances representing recovery of acquisition costs is treated as an offset to direct amortization of DAC or VOBA. Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest.

The Company utilizes reinsurance on certain short duration insurance contracts (primarily issued through the Asset Protection segment). As part of these reinsurance transactions the Company receives reinsurance allowances which reimburse the Company for acquisition costs such as commissions and premium taxes. A ceding fee is also collected to cover other administrative costs and profits for the Company. As a component of reinsurance costs, reinsurance allowances are accounted for in accordance with the relevant provisions of ASC Financial Services—Insurance Topic, which state that reinsurance costs should be amortized over the contract period of the reinsurance if the contract is short-duration. Accordingly, reinsurance allowances received related to short-duration contracts are capitalized and charged to expense in proportion to premiums earned. Ceded unamortized acquisition costs are netted with direct unamortized acquisition costs in the balance sheet.

Ceded premiums and policy fees on the Company's fixed universal life ("UL"), VUL, bank-owned life insurance ("BOLI"), and annuity products reduce premiums and policy fees recognized by the Company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable valuation period.

Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the "ultimate" or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances are amortized based on future expected gross profits. Assumptions regarding mortality, lapses, and interest rates are continuously reviewed and may be periodically changed. These changes will result in "unlocking" that changes the balance in the ceded deferred acquisition cost and can affect the amortization of DAC and VOBA. Ceded unearned revenue liabilities are also amortized based on expected gross profits. Assumptions are based on the best current estimate of expected mortality, lapses and interest spread.

The Company has also assumed certain policy risks written by other insurance companies through reinsurance agreements. Premiums and policy fees as well as Benefits and settlement expenses include amounts assumed under reinsurance agreements and are net of reinsurance ceded. Assumed reinsurance is accounted for in accordance with ASC Financial Services—Insurance Topic.

**Reinsurance Allowances—Long-Duration Contracts—**Reinsurance allowances are intended to reimburse the ceding company for some portion of the ceding company's commissions, expenses, and taxes. The amount and timing of reinsurance allowances (both first year and renewal allowances) are contractually determined by the applicable reinsurance contract and do not necessarily bear a relationship to the amount and incidence of expenses actually paid by the ceding company in any given year.

Ultimate reinsurance allowances are defined as the lowest allowance percentage paid by the reinsurer in any policy duration over the lifetime of a universal life policy (or through the end of the level term period for a traditional life policy). Ultimate reinsurance allowances are determined during the negotiation of each reinsurance agreement and will differ between agreements.

The Company determines its "cost of reinsurance" to include amounts paid to the reinsurer (ceded premiums) net of amounts reimbursed by the reinsurer (in the form of allowances). As noted within ASC Financial Services—Insurance Topic, "The difference, if any, between amounts paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts is part of the estimated cost to be amortized." The Company's policy is to amortize the cost of reinsurance over the life of the underlying reinsured contracts (for long-duration policies) in a manner consistent with the way in which benefits and expenses on the underlying contracts are recognized. For the Company's long-duration contracts, it is the Company's practice to defer reinsurance allowances as a component of the cost of reinsurance and recognize the portion related to the recovery of acquisition

costs as a reduction of applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. The remaining balance of reinsurance allowances are included as a component of the cost of reinsurance and those allowances which are allocable to the current period are recorded as an offset to operating expenses in the current period consistent with the recognition of benefits and expenses on the underlying reinsured contracts. This practice is consistent with the Company's practice of capitalizing direct expenses (e.g. commissions), and results in the recognition of reinsurance allowances on a systematic basis over the life of the reinsured policies on a basis consistent with the way in which acquisition costs on the underlying reinsured contracts would be recognized. In some cases reinsurance allowances allocable to the current period may exceed non-deferred direct costs, which may cause net other operating expenses (related to specific contracts) to be negative.

**Amortization of Reinsurance Allowances**—Reinsurance allowances do not affect the methodology used to amortize DAC and VOBA, or the period over which such DAC and VOBA are amortized. Reinsurance allowances offset the direct expenses capitalized, reducing the net amount that is capitalized. DAC and VOBA on traditional life policies are amortized based on the pattern of estimated gross premiums of the policies in force. Reinsurance allowances do not affect the gross premiums, so therefore they do not impact traditional life amortization patterns. DAC and VOBA on universal life products are amortized based on the pattern of estimated gross profits of the policies in force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore do impact amortization patterns.

**Reinsurance Assets and Liabilities**—Claim liabilities and policy benefits are calculated consistently for all policies, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the



## Table of Contents

reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners and recorded as Reinsurance receivables on the balance sheet. The reinsurance receivables as of the Merger date, were recorded in the balance sheet using current accounting policies and the most current assumptions. As of the Merger date, the Company also calculated the ceded VOBA associated with the reinsured policies. The reinsurance receivables combined with the associated ceded VOBA represent the fair value of the reinsurance assets as of the Merger date.

Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed to ensure that appropriate amounts are ceded.

The Company analyzes and monitors the credit worthiness of each of its reinsurance partners to minimize collection issues. For newly executed reinsurance contracts with reinsurance companies that do not meet predetermined standards, the Company requires collateral such as assets held in trusts or letters of credit.

Components of Reinsurance Cost—The following income statement lines are affected by reinsurance cost: Premiums and policy fees ("reinsurance ceded" on the Company's financial statements) represent consideration paid to the assuming company for accepting the ceding company's risks. Ceded premiums and policy fees increase reinsurance cost.

Benefits and settlement expenses include incurred claim amounts ceded and changes in ceded policy reserves. Ceded benefits and settlement expenses decrease reinsurance cost.

Amortization of deferred policy acquisition cost and VOBA reflects the amortization of capitalized reinsurance allowances representing recovery of acquisition costs. Ceded amortization decreases reinsurance cost.

Other expenses include reinsurance allowances paid by assuming companies to the Company less amounts representing recovery of acquisition costs. Reinsurance allowances decrease reinsurance cost.

The Company's reinsurance programs do not materially impact the other income line of the Company's income statement. In addition, net investment income generally has no direct impact on the Company's reinsurance cost. However, it should be noted that by ceding business to the assuming companies, the Company forgoes investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies' profitability on business assumed from the Company.

### Accounting Pronouncements Recently Adopted

Accounting Standards Update ("ASU") 2018-02: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This Update addresses an accounting issue in which previously recorded tax effects are stranded in accumulated other comprehensive income as a result of the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act ("Tax Reform Act"). The Update allows reclassification from accumulated other comprehensive income to retained earnings of such stranded tax effects. The amount of the reclassification is equal to the difference between the historical corporate income tax rate and the newly enacted corporate income tax rate. The Update is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company elected to adopt the amendments in this Update on a retrospective basis, upon issuance, and recorded an entry as of December 31, 2017 to reclassify stranded tax effects from accumulated other comprehensive income to retained earnings in the amount of \$25.8 million.

ASU No. 2017-04-Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Update simplifies the goodwill impairment test by re-defining the concept of goodwill impairment as the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The Update eliminates "Step 2" of the current goodwill impairment test, which requires entities to determine goodwill impairment by calculating the implied fair value of goodwill by remeasuring to fair value the assets and liabilities of a reporting unit as if that reporting unit had been acquired in a business combination. The Company elected to adopt the amendments in the Update in the first quarter of 2017, and applied the revised guidance to impairment tests conducted after January 1, 2017. Application of the revised guidance did not impact the Company's financial position or results of operations. For more details

regarding the Company's goodwill assessment process, please refer to Note 11, Goodwill.

ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The additional disclosures introduced in this Update have not been provided, as the short-duration lines of business to which they apply are not material to the Company's financial statements.

Accounting Pronouncements Not Yet Adopted

ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606). This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount

Table of Contents

that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update was originally effective for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU No. 2015-14 - Revenues from Contracts with Customers: Deferral of the Effective Date, to defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. The Company will adopt this Update using the modified retrospective approach via a cumulative effect adjustment to retained earnings as of January 1, 2018. The amendments in the Update, along with clarifying updates issued subsequent to ASU 2014-09, will impact some of the Company's smaller lines of business, specifically revenues at the Company's affiliated broker dealers and insurance agency, and certain revenues associated with the Company's Asset Protection products. However, the cumulative effect adjustment related to the Company's adoption of the revised guidance is limited to the Company's Asset Protection segment. Specifically, the Company will revise its pattern of recognition of administrative fees associated with certain vehicle service and GAP products. Previously, these fees were recognized based on the work effort involved in satisfying the Company's contract obligations. In consideration of the amendments in ASU 2014-09, the Company will recognize these fees based on expected claim patterns. The cumulative effect adjustment as of January 1, 2018 will result in a decrease in retained earnings of \$92.5 million. The pre-tax cumulative effect adjustment was consistent with the Company's previous estimates, as disclosed in its Form 10-Q for the period ended September 30, 2017. However, the reduction in the federal corporate income tax rate due to the enactment of the Tax Reform Act resulted in an increase in the net impact to retained earnings. The Company will also implement minor changes to its accounting and disclosures with respect to the lines of business referenced above to ensure compliance with the revised guidance.

ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The Update also introduces a single-step impairment model for equity investments without a readily determinable fair value. Additionally, the Update requires changes in instrument-specific credit risk for fair value option liabilities to be recorded in other comprehensive income. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2017 and will be applied on a modified retrospective basis. The Company recorded a cumulative-effect adjustment as of the date of adoption, January 1, 2018, transferring unrealized gains and losses on available-for-sale equity securities to retained earnings from accumulated other comprehensive income. The impact of this adjustment, net of income tax, resulted in a \$10.7 million increase to retained earnings. The Company will make updates to its disclosures in the first quarter in order to comply with the new guidance.

ASU No. 2016-02 - Leases. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of leases. The most significant change will relate to the accounting model used by lessees. The Update will require all leases with terms greater than 12 months to be recorded on the balance sheet in the form of a lease asset and liability. The lease asset and liability will be measured at the present value of the minimum lease payments less any upfront payments or fees. The Update also requires numerous disclosure changes for which the Company is assessing the impact. The amendments in the Update are effective for annual and interim periods beginning after December 15, 2018 on a modified retrospective basis. The Company has completed an inventory of all leases in the organization and is currently assessing the impact of the Update and updating internal processes to ensure compliance with the revised guidance.

ASU No. 2016-13 - Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. The amendments in this Update introduce a new current expected credit loss ("CECL") model for certain financial assets, including mortgage loans and reinsurance receivables. The new model will not apply to debt securities classified as available-for-sale. For assets within the scope of the new model, an entity will recognize as an allowance against earnings its estimate of the contractual cash flows not expected to be collected on day one of the asset's

acquisition. The allowance may be reversed through earnings if a security recovers in value. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred and recognizes a security's subsequent recovery in value in other comprehensive income. The Update also makes targeted changes to the current impairment model for available-for-sale debt securities, which comprise the majority of the Company's invested assets. Similar to the CECL model, credit loss impairments will be recorded in an allowance against earnings that may be reversed for subsequent recoveries in value. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2019 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its operations and financial results.

ASU No. 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update are intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Specific transactions addressed in the new guidance include: Debt prepayment/extinguishment costs, contingent consideration payments, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investments. The Update does not introduce any new accounting or financial reporting requirements, and is effective for annual and interim periods beginning after December 15, 2017 using the retrospective method. There will be no financial impact on adoption while the Company expects a minor operational impact to cash flow statement reporting.

ASU No. 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Task Force). The amendments in this update provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing diversity in practice related to the presentation of these amounts. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Update is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There will be no impact to the Company on adoption.

Table of Contents

ASU No. 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business. The purpose of this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in the Update provide a specific test by which an entity may determine whether an acquisition involves a set of assets or a business. The amendments in the Update are to be applied prospectively for periods beginning after December 15, 2017. The Company has reviewed the revised requirements, and does not anticipate that the changes will impact its policies or recent conclusions related to its acquisition activities.

ASU No. 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require entities to disaggregate the current-service-cost component from other components of net benefit cost and present it with other current compensation costs in the income statement. The other components of net benefit cost must be presented outside of income from operations if that subtotal is presented. In addition, the Update requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendments in this update are effective for interim and annual periods beginning after December 15, 2017. As provided for in the ASU, the Company expects to apply the provisions of the statement retrospectively for components of net periodic pension costs and prospectively for capitalization of the service costs component of net periodic costs and net periodic postretirement benefits. The Update will not impact the Company's financial position, results of operations, or current disclosures.

ASU No. 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this update require that premiums on callable debt securities be amortized to the first call date. This is a change from current guidance, under which premiums are amortized to the maturity date of the security. The amendments are effective for annual and interim periods beginning after December 31, 2018, and early adoption is permitted. Transition will be through a modified retrospective approach in which the cumulative effect of application is recorded to retained earnings at the beginning of the annual period in which an entity adopts the revised guidance. The Company is currently reviewing its systems and processes to determine the financial and operational impact of implementing the Update, as well as to determine whether early adoption of the revised guidance is practicable.

ASU No. 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update are designed to permit hedge accounting to be applied to a broader range of hedging strategies as well as to more closely align hedge accounting and risk management objectives. Specific provisions include requiring changes in the fair value of a hedging instrument be recorded in the same income statement line as the hedged item when it affects earnings. In addition, after a hedge has initially qualified as an effective hedge the Update permits the use of a qualitative hedge effectiveness test in subsequent periods. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact this standard will have on its operations and financial results.

### 3. SIGNIFICANT TRANSACTIONS

#### Reinsurance and Financing Transaction

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the "Master Agreement"), with Genworth Life and Annuity Insurance Company ("GLAIC"). Pursuant to the Master Agreement, effective January 1, 2016, PLICO entered into a reinsurance agreement (the "Reinsurance Agreement") under the terms of which PLICO coinsures certain term life insurance business of GLAIC (the "GLAIC Block"). In connection with the reinsurance transaction, on January 15, 2016, Golden Gate Captive Insurance Company ("Golden Gate"), a wholly owned subsidiary of PLICO, and Steel City, LLC ("Steel City"), a newly formed wholly owned

subsidiary of the Company, entered into an 18-year transaction to finance \$2.188 billion of “XXX” reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life Insurance Company (“WCL”), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of \$2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of \$2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the “Risk-Takers”) provide credit enhancement to the Steel City notes for the 18-year term in exchange for credit enhancement fees. The transaction is “non-recourse” to PLICO, WCL and the Company, meaning that none of these companies are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. As a result of the financing transaction described above, the \$800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes. Also on January 15, 2016, Golden Gate paid an extraordinary dividend of \$300 million to PLICO as approved by the Vermont Department of Financial Regulation. The transactions described above resulted in an increase to total assets and total liabilities of approximately \$2.8 billion. Of the approximate \$2.8 billion increase in total assets, \$0.6 billion was the result of the reinsurance transaction with GLAIC which included a \$280 million increase in VOBA. The remaining \$2.2 billion increase to total assets and liabilities is associated with the financing transaction between Golden Gate and Steel City. The Company considered whether the Reinsurance Agreement constituted the purchase of a business for accounting and reporting purposes pursuant to ASC 805, Business Combinations. While the transaction included a continuation of the certain

Table of Contents

revenue-producing activities associated with the reinsured policies, it did not result in the acquisition of a market distribution system, sales force or production techniques. Based on Management's decision not to pursue distribution opportunities or future sales related to the reinsured policies, the Company accounted for the transaction as a reinsurance agreement under ASC 944, Insurance Contracts and asset acquisition under ASC 805. Accordingly, the Company recorded the assets and liabilities acquired under the reinsurance agreement at fair value and recognized an intangible asset, VOBA, equal to the excess of the fair value of assets acquired over liabilities assumed, measured in accordance with the Company's accounting policies for insurance and reinsurance contracts that it issues or holds pursuant to ASC 944.

**USWC Holding Company Acquisition**

On December 1, 2016, PLICO completed the acquisition of the Pompano Beach, Florida-based USWC Holding Company ("US Warranty") pursuant to a Stock Purchase Agreement. US Warranty's primary operating subsidiary is United States Warranty Corp., which currently markets vehicle service contracts, GAP coverage, and a suite of ancillary automotive maintenance and protection products nationwide. This acquisition has provided the Company's Asset Protection segment and USWC with expanded market reach, enhanced product and operational capabilities, and higher collective growth potential.

The transaction was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. On the acquisition date, goodwill of \$61.0 million represented the cost in excess of the fair value of net assets acquired (including identifiable intangibles), and reflected the US Warranty's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. The Company acquired 100% of voting equity interests. The aggregate purchase price for US Warranty was \$136.1 million.

The amount recorded as the value of business acquired at December 1, 2016, represents the actuarially estimated present value of after-tax future cash flows, adjusted for statutory reserve differences and cost of capital, from the policies acquired through the US Warranty acquisition. This amount will be amortized in proportion with the gross premiums or estimated net profits of the acquired insurance contracts.

The following table summarizes the fair values of the net assets acquired as of the acquisition date:

|                                   | Fair Value<br>As of<br>December<br>1, 2016<br>(Dollars in<br>Thousands) |
|-----------------------------------|---|
| <b>Assets</b>                     |   |
| Fixed maturities                  | \$ 10,592   |
| Other long-term investments       | 2,340   |
| Cash                              | 122,167   |
| Accrued investment income         | 52  |
| Accounts and premiums receivables | 18,536  |
| Reinsurance receivable            | 9,397   |
| Value of businesses acquired      | 5,079   |
| Goodwill                          | 61,027  |
| Other intangibles                 | 70,400  |
| Property and equipment            | 390   |
| Accrued income taxes              | 4,161   |
| Other assets                      | 40  |
| <b>Total assets</b>               | <b>304,181</b>  |
| <b>Liabilities</b>                |   |
| Unearned premiums                 | \$ 82,757   |
| Other policyholders' funds        | 21,483  |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                       |            |
|-----------------------|------------|
| Other liabilities     | 24,951     |
| Deferred income taxes | 38,929     |
| Total liabilities     | 168,120    |
| Net assets acquired   | \$ 136,061 |

121

---



Table of Contents

Intangible assets recognized by the Company included the following (excluding goodwill):

|                            | Estimated<br>Fair Value<br>on<br>Acquisition<br>Date<br>(Dollars In<br>Thousands) | Estimated<br>Useful<br>Life<br>(In Years) |
|----------------------------|---|---|
| Distribution relationships | \$ 65,000   | 13-21                                     |
| Trade names                | 1,400   | 5-6                                       |
| Technology                 | 4,000   | 8-11                                      |
| Total intangible assets    | \$ 70,400   |   |

Identified intangible assets were valued using the excess earnings method, relief from royalty method or cost approach, as appropriate.

Amortizable intangible assets will be amortized straight line over their assigned useful lives. The following is a schedule of future estimated aggregate amortization expense:

| Year | Amount<br>(Dollars In<br>Thousands) |
|------|-------------------------------------|
| 2017 | \$ 4,843                            |
| 2018 | 4,843                               |
| 2019 | 4,843                               |
| 2020 | 4,843                               |
| 2021 | 4,843                               |

The following (unaudited) pro forma condensed consolidated results of operations assumes that the acquisition of US Warranty was completed as of January 1, 2015:

|                           | Successor Company<br>For The<br>Year<br>Ended<br>December<br>31, 2016 | February 1,<br>2015<br>to<br>December<br>31, 2015 |
|---------------------------|---|---|
| Revenue <sup>(1)</sup>    | \$4,532,292   | \$3,753,700                                       |
| Net income <sup>(2)</sup> | 393,277   | 268,479   |

(1) Includes \$4.7 million of revenue recognized in the Company's net income for year ended December 31, 2016 (Successor Company).

(2) Includes \$0.2 million of net income recognized in the Company's net income for the year ended December 31, 2016 (Successor Company).

The pro forma information above is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisition been consummated as of that time, nor is it intended to be a projection of future results.

#### 4. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY Life Insurance Company ("MONY") converted from a mutual insurance company to a stock corporation ("demutualization"). In connection with its demutualization, an accounting mechanism known as a closed block (the "Closed Block") was established for certain individuals' participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the acquisition of MONY in 2013.

Assets allocated to the Closed Block inure solely to the benefit of each Closed Block's policyholders and will not revert to the benefit of MONY or the Company. No reallocation, transfer, borrowing or lending of assets can be made between the Closed Block and other portions of MONY's general account, any of MONY's separate accounts or any affiliate of MONY without the approval of the Superintendent of The New York State Department of Financial Services (the "Superintendent"). Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held in the general account.

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in AOCI) at the acquisition date of October 1, 2013, represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed

Table of Contents

Block remain in force. In connection with the acquisition of MONY, the Company developed an actuarial calculation of the expected timing of MONY's Closed Block's earnings as of October 1, 2013. Pursuant to the acquisition of the Company by Dai-ichi Life, this actuarial calculation of the expected timing of MONY's Closed Block earnings was recalculated and reset as February 1, 2015, along with the establishment of a policyholder dividend obligation as of such date.

If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company's net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that period, the policyholder dividend obligation would be reduced (but not below zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

Many expenses related to Closed Block operations, including amortization of VOBA, are charged to operations outside of the Closed Block; accordingly, net revenues of the Closed Block do not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

Summarized financial information for the Closed Block as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company) and is as follows:

|  | Successor Company<br>As of December 31,<br>2017      2016<br>(Dollars In Thousands) |             |
|--|---|-------------|
| Closed block liabilities   |   |             |
| Future policy benefits, policyholders' account balances and other policyholder liabilities   | \$5,791,867   | \$5,896,355 |
| Policyholder dividend obligation   | 160,712   | 31,932      |
| Other liabilities  | 30,764  | 40,007      |
| Total closed block liabilities   | 5,983,343   | 5,968,294   |
| Closed block assets  |   |             |
| Fixed maturities, available-for-sale, at fair value  | 4,669,856   | 4,440,105   |
| Mortgage loans on real estate  | 108,934   | 201,088     |
| Policy loans   | 700,769   | 712,959     |
| Cash and other invested assets   | 31,182  | 108,270     |
| Other assets   | 122,637   | 135,794     |
| Total closed block assets  | 5,633,378   | 5,598,216   |
| Excess of reported closed block liabilities over closed block assets   | 349,965   | 370,078     |
| Portion of above representing accumulated other comprehensive income:  |   |             |
| Net unrealized investments gains (losses) net of policyholder dividend obligation: \$(13,429) and \$(197,450); and net of income tax: \$2,820 and \$69,107 | —   | —           |
| Future earnings to be recognized from closed block assets and closed block liabilities   | \$349,965   | \$370,078   |

Reconciliation of the policyholder dividend obligation is as follows:

|  | Successor Company<br>For The<br>Year<br>Ended<br>December 31 | For The<br>Year<br>Ended<br>December 31 |
|--|--|---|
|  |  |   |

|  | 2017                      | 31, 2016  |
|--|---------------------------|-----------|
|  | (Dollars In<br>Thousands) |           |
| Policyholder dividend obligation, beginning balance  | \$31,932                  | \$—       |
| Applicable to net revenue (losses)   | (55,241 )                 | (46,557 ) |
| Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation | 184,021                   | 78,489    |
| Policyholder dividend obligation, ending balance   | \$160,712                 | \$ 31,932 |

123

---

Table of Contents

Closed Block revenues and expenses were as follows:

|                                      | Successor Company                    |                                      |                                       | Predecessor Company                 |
|--------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                                      | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                                      | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| <b>Revenues</b>                      |                                      |                                      |                                       |                                     |
| Premiums and other income            | \$ 180,097                           | \$ 189,700                           | \$ 185,562                            | \$ 15,065                           |
| Net investment income                | 203,964                              | 211,175                              | 193,203                               | 19,107                              |
| Net investment gains                 | 910                                  | 1,524                                | 3,333                                 | 568                                 |
| Total revenues                       | 384,971                              | 402,399                              | 382,098                               | 34,740                              |
| <b>Benefits and other deductions</b> |                                      |                                      |                                       |                                     |
| Benefits and settlement expenses     | 335,200                              | 353,488                              | 336,629                               | 31,152                              |
| Other operating expenses             | 1,940                                | 2,804                                | 1,001                                 | —                                   |
| Total benefits and other deductions  | 337,140                              | 356,292                              | 337,630                               | 31,152                              |
| Net revenues before income taxes     | 47,831                               | 46,107                               | 44,468                                | 3,588                               |
| Income tax expense                   | 27,718                               | 16,137                               | 14,920                                | 1,256                               |
| Net revenues                         | \$ 20,113                            | \$ 29,970                            | \$ 29,548                             | \$ 2,332                            |

**5. INVESTMENT OPERATIONS**

Major categories of net investment income are summarized as follows:

|                           | Successor Company                    |                                      |                                       | Predecessor Company                 |
|---------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                           | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                           | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Fixed maturities          | \$ 1,631,565                         | \$ 1,552,999                         | \$ 1,267,900                          | \$ 140,104                          |
| Equity securities         | 39,806                               | 38,838                               | 40,907                                | 2,572                               |
| Mortgage loans            | 298,387                              | 270,749                              | 252,577                               | 24,977                              |
| Investment real estate    | 2,481                                | 2,153                                | 2,528                                 | 112                                 |
| Short-term investments    | 108,476                              | 106,828                              | 93,982                                | 9,713                               |
|                           | 2,080,715                            | 1,971,567                            | 1,657,894                             | 177,478                             |
| Other investment expenses | 29,127                               | 29,111                               | 24,946                                | 2,298                               |
| Net investment income     | \$ 2,051,588                         | \$ 1,942,456                         | \$ 1,632,948                          | \$ 175,180                          |

Table of Contents

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

|   | Successor Company                    |                                      |                                       | Predecessor Company                 |
|---|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|   | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|   | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Fixed maturities                          | \$12,941                             | \$32,210                             | \$1,282                               | \$6,891                             |
| Equity securities                         | (2,330)                              | 92                                   | (1,001)                               | —                                   |
| Impairments on securities                 | (11,742)                             | (17,748)                             | (26,993)                              | (481)                               |
| Modco trading portfolio                   | 119,206                              | 67,583                               | (167,359)                             | 73,062                              |
| Other investments                         | (8,389)                              | (9,226)                              | 192                                   | 1,200                               |
| Total realized gains (losses)—investments | \$109,686                            | \$72,911                             | \$(193,879)                           | \$80,672                            |

Gross realized gains and gross realized losses on investments available-for-sale (fixed maturities, equity securities, and short-term investments) are as follows:

|                        | Successor Company                    |                                      |                                       | Predecessor Company                 |
|------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                        | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                        | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Gross realized gains   | \$18,868                             | \$42,085                             | \$8,745                               | \$6,920                             |
| Gross realized losses: |                                      |                                      |                                       |                                     |
| Impairments losses     | \$(11,742)                           | \$(17,748)                           | \$(26,993)                            | \$(481)                             |
| Other realized losses  | \$(8,257)                            | \$(9,783)                            | \$(8,463)                             | \$12                                |

The chart below summarizes the fair value (proceeds) and the gains/losses realized on securities the Company sold that were in an unrealized gain position and an unrealized loss position.

|  | Successor Company                    |                                      |                                       | Predecessor Company                 |
|--|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|  | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|  | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Securities in an unrealized gain position:                 |                                      |                                      |                                       |                                     |
| Fair value (proceeds)                                      | \$879,181                            | \$1,198,333                          | \$950,874                             | \$172,551                           |
| Gains realized   | \$18,868                             | \$42,085                             | \$8,745                               | \$6,920                             |
| Securities in an unrealized loss position <sup>(1)</sup> : |                                      |                                      |                                       |                                     |
| Fair value (proceeds)                                      | \$185,157                            | \$85,835                             | \$178,415                             | \$435                               |
| Losses realized  | \$(8,257)                            | \$(9,783)                            | \$(8,463)                             | \$(29)                              |

<sup>(1)</sup> The Company made the decision to exit these holdings in conjunction with its overall asset liability management process.



Table of Contents

The amortized cost and fair value of the Company's investments classified as available-for-sale are as follows:

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Total OTTI<br>Recognized<br>in OCI <sup>(1)</sup> |
|--|-------------------|------------------------------|-------------------------------|---------------|---|
| (Dollars In Thousands)                         |                   |                              |                               |               |   |
| Successor Company                              |                   |                              |                               |               |   |
| As of December 31, 2017                        |                   |                              |                               |               |   |
| Fixed maturities:                              |                   |                              |                               |               |   |
| Residential mortgage-backed securities         | \$2,330,832       | \$ 19,413                    | \$(23,033)                    | \$2,327,212   | \$ 10   |
| Commercial mortgage-backed securities          | 1,914,998         | 5,010                        | (30,186)                      | 1,889,822     | —   |
| Other asset-backed securities                  | 1,234,376         | 20,936                       | (5,763)                       | 1,249,549     | —   |
| U.S. government-related securities             | 1,255,244         | 185                          | (32,177)                      | 1,223,252     | —   |
| Other government-related securities            | 282,767           | 9,463                        | (4,948)                       | 287,282       | —   |
| States, municipals, and political subdivisions | 1,770,299         | 16,959                       | (45,613)                      | 1,741,645     | (37)  |
| Corporate securities                           | 29,606,484        | 623,713                      | (528,187)                     | 29,702,010    | (1)   |
| Redeemable preferred stock                     | 94,362            | 232                          | (3,503)                       | 91,091        | —   |
|  | 38,489,362        | 695,911                      | (673,410)                     | 38,511,863    | (28)  |
| Equity securities                              | 735,569           | 22,318                       | (8,771)                       | 749,116       | —   |
| Short-term investments                         | 558,949           | —                            | —                             | 558,949       | —   |
|  | \$39,783,880      | \$ 718,229                   | \$(682,181)                   | \$39,819,928  | \$(28)  |
| As of December 31, 2016                        |                   |                              |                               |               |   |
| Fixed maturities:                              |                   |                              |                               |               |   |
| Residential mortgage-backed securities         | \$1,913,413       | \$ 10,737                    | \$(25,667)                    | \$1,898,483   | \$(9)   |
| Commercial mortgage-backed securities          | 1,850,620         | 2,528                        | (41,678)                      | 1,811,470     | —   |
| Other asset-backed securities                  | 1,210,490         | 21,741                       | (20,698)                      | 1,211,533     | —   |
| U.S. government-related securities             | 1,308,192         | 422                          | (40,455)                      | 1,268,159     | —   |
| Other government-related securities            | 253,182           | 1,536                        | (14,797)                      | 239,921       | —   |
| States, municipals, and political subdivisions | 1,760,837         | 1,224                        | (105,558)                     | 1,656,503     | —   |
| Corporate securities                           | 28,801,768        | 153,715                      | (1,583,918)                   | 27,371,565    | (11,030)  |
| Redeemable preferred stock                     | 94,362            | —                            | (8,519)                       | 85,843        | —   |
|  | 37,192,864        | 191,903                      | (1,841,290)                   | 35,543,477    | (11,039)  |
| Equity securities                              | 761,340           | 7,751                        | (21,685)                      | 747,406       | —   |
| Short-term investments                         | 279,782           | —                            | —                             | 279,782       | —   |
|  | \$38,233,986      | \$ 199,654                   | \$(1,862,975)                 | \$36,570,665  | \$(11,039)  |

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



Table of Contents

The fair value of the Company's investments classified as trading are as follows:

|  | Successor Company      |             |
|--|------------------------|-------------|
|  | As of December 31,     |             |
|  | 2017                   | 2016        |
|  | (Dollars In Thousands) |             |
| Fixed maturities - trading:                    |                        |             |
| Residential mortgage-backed securities         | \$259,694              | \$255,027   |
| Commercial mortgage-backed securities          | 146,804                | 149,683     |
| Other asset-backed securities                  | 138,097                | 200,084     |
| U.S. government-related securities             | 27,234                 | 26,961      |
| Other government-related securities            | 63,925                 | 63,012      |
| States, municipals, and political subdivisions | 326,925                | 316,519     |
| Corporate securities                           | 1,698,183              | 1,624,589   |
| Redeemable preferred stock                     | 3,327                  | 3,985       |
|  | 2,664,189              | 2,639,860   |
| Equity securities                              | 5,244                  | 7,083       |
| Short-term investments                         | 56,261                 | 52,648      |
|  | \$2,725,694            | \$2,699,591 |

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of December 31, 2017 (Successor Company), by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

|  | Available-for-sale     |              | Held-to-maturity       |             |
|--|------------------------|--------------|------------------------|-------------|
|  | Amortized Cost         | Fair Value   | Amortized Cost         | Fair Value  |
|  | (Dollars In Thousands) |              | (Dollars In Thousands) |             |
| Due in one year or less                | \$723,923              | \$723,435    | \$—                    | \$—         |
| Due after one year through five years  | 6,657,059              | 6,639,380    | —                      | —           |
| Due after five years through ten years | 7,475,095              | 7,481,482    | —                      | —           |
| Due after ten years                    | 23,633,285             | 23,667,566   | 2,718,904              | 2,776,327   |
|  | \$38,489,362           | \$38,511,863 | \$2,718,904            | \$2,776,327 |

Table of Contents

The chart below summarizes the Company's other-than-temporary impairments of investments. All of the impairments were related to fixed maturities or equity securities.

|  | Fixed<br>Maturities    | Equity<br>Securities | Total<br>Securities |
|--|------------------------|----------------------|---------------------|
|  | (Dollars In Thousands) |                      |                     |
| For The Year Ended December 31, 2017 (Successor Company)   |                        |                      |                     |
| Other-than-temporary impairments   | \$(1,332 )             | \$(2,630 )           | \$(3,962 )          |
| Non-credit impairment losses recorded in other comprehensive income  | (7,780 )               | —                    | (7,780 )            |
| Net impairment losses recognized in earnings   | \$(9,112 )             | \$(2,630 )           | \$(11,742)          |
| For The Year Ended December 31, 2016 (Successor Company)   |                        |                      |                     |
| Other-than-temporary impairments   | \$(32,075)             | \$—                  | \$(32,075)          |
| Non-credit impairment losses recorded in other comprehensive income  | 14,327                 | —                    | 14,327              |
| Net impairment losses recognized in earnings   | \$(17,748)             | \$—                  | \$(17,748)          |
| For The Period of February 1, 2015 to December 31, 2015 (Successor Company)  |                        |                      |                     |
| Other-than-temporary impairments   | \$(28,659)             | \$—                  | \$(28,659)          |
| Non-credit impairment losses recorded in other comprehensive income  | 1,666                  | —                    | 1,666               |
| Net impairment losses recognized in earnings   | \$(26,993)             | \$—                  | \$(26,993)          |
| For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)  |                        |                      |                     |
| Other-than-temporary impairments   | \$(636 )               | \$—                  | \$(636 )            |
| Non-credit impairment losses recorded in other comprehensive income  | 155                    | —                    | 155                 |
| Net impairment losses recognized in earnings   | \$(481 )               | \$—                  | \$(481 )            |
| There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), for the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company). |                        |                      |                     |

Table of Contents

The following chart is a rollforward of available-for-sale credit losses on fixed maturities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

|  | Successor Company                    |                                      |                                       | Predecessor Company                 |
|--|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|  | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|  | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Beginning balance  | \$12,685                             | \$22,761                             | \$—                                   | \$15,478                            |
| Additions for newly impaired securities  | 734                                  | 14,876                               | 22,761                                | —                                   |
| Additions for previously impaired securities   | 3,175                                | 2,063                                | —                                     | 221                                 |
| Reductions for previously impaired securities due to a change in expected cash flows | (12,726)                             | (24,396)                             | —                                     | —                                   |
| Reductions for previously impaired securities that were sold in the current period   | (600)                                | (2,619)                              | —                                     | —                                   |
| Other  | —                                    | —                                    | —                                     | —                                   |
| Ending balance   | \$3,268                              | \$12,685                             | \$22,761                              | \$15,699                            |

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2017 (Successor Company):

|  | Less Than 12 Months    |                 | 12 Months or More |                 | Total        |                 |
|--|------------------------|-----------------|-------------------|-----------------|--------------|-----------------|
|  | Fair Value             | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value   | Unrealized Loss |
|  | (Dollars In Thousands) |                 |                   |                 |              |                 |
| Residential mortgage-backed securities             | \$766,599              | \$(9,671)       | \$416,221         | \$(13,362)      | \$1,182,820  | \$(23,033)      |
| Commercial mortgage-backed securities              | 757,471                | (8,592)         | 796,456           | (21,594)        | 1,553,927    | (30,186)        |
| Other asset-backed securities                      | 86,506                 | (322)           | 134,316           | (5,441)         | 220,822      | (5,763)         |
| U.S. government-related securities                 | 94,110                 | (688)           | 1,072,232         | (31,489)        | 1,166,342    | (32,177)        |
| Other government-related securities                | 24,830                 | (169)           | 115,294           | (4,778)         | 140,124      | (4,947)         |
| States, municipalities, and political subdivisions | 170,268                | (1,738)         | 1,027,747         | (43,874)        | 1,198,015    | (45,612)        |
| Corporate securities                               | 5,054,316              | (55,795)        | 10,962,689        | (472,394)       | 16,017,005   | (528,189)       |
| Redeemable preferred stock                         | 22,048                 | (1,120)         | 23,197            | (2,383)         | 45,245       | (3,503)         |
| Equities   | 86,586                 | (1,401)         | 91,195            | (7,370)         | 177,781      | (8,771)         |
|  | \$7,062,734            | \$(79,496)      | \$14,639,347      | \$(602,685)     | \$21,702,081 | \$(682,181)     |

RMBS and CMBS had gross unrealized losses greater than twelve months of \$13.4 million and \$21.6 million as of December 31, 2017 (Successor Company), respectively. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$5.4 million as of December 31, 2017 (Successor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The U.S. government-related securities and the other government-related securities had gross unrealized losses greater than twelve months of \$31.5 million and \$4.8 million as of December 31, 2017 (Successor Company), respectively.

These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions categories had gross unrealized losses greater than twelve months of \$43.9 million as of December 31, 2017 (Successor Company). These declines were related to changes in interest rates.

The corporate securities category has gross unrealized losses greater than twelve months of \$472.4 million as of December 31, 2017 (Successor Company). The aggregate decline in market value of these securities was deemed temporary due

Table of Contents

to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of December 31, 2017 (Successor Company), the Company had a total of 1,845 positions that were in an unrealized loss position, but the Company does not consider these unrealized loss positions to be other-than-temporary. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and the Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2016 (Successor Company):

|  | Less Than 12 Months    |                 | 12 Months or More |                 | Total        |                 |
|--|------------------------|-----------------|-------------------|-----------------|--------------|-----------------|
|  | Fair Value             | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value   | Unrealized Loss |
|  | (Dollars In Thousands) |                 |                   |                 |              |                 |
| Residential mortgage-backed securities             | \$1,060,569            | \$(21,550)      | \$170,826         | \$(4,117)       | \$1,231,395  | \$(25,667)      |
| Commercial mortgage-backed securities              | 1,452,146              | (37,665)        | 100,475           | (4,013)         | 1,552,621    | (41,678)        |
| Other asset-backed securities                      | 323,706                | (9,291)         | 176,792           | (11,407)        | 500,498      | (20,698)        |
| U.S. government-related securities                 | 1,237,942              | (40,454)        | 3                 | (1)             | 1,237,945    | (40,455)        |
| Other government-related securities                | 98,412                 | (2,907)         | 79,393            | (11,890)        | 177,805      | (14,797)        |
| States, municipalities, and political subdivisions | 1,062,368              | (63,809)        | 548,254           | (41,749)        | 1,610,622    | (105,558)       |
| Corporate securities                               | 12,553,514             | (469,189)       | 9,793,579         | (1,114,729)     | 22,347,093   | (1,583,918)     |
| Redeemable preferred Stock                         | 66,781                 | (6,642)         | 19,062            | (1,877)         | 85,843       | (8,519)         |
| Equities   | 411,845                | (15,273)        | 69,497            | (6,412)         | 481,342      | (21,685)        |
|  | \$18,267,283           | \$(666,780)     | \$10,957,881      | \$(1,196,195)   | \$29,225,164 | \$(1,862,975)   |

RMBS and CMBS had gross unrealized losses greater than twelve months of \$4.1 million and \$4.0 million, respectively, as of December 31, 2016 (Successor Company). Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$11.4 million as of December 31, 2016 (Successor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The other government-related securities had gross unrealized losses greater than twelve months of \$11.9 million as of December 31, 2016 (Successor Company). These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions categories had gross unrealized losses greater than twelve months of \$41.7 million as of December 31, 2016 (Successor Company). These declines were related to changes in interest rates.

The corporate securities category has gross unrealized losses greater than twelve months of \$1.1 billion as of December 31, 2016 (Successor Company). The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of December 31, 2017 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade with a fair value of \$1.9 billion and had an amortized cost of \$1.9 billion. In

addition, included in the Company's trading portfolio, the Company held \$229.0 million of securities which were rated below investment grade. Approximately \$311.8 million of the below investment grade securities held by the Company were not publicly traded.

Table of Contents

The change in unrealized gains (losses), net of income tax, on fixed maturity and equity securities, classified as available-for-sale is summarized as follows:

|                   | Successor Company                    |                                      | Predecessor Company                   |                                     |
|-------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                   | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                   | (Dollars In Thousands)               |                                      | (Dollars In Thousands)                |                                     |
| Fixed maturities  | \$1,086,727                          | \$802,368                            | \$(1,874,469)                         | \$ 670,229                          |
| Equity securities | 17,863                               | (13,463)                             | 4,406                                 | 10,226                              |

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), are as follows:

| Successor Company                | Amortized Cost         | Gross Unrecognized Holding Gains | Gross Unrecognized Holding Losses | Fair Value  | Total OTTI Recognized in OCI |
|----------------------------------|------------------------|----------------------------------|-----------------------------------|-------------|------------------------------|
| As of December 31, 2017          | (Dollars In Thousands) |                                  |                                   |             |                              |
| Fixed maturities:                |                        |                                  |                                   |             |                              |
| Securities issued by affiliates: |                        |                                  |                                   |             |                              |
| Red Mountain LLC                 | \$704,904              | \$ —                             | \$ (19,163)                       | \$685,741   | \$ —                         |
| Steel City LLC                   | 2,014,000              | 76,586                           | —                                 | 2,090,586   | —                            |
|                                  | \$2,718,904            | \$ 76,586                        | \$ (19,163)                       | \$2,776,327 | \$ —                         |
| Successor Company                | Amortized Cost         | Gross Unrecognized Holding Gains | Gross Unrecognized Holding Losses | Fair Value  | Total OTTI Recognized in OCI |
| As of December 31, 2016          | (Dollars In Thousands) |                                  |                                   |             |                              |
| Fixed maturities:                |                        |                                  |                                   |             |                              |
| Securities issued by affiliates: |                        |                                  |                                   |             |                              |
| Red Mountain LLC                 | \$654,177              | \$ —                             | \$ (67,222)                       | \$586,955   | \$ —                         |
| Steel City LLC                   | 2,116,000              | 30,385                           | —                                 | 2,146,385   | —                            |
|                                  | \$2,770,177            | \$ 30,385                        | \$ (67,222)                       | \$2,733,340 | \$ —                         |

During the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not record any other-than-temporary impairments on held-to-maturity securities.

The Company's held-to-maturity securities had \$76.6 million of gross unrecognized holding gains and \$19.2 million of gross unrecognized holding losses by maturity as of December 31, 2017 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information. These held-to-maturity securities are issued by affiliates of the Company which are considered VIE's. The Company is not the primary beneficiary of these entities and thus the securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding

obligations issued by captive insurance companies that are affiliates of the Company.

The Company's held-to-maturity securities had \$30.4 million of gross unrecognized holding gains and \$67.2 million of gross unrecognized holding losses by maturity as of December 31, 2016 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information.

The Company held \$17.5 million of non-income producing securities for the year ended December 31, 2017 (Successor Company).

Included in the Company's invested assets are \$1.6 billion of policy loans as of December 31, 2017 (Successor Company). The interest rates on standard policy loans range from 3.0% to 8.0%. The collateral loans on life insurance policies have an interest rate of 13.64%.



Table of Contents

## Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC” or “Codification”) (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a VIE. If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in two subsidiaries as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), Red Mountain LLC (“Red Mountain”) and Steel City LLC (“Steel City”), that were determined to be VIEs.

The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (“Golden Gate V”) in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued a note (the “Red Mountain Note”) to Golden Gate V. For details of this transaction, see Note 14, Debt and Other Obligations. The Company has the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company’s risk of loss related to the VIE is limited to its investment, through an affiliate, of \$10,000. Additionally, the Company has guaranteed Red Mountain’s payment obligation for the credit enhancement fee to the unrelated third party provider. As of December 31, 2017 (Successor Company), no payments have been made or required related to this guarantee.

Steel City, a newly formed wholly owned subsidiary of the Company, entered into a financing agreement on January 15, 2016 involving Golden Gate Captive Insurance Company, in which Golden Gate issued non-recourse funding obligations to Steel City and Steel City issued three notes (the “Steel City Notes”) to Golden Gate. Credit enhancement on the Steel City Notes is provided by unrelated third parties. For details of the financing transaction, see Note 14, Debt and Other Obligations. The activity most significant to Steel City is the issuance of the Steel City Notes. The Company had the power, via its 100% ownership, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third parties in their function as providers of credit enhancement on the Steel City Notes.

Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company’s risk of loss related to the VIE is limited to its investment of \$10,000. Additionally, the Company has guaranteed Steel City’s payment obligation for the credit enhancement fee to the unrelated third party providers. As of December 31, 2017 (Successor Company), no payments have been made or required related to this guarantee.

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company determined the fair value of its financial instruments based on the fair value hierarchy established in FASB guidance referenced in the Fair Value Measurements and Disclosures Topic which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company has adopted the provisions from the FASB guidance that is referenced in the Fair Value Measurements and Disclosures Topic for non-financial assets and liabilities (such as property and equipment, goodwill, and other intangible assets) that are required to be measured at fair value on a periodic basis. The effect on the Company’s periodic fair value measurements for non-financial assets and liabilities was not material.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to

measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded at fair value on the consolidated balance sheets are categorized as follows:

•Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market.

•Level 2: Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:

- a) Quoted prices for similar assets or liabilities in active markets
- b) Quoted prices for identical or similar assets or liabilities in non-active markets
- c) Inputs other than quoted market prices that are observable
- d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

Table of Contents

Level 3: Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. They reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 (Successor Company):

|   | Level 1                | Level 2      | Level 3     | Total        |
|---|------------------------|--------------|-------------|--------------|
|   | (Dollars In Thousands) |              |             |              |
| Assets:   |                        |              |             |              |
| Fixed maturity securities—available-for-sale                  |                        |              |             |              |
| Residential mortgage-backed securities                        | \$—                    | \$2,327,212  | \$—         | \$2,327,212  |
| Commercial mortgage-backed securities                         | —                      | 1,889,822    | —           | 1,889,822    |
| Other asset-backed securities                                 | —                      | 745,184      | 504,365     | 1,249,549    |
| U.S. government-related securities                            | 958,775                | 264,477      | —           | 1,223,252    |
| State, municipalities, and political subdivisions             | —                      | 1,741,645    | —           | 1,741,645    |
| Other government-related securities                           | —                      | 287,282      | —           | 287,282      |
| Corporate securities  | —                      | 29,075,109   | 626,901     | 29,702,010   |
| Redeemable preferred stock                                    | 72,471                 | 18,620       | —           | 91,091       |
| Total fixed maturity securities—available-for-sale            | 1,031,246              | 36,349,351   | 1,131,266   | 38,511,863   |
| Fixed maturity securities—trading                             |                        |              |             |              |
| Residential mortgage-backed securities                        | —                      | 259,694      | —           | 259,694      |
| Commercial mortgage-backed securities                         | —                      | 146,804      | —           | 146,804      |
| Other asset-backed securities                                 | —                      | 102,875      | 35,222      | 138,097      |
| U.S. government-related securities                            | 21,183                 | 6,051        | —           | 27,234       |
| State, municipalities, and political subdivisions             | —                      | 326,925      | —           | 326,925      |
| Other government-related securities                           | —                      | 63,925       | —           | 63,925       |
| Corporate securities  | —                      | 1,692,741    | 5,442       | 1,698,183    |
| Redeemable preferred stock                                    | 3,327                  | —            | —           | 3,327        |
| Total fixed maturity securities—trading                       | 24,510                 | 2,599,015    | 40,664      | 2,664,189    |
| Total fixed maturity securities                               | 1,055,756              | 38,948,366   | 1,171,930   | 41,176,052   |
| Equity securities   | 688,214                | 36           | 66,110      | 754,360      |
| Other long-term investments <sup>(1)</sup>                    | 51,102                 | 417,969      | 136,004     | 605,075      |
| Short-term investments  | 482,461                | 132,749      | —           | 615,210      |
| Total investments   | 2,277,533              | 39,499,120   | 1,374,044   | 43,150,697   |
| Cash  | 252,310                | —            | —           | 252,310      |
| Other assets  | 28,771                 | —            | —           | 28,771       |
| Assets related to separate accounts                           |                        |              |             |              |
| Variable annuity  | 13,956,071             | —            | —           | 13,956,071   |
| Variable universal life                                       | 1,035,202              | —            | —           | 1,035,202    |
| Total assets measured at fair value on a recurring basis      | \$17,549,887           | \$39,499,120 | \$1,374,044 | \$58,423,051 |
| Liabilities:  |                        |              |             |              |
| Annuity account balances <sup>(2)</sup>                       | \$—                    | \$—          | \$83,472    | \$83,472     |
| Other liabilities <sup>(1)</sup>                              | 5,755                  | 240,927      | 760,890     | 1,007,572    |
| Total liabilities measured at fair value on a recurring basis | \$5,755                | \$240,927    | \$844,362   | \$1,091,044  |

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

Table of Contents

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 (Predecessor Company):

|   | Level 1                | Level 2       | Level 3      | Total         |
|---|------------------------|---------------|--------------|---------------|
|   | (Dollars In Thousands) |               |              |               |
| <b>Assets:</b>  |                        |               |              |               |
| Fixed maturity securities—available-for-sale                  |                        |               |              |               |
| Residential mortgage-backed securities                        | \$—                    | \$ 1,898,480  | \$ 3         | \$ 1,898,483  |
| Commercial mortgage-backed securities                         | —                      | 1,811,470     | —            | 1,811,470     |
| Other asset-backed securities                                 | —                      | 648,929       | 562,604      | 1,211,533     |
| U.S. government-related securities                            | 1,002,020              | 266,139       | —            | 1,268,159     |
| State, municipalities, and political subdivisions             | —                      | 1,656,503     | —            | 1,656,503     |
| Other government-related securities                           | —                      | 239,921       | —            | 239,921       |
| Corporate securities  | —                      | 26,707,519    | 664,046      | 27,371,565    |
| Redeemable preferred stock                                    | 66,781                 | 19,062        | —            | 85,843        |
| Total fixed maturity securities—available-for-sale            | 1,068,801              | 33,248,023    | 1,226,653    | 35,543,477    |
| Fixed maturity securities—trading                             |                        |               |              |               |
| Residential mortgage-backed securities                        | —                      | 255,027       | —            | 255,027       |
| Commercial mortgage-backed securities                         | —                      | 149,683       | —            | 149,683       |
| Other asset-backed securities                                 | —                      | 115,521       | 84,563       | 200,084       |
| U.S. government-related securities                            | 22,424                 | 4,537         | —            | 26,961        |
| State, municipalities, and political subdivisions             | —                      | 316,519       | —            | 316,519       |
| Other government-related securities                           | —                      | 63,012        | —            | 63,012        |
| Corporate securities  | —                      | 1,619,097     | 5,492        | 1,624,589     |
| Redeemable preferred stock                                    | 3,985                  | —             | —            | 3,985         |
| Total fixed maturity securities—trading                       | 26,409                 | 2,523,396     | 90,055       | 2,639,860     |
| Total fixed maturity securities                               | 1,095,210              | 35,771,419    | 1,316,708    | 38,183,337    |
| Equity securities   | 685,443                | 36            | 69,010       | 754,489       |
| Other long-term investments <sup>(1)</sup>                    | 82,420                 | 335,498       | 124,325      | 542,243       |
| Short-term investments  | 328,829                | 3,602         | —            | 332,431       |
| Total investments   | 2,191,902              | 36,110,555    | 1,510,043    | 39,812,500    |
| Cash  | 348,182                | —             | —            | 348,182       |
| Other assets  | 23,830                 | —             | —            | 23,830        |
| Assets related to separate accounts                           |                        |               |              |               |
| Variable annuity  | 13,244,252             | —             | —            | 13,244,252    |
| Variable universal life                                       | 895,925                | —             | —            | 895,925       |
| Total assets measured at fair value on a recurring basis      | \$ 16,704,091          | \$ 36,110,555 | \$ 1,510,043 | \$ 54,324,689 |
| <b>Liabilities:</b>   |                        |               |              |               |
| Annuity account balances <sup>(2)</sup>                       | \$—                    | \$—           | \$ 87,616    | \$ 87,616     |
| Other liabilities <sup>(1)</sup>                              | 13,004                 | 163,974       | 571,843      | 748,821       |
| Total liabilities measured at fair value on a recurring basis | \$ 13,004              | \$ 163,974    | \$ 659,459   | \$ 836,437    |

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

#### Determination of Fair Values

The valuation methodologies used to determine the fair values of assets and liabilities reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices, where available. The Company also determines certain fair values based on future cash flows discounted at the appropriate current



Table of Contents

market rate. Fair values reflect adjustments for counterparty credit quality, the Company's credit standing, liquidity, and where appropriate, risk margins on unobservable parameters. The following is a discussion of the methodologies used to determine fair values for the financial instruments as listed in the above table.

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Third party pricing services price approximately 92.7% of the Company's available-for-sale and trading fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, assigned by brokers, incorporate the issuer's credit rating, liquidity discounts, weighted-average of contracted cash flows, risk premium, if warranted, due to the issuer's industry, and the security's time to maturity. The Company uses credit ratings provided by nationally recognized rating agencies.

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the year ended December 31, 2017 (Successor Company).

The Company has analyzed the third party pricing services' valuation methodologies and related inputs and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3. Most prices provided by third party pricing services are classified into Level 2 because the significant inputs used in pricing the securities are market observable and the observable inputs are corroborated by the Company. Since the matrix pricing of certain debt securities includes significant non-observable inputs, they are classified as Level 3.

#### Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or "ABS"). As of December 31, 2017 (Successor Company), the Company held \$5.5 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation

process they consider the following characteristics of the item being measured to be relevant inputs:

1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

As of December 31, 2017 (Successor Company), the Company held \$539.6 million of Level 3 ABS, which included \$504.4 million of other asset-backed securities classified as available-for-sale and \$35.2 million of other asset-backed securities classified as trading. These securities within the available-for-sale portfolio are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate. In periods where market activity increases and there are transactions at a price that is not the result of a distressed or forced sale we

## Table of Contents

consider those prices as part of our valuation. If the market activity during a period is solely the result of the issuer redeeming positions we consider those transactions in our valuation, but still consider them to be level three measurements due to the nature of the transaction.

### Corporate Securities, U.S. Government-Related Securities, States, Municipals, and Political Subdivisions, and Other Government Related Securities

As of December 31, 2017 (Successor Company), the Company classified approximately \$33.5 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

The brokers and third party pricing service utilize valuation models that consist of a hybrid income and market approach to valuation. The pricing models utilize the following inputs: 1) principal and interest payments, 2) treasury yield curve, 3) credit spreads from new issue and secondary trading markets, 4) dealer quotes with adjustments for issues with early redemption features, 5) liquidity premiums present on private placements, and 6) discount margins from dealers in the new issue market.

As of December 31, 2017 (Successor Company), the Company classified approximately \$632.3 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

### Equities

As of December 31, 2017 (Successor Company), the Company held approximately \$66.1 million of equity securities classified as Level 2 and Level 3. Of this total, \$65.5 million represents FHLB stock. The Company believes that the cost of the FHLB stock approximates fair value.

### Other Long-Term Investments and Other Liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 7, Derivative Financial Instruments for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of December 31, 2017 (Successor Company), 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Derivative instruments classified as Level 1 generally include futures and options, which are traded on active exchange markets.

Derivative instruments classified as Level 2 primarily include swaps, options, and swaptions, which are traded over-the-counter. Level 2 also includes certain centrally cleared derivatives. These derivative valuations are determined using independent broker quotations, which are corroborated with observable market inputs.

Derivative instruments classified as Level 3 were embedded derivatives and include at least one significant non-observable input. A derivative instrument containing Level 1 and Level 2 inputs will be classified as a Level 3 financial instrument in its entirety if it has at least one significant Level 3 input.



The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instruments may not be classified within the same fair value hierarchy level as the associated assets and liabilities. Therefore, the changes in fair value on derivatives reported in Level 3 may not reflect the offsetting impact of the changes in fair value of the associated assets and liabilities.

The embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company's consolidated balance sheet. The changes in fair value are recorded in earnings as "Realized investment gains (losses)—Derivative financial instruments". Refer to Note 7, Derivative Financial Instruments for more information related to each embedded derivatives gains and losses.

The fair value of the GLWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the Ruark

Table of Contents

2015 ALB table with attained age factors varying from 91.1% - 106.6%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GLWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 46% - 113%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ("IUL") embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 34% - 152%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as "trading securities"; therefore changes in their fair value are also reported in earnings. As of December 31, 2017 (Successor Company), the fair value of the embedded derivative is based upon the relationship between the statutory policy liabilities (net of policy loans) of \$2.4 billion and the statutory unrealized gain (loss) of the securities of \$226.6 million. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity Account Balances

The Company records a certain legacy block of FIA reserves at fair value. Based on the characteristics of these reserves, the Company believes that the fund value approximates fair value. The fair value measurement of these reserves is considered a Level 3 valuation due to the unobservable nature of the fund values. The Level 3 fair value as of December 31, 2017 (Successor Company) is \$83.5 million.

Separate Accounts

Separate account assets are invested in open-ended mutual funds and are included in Level 1.



Table of Contents

## Valuation of Level 3 Financial Instruments

The following table presents the valuation method for material financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments:

|                                   | Successor<br>Company<br>Fair Value<br>As of<br>December 31,<br>2017<br>(Dollars In<br>Thousands) | Valuation<br>Technique    | Unobservable<br>Input | Range<br>(Weighted Average)  |
|-----------------------------------|--|---------------------------|-----------------------|--|
| <b>Assets:</b>                    |  |                           |                       |  |
| Other asset-backed securities     | \$ 504,228   | Liquidation               | Liquidation value     | \$90 - \$97 (\$94.91)  |
|                                   |  | Discounted cash flow      | Liquidity premium     | 0.06% - 1.17% (0.75%)  |
|                                   |  |                           | Paydown rate          | 11.31% - 11.97% (11.54%)   |
| Corporate securities              | 617,770  | Discounted cash flow      | Spread over treasury  | 0.81% - 3.95% (1.06%)  |
| <b>Liabilities:<sup>(1)</sup></b> |  |                           |                       |  |
| Embedded derivatives—GLWB         | \$ 111,760   | Actuarial cash flow model | Mortality             | 91.1% to 106.6% of Ruark 2015 ALB table                                    |
|                                   |  |                           | Lapse                 | 1.0% - 30.0%, depending on product/duration/funded status of guarantee     |
|                                   |  |                           | Utilization           | 99%. 10% of policies have a one-time over-utilization of 400%              |
|                                   |  |                           | Nonperformance risk   | 0.11% - 0.79%  |
| Embedded derivative—FIA           | 218,676  | Actuarial cash flow model | Expenses              | \$146 per policy   |
|                                   |  |                           | Withdrawal rate       | 1.5% prior to age 70, 100% of the RMD for ages 70+                         |
|                                   |  |                           | Mortality             | 1994 MGDB table with company experience                                    |
|                                   |  |                           | Lapse                 | 1.0% - 30.0%, depending on duration/surrender charge period                |
|                                   |  |                           | Nonperformance risk   | 0.11% - 0.79%  |
| Embedded derivative—IUL           | 80,212   | Actuarial cash flow model | Mortality             | 34% - 152% of 2015 VBT Primary Tables                                      |
|                                   |  |                           | Lapse                 | 0.5% - 10.0%, depending on duration/distribution channel and smoking class |
|                                   |  |                           | Nonperformance risk   | 0.11% - 0.79%  |

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value.

The Company has considered all reasonably available quantitative inputs as of December 31, 2017 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$50.4 million of financial instruments being classified as Level 3 as of December 31, 2017 (Successor Company). Of the \$50.4 million, \$35.4 million are other asset-backed securities, \$14.6 million are corporate securities, and \$0.4 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2017 (Successor Company), the Company held \$65.7 million of financial instruments where book value approximates fair value which was predominantly FHLB stock.

Table of Contents

The following table presents the valuation method for material financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments:

|                                   | Successor<br>Company<br>Fair Value<br>As of<br>December 31,<br>2016<br>(Dollars In<br>Thousands) | Valuation<br>Technique    | Unobservable<br>Input | Range<br>(Weighted Average)  |
|-----------------------------------|--|---------------------------|-----------------------|--|
| <b>Assets:</b>                    |  |                           |                       |  |
| Other asset-backed securities     | \$ 553,308   | Discounted cash flow      | Liquidation value     | \$88 - \$97.25 (\$95.04)   |
| Corporate securities              | 638,279  | Discounted cash flow      | Spread over treasury  | 0.31% - 4.50% (2.04%)  |
| <b>Liabilities:<sup>(1)</sup></b> |  |                           |                       |  |
| Embedded derivatives—GLWB         | \$ 115,370   | Actuarial cash flow model | Mortality             | 91.1% to 106.6% of Ruark 2015 ALB table                                    |
|                                   |  |                           | Lapse                 | 0.3% - 15%, depending on product/duration/funded status of guarantee       |
|                                   |  |                           | Utilization           | 99%. 10% of policies have a one-time over-utilization of 400%              |
|                                   |  |                           | Nonperformance risk   | 0.18% - 1.09%  |
| Embedded derivative—FIA           | 147,368  | Actuarial cash flow model | Expenses              | \$126 per policy   |
|                                   |  |                           | Asset Earned Rate     | 4.08% - 4.66%  |
|                                   |  |                           | Withdrawal rate       | 1% prior to age 70, 100% of the RMD for ages 70+                           |
|                                   |  |                           | Mortality             | 1994 MGDB table with company experience                                    |
|                                   |  |                           | Lapse                 | 2.0% - 40.0%, depending on duration/surrender charge period                |
|                                   |  |                           | Nonperformance risk   | 0.18% - 1.09%  |
| Embedded derivative - IUL         | 46,051   | Actuarial cash flow model | Mortality             | 38% - 153% of 2015 VBT Primary Tables                                      |
|                                   |  |                           | Lapse                 | 0.5% - 10.0%, depending on duration/distribution channel and smoking class |
|                                   |  |                           | Nonperformance risk   | 0.18% - 1.09%  |

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value.

The Company has considered all reasonably available quantitative inputs as of December 31, 2016 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$128.2 million of financial instruments being classified as Level 3 as of December 31, 2016 (Successor Company). Of the \$128.2 million, \$93.9 million are other asset-backed securities, \$31.3 million are corporate securities, and \$3.1 million are equity securities.

In certain cases the Company determined that book value materially approximates fair value. As of December 31, 2016 (Successor Company), the Company held \$65.9 million of financial instruments where book value approximates fair value, which was predominantly FHLB stock.

The asset-backed securities classified as Level 3 are predominantly ARS. A change in the paydown rate (the projected annual rate of principal reduction) of the ARS can significantly impact the fair value of these securities. A decrease in the paydown rate would increase the projected weighted average life of the ARS and increase the sensitivity of the ARS' fair value to changes in interest rates. An increase in the liquidity premium would result in a decrease in the fair value of the securities, while a decrease in the liquidity premium would increase the fair value of these securities. The liquidation value for these securities are sensitive to the issuer's available cash flows and ability to redeem the securities, as well as the current holders' willingness to liquidate at the specified price.

The fair value of corporate bonds classified as Level 3 is sensitive to changes in the interest rate spread over the corresponding U.S. Treasury rate. This spread represents a risk premium that is impacted by company specific and market factors. An increase in the spread can be caused by a perceived increase in credit risk of a specific issuer and/or an increase in the overall market risk premium associated with similar securities. The fair values of corporate bonds are sensitive to changes in spread. When holding the treasury rate constant, the fair value of corporate bonds increases when spreads decrease, and decreases when spreads increase.

Table of Contents

The fair value of the GLWB embedded derivative is sensitive to changes in the discount rate which includes the Company's nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it is based on market inputs. The Company's nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the fair value of the liability and conversely, if there is a decrease in the assumptions the fair value would increase. The fair value is also dependent on the assumed policyholder utilization of the GLWB where an increase in assumed utilization would result in an increase in the fair value of the liability and conversely, if there is a decrease in the assumption, the fair value would decrease.

The fair value of the FIA embedded derivative is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the FIA embedded derivative is sensitive to non-performance risk, which is unobservable. The value of the liability increases with decreases in the discount rate and non-performance risk and decreases with increases in the discount rate and nonperformance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

The fair value of the IUL embedded derivative is predominantly impacted by observable inputs such as discount rates and equity returns. However, the fair value of the IUL embedded derivative is sensitive to non-performance risk, which is unobservable. The value of the liability increases with decreases in the discount rate and non-performance risk and decreases with increases in the discount rate and non-performance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.



Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2017 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

|   | Beginning Balance | Total Realized and Unrealized Gains             | Total Realized and Unrealized Losses            | Beginning Balance | Total Realized and Unrealized Gains             | Total Realized and Unrealized Losses            | Beginning Balance | Total Realized and Unrealized Gains             | Total Realized and Unrealized Losses            | Beginning Balance | Total Realized and Unrealized Gains             | Total Realized and Unrealized Losses            |
|---|-------------------|---|---|-------------------|---|---|-------------------|---|---|-------------------|---|---|
|   |                   | Included in Other Earnings Comprehensive Income | Included in Other Earnings Comprehensive Income |                   | Included in Other Earnings Comprehensive Income | Included in Other Earnings Comprehensive Income |                   | Included in Other Earnings Comprehensive Income | Included in Other Earnings Comprehensive Income |                   | Included in Other Earnings Comprehensive Income | Included in Other Earnings Comprehensive Income |
|   |                   |   |   |                   |   |   |                   |   |   |                   |   |   |
| (Dollars In Thousands)  |                   |   |   |                   |   |   |                   |   |   |                   |   |   |
| Assets:   |                   |   |   |                   |   |   |                   |   |   |                   |   |   |
| Fixed maturity securities available-for-sale Residential mortgage-backed securities | \$3               | \$—   | \$83  | \$—               | \$—   | \$11,862  | \$(3)             | \$—   | \$—   | \$(11,944)        | \$—   | \$—   |
| Commercial mortgage-backed securities   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
| Other asset-backed securities   | 562,604           | 1,409   | 15,136  | —                 | (10,931)  | 100   | (59,175)          | —   | —   | (6,643)           | —   | 1,409   |
| U.S. government-related securities  | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
| States, municipals, and political subdivisions                                      | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
| Other government-related securities   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
| Corporate securities  | 664,046           | —   | 27,637  | —                 | (13,089)  | 131,822   | (169,002)         | —   | —   | (10,353)          | —   | (4,935)   |
| Total fixed maturity securities—available-for-sale                                  | 1,226,653         | 1,409   | 42,856  | —                 | (24,020)  | 143,784   | (228,180)         | —   | —   | (28,940)          | —   | (2,925)   |
| Fixed maturity securities—trading Residential mortgage-backed securities            | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
| Commercial mortgage-backed securities   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   | —                 | —   | —   |
|   | 84,563            | 3,768   | —   | (1,157)           | —   | —   | (52,835)          | —   | —   | —                 | —   | 88,259  |

|   |             |          |          |             |            |           |             |       |         |            |        |
|---|-------------|----------|----------|-------------|------------|-----------|-------------|-------|---------|------------|--------|
| Other asset-backed securities                                 |             |          |          |             |            |           |             |       |         |            |        |
| U.S. government-related securities                            | —           | —        | —        | —           | —          | —         | —           | —     | —       | —          | —      |
| States, municipals and political subdivisions                 | —           | —        | —        | —           | —          | —         | —           | —     | —       | —          | —      |
| Other government-related securities                           | —           | —        | —        | —           | —          | —         | —           | —     | —       | —          | —      |
| Corporate securities  | 5,492       | 101      | —        | (58 )       | —          | —         | —           | —     | —       | —          | (9 )   |
| Total fixed maturity securities—trading                       | 90,055      | 3,869    | —        | (1,215 )    | —          | —         | (52,835 )   | —     | —       | —          | 79 )   |
| Total fixed maturity securities                               | 1,316,708   | 5,278    | 42,856   | (1,215 )    | (24,020 )  | 143,784   | (281,015 )  | —     | —       | (28,940 )  | (1 )   |
| Equity securities   | 69,010      | 2        | 52       | (2,630 )    | (53 )      | —         | (274 )      | —     | —       | 3          | —      |
| Other long-term investments <sup>(1)</sup>                    | 124,325     | 27,158   | —        | (15,479 )   | —          | —         | —           | —     | —       | —          | —      |
| Short-term investments  | —           | —        | —        | —           | —          | —         | —           | —     | —       | —          | —      |
| Total investments   | 1,510,043   | 32,438   | 42,908   | (19,324 )   | (24,073 )  | 143,784   | (281,289 )  | —     | —       | (28,937 )  | (1 )   |
| Total assets measured at fair value on a recurring basis      | \$1,510,043 | \$32,438 | \$42,908 | \$(19,324 ) | \$(24,073) | \$143,784 | \$(281,289) | \$—   | \$—     | \$(28,937) | \$(1 ) |
| Liabilities:  |             |          |          |             |            |           |             |       |         |            |        |
| Annuity account balances <sup>(2)</sup>                       | \$87,616    | \$—      | \$—      | \$(4,001 )  | \$—        | \$—       | \$—         | \$623 | \$8,768 | \$—        | \$—    |
| Other liabilities <sup>(1)</sup>                              | 571,843     | 93,071   | —        | (282,118 )  | —          | —         | —           | —     | —       | —          | —      |
| Total liabilities measured at fair value on a recurring basis | \$659,459   | \$93,071 | \$—      | \$(286,119) | \$—        | \$—       | \$—         | \$623 | \$8,768 | \$—        | \$—    |

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the year ended December 31, 2017 (Successor Company), there was an immaterial amount of transfers of securities into Level 3.

For the year ended December 31, 2017 (Successor Company), \$28.9 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of December 31, 2017 (Successor Company).

For the year ended December 31, 2017 (Successor Company), there were no transfers from Level 2 to Level 1.

For the year ended December 31, 2017 (Successor Company), there were no transfers from Level 1 into Level 2.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the year ended December 31, 2016 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

|   |                      | Total<br>Realized and<br>Unrealized<br>Gains | Total<br>Realized and<br>Unrealized<br>Losses      |                            |  |           |            |           |             |                              |
|---|----------------------|--|--|----------------------------|--|-----------|------------|-----------|-------------|------------------------------|
|   | Beginning<br>Balance | Included<br>in<br>Earnings                   | Included<br>in<br>Other<br>Comprehensive<br>Income | Included<br>in<br>Earnings | Included<br>in<br>Other<br>Comprehensive<br>Income | Purchases | Sales      | Issuances | Settlements | Transfers<br>into<br>Level 3 |
| (Dollars In Thousands)  |                      |  |  |                            |  |           |            |           |             |                              |
| Assets:   |                      |  |  |                            |  |           |            |           |             |                              |
| Fixed maturity securities available-for-sale Residential mortgage-backed securities | \$3                  | \$—  | \$—  | \$—                        | \$—  | \$—       | \$—        | \$—       | \$—         | \$—                          |
| Commercial mortgage-backed securities   | —                    | —  | 7  | —                          | (1,750 )   | 25,607    | —          | —         | —           | (23,844 )                    |
| Other asset-backed securities   | 587,031              | 6,859  | 42,865   | —                          | (29,673 )  | 30,441    | (79,314 )  | —         | —           | 7,457                        |
| U.S. government-related securities  | —                    | —  | —  | —                          | —  | —         | —          | —         | —           | —                            |
| States, municipals, and political subdivisions                                      | —                    | —  | —  | —                          | —  | —         | —          | —         | —           | —                            |
| Other government-related securities   | —                    | —  | —  | —                          | —  | —         | —          | —         | —           | —                            |
| Corporate securities  | 902,119              | 925  | 40,574   | (4,135 )                   | (33,151 )  | 102,426   | (225,557 ) | —         | —           | (109,792 )                   |
| Total fixed maturity securities—available-for-sale                                  | 1,489,153            | 7,784  | 83,446   | (4,135 )                   | (64,574 )  | 158,474   | (304,871 ) | —         | —           | (126,179 )                   |
| Fixed maturity securities—trading Residential mortgage-backed securities            | —                    | —  | —  | —                          | —  | —         | —          | —         | —           | —                            |
|   | —                    | —  | —  | —                          | —  | —         | —          | —         | —           | —                            |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|   |             |           |          |             |              |           |             |       |         |             |
|---|-------------|-----------|----------|-------------|--------------|-----------|-------------|-------|---------|-------------|
| Commercial mortgage-backed securities                         |             |           |          |             |              |           |             |       |         |             |
| Other asset-backed securities                                 | 152,912     | 5,386     | —        | (4,790)     | ) —          | —         | (70,270)    | ) —   | —       | 172         |
| U.S. government-related securities                            | —           | —         | —        | —           | —            | —         | —           | —     | —       | —           |
| States, municipalities and political subdivisions             | —           | —         | —        | —           | —            | —         | —           | —     | —       | —           |
| Other government-related securities                           | —           | —         | —        | —           | —            | —         | —           | —     | —       | —           |
| Corporate securities  | 18,225      | 713       | —        | (442)       | ) —          | 10,906    | (4,071)     | ) —   | —       | (19,722)    |
| Total fixed maturity securities—trading                       | 171,137     | 6,099     | —        | (5,232)     | ) —          | 10,906    | (74,341)    | ) —   | —       | (19,550)    |
| Total fixed maturity securities                               | 1,660,290   | 13,883    | 83,446   | (9,367)     | ) (64,574)   | 169,380   | (379,212)   | ) —   | —       | (145,729)   |
| Equity securities   | 69,763      | —         | —        | (740)       | ) —          | 23        | —           | —     | —       | (36)        |
| Other long-term investments <sup>(1)</sup>                    | 96,830      | 77,108    | —        | (49,613)    | ) —          | —         | —           | —     | —       | —           |
| Short-term investments  | —           | —         | —        | —           | —            | —         | —           | —     | —       | —           |
| Total investments   | 1,826,883   | 90,991    | 83,446   | (59,720)    | ) (64,574)   | 169,403   | (379,212)   | ) —   | —       | (145,765)   |
| Total assets measured at fair value on a recurring basis      | \$1,826,883 | \$90,991  | \$83,446 | \$(59,720)  | ) \$(64,574) | \$169,403 | \$(379,212) | ) \$— | \$—     | \$(145,765) |
| Liabilities:  |             |           |          |             |              |           |             |       |         |             |
| Annuity account balances <sup>(2)</sup>                       | \$92,512    | \$—       | \$—      | \$(3,144)   | ) \$—        | \$—       | \$—         | \$555 | \$9,844 | \$—         |
| Other liabilities <sup>(1)</sup>                              | 585,556     | 499,894   | —        | (486,181)   | ) —          | —         | —           | —     | —       | —           |
| Total liabilities measured at fair value on a recurring basis | \$678,068   | \$499,894 | \$—      | \$(489,325) | ) \$—        | \$—       | \$—         | \$555 | \$9,844 | \$—         |

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the year ended December 31, 2016 (Successor Company), there were \$75.7 million transfers of securities into Level 3.

For the year ended December 31, 2016 (Successor Company), \$221.5 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of December 31, 2016 (Successor Company).

For the year ended December 31, 2016 (Successor Company), there were \$12.2 million transfers from Level 2 to Level 1.

For the year ended December 31, 2016 (Successor Company), there were \$0.1 million transfers from Level 1 into Level 2. In addition, there were transfers of \$169.4 million in other long-term investments and \$120.0 million in other liabilities from Level 1 to Level 2.



Table of Contents

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the consolidated condensed statements of income (loss) or other comprehensive income (loss) within shareowner's equity based on the appropriate accounting treatment for the item.

Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturity securities and issuances and settlements of fixed indexed annuities.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. The asset transfers in the table(s) above primarily related to positions moved from Level 3 to Level 2 as the Company determined that certain inputs were observable.

The amount of total gains (losses) for assets and liabilities still held as of the reporting date primarily represents changes in fair value of trading securities and certain derivatives that exist as of the reporting date and the change in fair value of fixed indexed annuities.

Estimated Fair Value of Financial Instruments

The carrying amounts and estimated fair values of the Company's financial instruments as of the periods shown below are as follows:

|   | Fair Value Level | Successor Company<br>As of December 31,            |             |  |             |
|---|------------------|--|-------------|--|-------------|
|   |                  | 2017<br>Carrying Amounts<br>(Dollars In Thousands) | Fair Values | 2016<br>Carrying Amounts<br>(Dollars In Thousands) | Fair Values |
| Assets:   |                  |  |             |  |             |
| Mortgage loans on real estate                     | 3                | \$6,817,723  | \$6,740,177 | \$6,132,125  | \$5,930,992 |
| Policy loans                                      | 3                | 1,615,615  | 1,615,615   | 1,650,240  | 1,650,240   |
| Fixed maturities, held-to-maturity <sup>(1)</sup> | 3                | 2,718,904  | 2,776,327   | 2,770,177  | 2,733,340   |
| Liabilities:                                      |                  |  |             |  |             |
| Stable value product account balances             | 3                | \$4,698,371  | \$4,698,868 | \$3,501,636  | \$3,488,877 |
| Future policy benefits and claims <sup>(2)</sup>  | 3                | 220,498  | 220,498     | 221,634  | 221,658     |
| Other policyholders' funds <sup>(3)</sup>         | 3                | 133,508  | 134,253     | 135,367  | 136,127     |
| Debt: <sup>(4)</sup>                              |                  |  |             |  |             |
| Bank borrowings                                   | 3                | \$—  | \$—         | \$170,000  | \$170,000   |
| Senior Notes                                      | 2                | 943,370  | 933,926     | 993,285  | 937,074     |
| Subordinated debt securities                      | 2                | 495,289  | 501,215     | 441,202  | 443,355     |
| Non-recourse funding obligations <sup>(5)</sup>   | 3                | 2,747,477  | 2,804,983   | 2,796,474  | 2,765,558   |

Except as noted below, fair values were estimated using quoted market prices.

(1) Securities purchased from unconsolidated subsidiaries, Red Mountain LLC and Steel City LLC.

(2) Single premium immediate annuity without life contingencies.

(3) Supplementary contracts without life contingencies.

(4) Excludes capital lease obligations of \$1.7 million.

(5) As of December 31, 2017 (Successor Company), carrying amount of \$2.7 billion and a fair value of \$2.8 billion related to non-recourse funding obligations issued by Golden Gate and Golden Gate V. As of December 31, 2016 (Successor Company), \$2.7 billion in carrying amount and fair value related to non-recourse funding obligations issued by Golden Gate and Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

The Company estimates the fair value of mortgage loans using an internally developed model. This model includes inputs derived by the Company based on assumed discount rates relative to the Company's current mortgage loan lending rate and an expected cash flow analysis based on a review of the mortgage loan terms. The model also contains the Company's determined representative risk adjustment assumptions related to credit and liquidity risks.

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by the value of the policy. Policy

Table of Contents

loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

Fixed maturities, held-to-maturity

The Company estimates the fair value of its fixed maturity, held-to-maturity securities using internal discounted cash flow models. The discount rates used in the model are based on a current market yield for similar financial instruments.

Stable value product and other investment contract balances

The Company estimates the fair value of stable value product account balances and other investment contract balances (included in Future policy benefits and claims as well as Other policyholder funds line items on our balance sheet) using models based on discounted expected cash flows. The discount rates used in the models are based on a current market rate for similar financial instruments.

Debt

Bank borrowings

The Company believes the carrying value of its bank borrowings approximates fair value as the borrowings pay a floating interest rate plus a spread based on the rating of the Company's senior debt which the Company believes approximates a market interest rate.

Non-recourse funding obligations

The Company estimates the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model are based on a current market yield for similar financial instruments.

7. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, currency exchange risk, volatility risk, and equity market risk. These strategies are developed through the Company's analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into the Company's risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit risk by entering into transactions with highly rated counterparties. The Company manages the market risk by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. The Company monitors its use of derivatives in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

Derivatives Related to Interest Rate Risk Management

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions.

Derivatives Related to Foreign Currency Exchange Risk Management

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

Derivatives Related to Risk Mitigation of Certain Annuity Contracts

The Company may use the following types of derivative contracts to mitigate its exposure to certain guaranteed benefits related to VA contracts and fixed indexed annuities:

Foreign Currency Futures

Variance Swaps

Interest Rate Futures

Equity Options

Equity Futures

Credit Derivatives

Interest Rate Swaps



- Interest Rate Swaptions
- Volatility Futures
- Volatility Options
- Total Return Swaps

144

---

## Table of Contents

### Accounting for Derivative Instruments

The Company records its derivative financial instruments in the consolidated balance sheet in “other long-term investments” and “other liabilities” in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The change in the fair value of derivative financial instruments is reported either in the statement of income or in other comprehensive income (loss), depending upon whether it qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists.

For a derivative financial instrument to be accounted for as an accounting hedge, it must be identified and documented as such on the date of designation. For cash flow hedges, the effective portion of their realized gain or loss is reported as a component of other comprehensive income and reclassified into earnings in the same period during which the hedged item impacts earnings. Any remaining gain or loss, the ineffective portion, is recognized in current earnings. For fair value hedge derivatives, their gain or loss as well as the offsetting loss or gain attributable to the hedged risk of the hedged item is recognized in current earnings. Effectiveness of the Company’s hedge relationships is assessed on a quarterly basis.

The Company reports changes in fair values of derivatives that are not part of a qualifying hedge relationship through earnings in the period of change. Changes in the fair value of derivatives that are recognized in current earnings are reported in “Realized investment gains (losses)-Derivative financial instruments.”

### Derivative Instruments Designated and Qualifying as Hedging Instruments

#### Cash-Flow Hedges

To hedge a fixed rate note denominated in a foreign currency, the Company entered into a fixed-to-fixed foreign currency swap in order to hedge the foreign currency exchange risk associated with the note. The cash flows received on the swap are identical to the cash flow paid on the note.

#### Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

The Company uses various other derivative instruments for risk management purposes that do not qualify for hedge accounting treatment. Changes in the fair value of these derivatives are recognized in earnings during the period of change.

#### Derivatives Related to Variable Annuity Contracts

The Company uses equity futures, equity options, total return swaps, interest rate futures, interest rate swaps, interest rate swaptions, currency futures, volatility futures, volatility options, and variance swaps to mitigate the risk related to certain guaranteed minimum benefits, including GLWB, within its VA products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility.

The Company markets certain VA products with a GLWB rider. The GLWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

#### Derivatives Related to Fixed Annuity Contracts

The Company uses equity futures and options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity and overall volatility.

The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

#### Derivatives Related to Indexed Universal Life Contracts

The Company uses equity futures and options to mitigate the risk within its indexed universal life products. In general, the cost of such benefits varies with the level of equity markets.

The Company markets certain IUL products. The IUL component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

#### Other Derivatives

The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

The Company is involved in various modified coinsurance arrangements which contain embedded derivatives. Changes in their fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves had fair value changes which substantially offset the gains or losses on these embedded derivatives.

145

---

Table of Contents

The following table sets forth realized investment gains and losses for the periods shown:

Realized investment gains (losses)—derivative financial instruments

|  | Successor Company                    |                                      |                                       | Predecessor Company                 |
|--|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|  | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|  | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Derivatives related to VA contracts:             |                                      |                                      |                                       |                                     |
| Interest rate futures - VA                       | \$26,015                             | \$(3,450)                            | \$(14,818)                            | \$1,413                             |
| Equity futures - VA                              | (91,776)                             | (106,431)                            | (5,033)                               | 9,221                               |
| Currency futures - VA                            | (23,176)                             | 33,836                               | 7,169                                 | 7,778                               |
| Equity options - VA                              | (94,791)                             | (60,962)                             | (27,733)                              | 3,047                               |
| Interest rate swaptions - VA                     | (2,490)                              | (1,161)                              | (13,354)                              | 9,268                               |
| Interest rate swaps - VA                         | 27,981                               | 20,420                               | (85,942)                              | 122,710                             |
| Total return swaps - VA                          | (32,240)                             | —                                    | —                                     | —                                   |
| Embedded derivative - GLWB                       | 3,614                                | 68,056                               | 4,412                                 | (207,018)                           |
| Total derivatives related to VA contracts        | (186,863)                            | (49,692)                             | (135,299)                             | (53,581)                            |
| Derivatives related to FIA contracts:            |                                      |                                      |                                       |                                     |
| Embedded derivative - FIA                        | (55,878)                             | (16,494)                             | (738)                                 | 1,769                               |
| Equity futures - FIA                             | 642                                  | 4,248                                | (355)                                 | (184)                               |
| Volatility futures - FIA                         | —                                    | —                                    | 5                                     | —                                   |
| Equity options - FIA                             | 44,585                               | 8,149                                | 1,211                                 | (2,617)                             |
| Total derivatives related to FIA contracts       | (10,651)                             | (4,097)                              | 123                                   | (1,032)                             |
| Derivatives related to IUL contracts:            |                                      |                                      |                                       |                                     |
| Embedded derivative - IUL                        | (14,117)                             | 9,529                                | (614)                                 | (486)                               |
| Equity futures - IUL                             | (818)                                | 129                                  | 144                                   | 3                                   |
| Equity options - IUL                             | 9,580                                | 3,477                                | (540)                                 | (115)                               |
| Total derivatives related to IUL contracts       | (5,355)                              | 13,135                               | (1,010)                               | (598)                               |
| Embedded derivative - Modco reinsurance treaties | (103,009)                            | 390                                  | 166,092                               | (68,026)                            |
| Other derivatives                                | 50                                   | (24)                                 | 91                                    | (37)                                |
| Total realized gains (losses)—derivatives        | \$(305,828)                          | \$(40,288)                           | \$29,997                              | \$(123,274)                         |

Table of Contents

The following tables present the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship:

## Gain (Loss) on Derivatives in Cash Flow Relationship

|  | Amount<br>of<br>Gains<br>(Losses)<br>Deferred<br>in<br>Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss)<br>on<br>Derivatives<br>(Effective<br>Portion) | Amount and<br>Location of<br>Gains (Losses)<br>Reclassified<br>from<br>accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) into<br>Income (Loss)<br>(Effective<br>Portion) | Amount and<br>Location of<br>(Losses)<br>Recognized<br>in<br>Income<br>(Loss) on<br>Derivatives<br>(Ineffective<br>Portion)<br>Realized<br>investment<br>gains<br>(losses) |
|--|---|--|--|
|--|---|--|--|

(Dollars In Thousands)

## Successor Company

For The Year Ended December 31, 2017

|                        |           |           |      |
|------------------------|-----------|-----------|------|
| Foreign currency swaps | \$ (867 ) | \$ (694 ) | \$ — |
| Total                  | \$ (867 ) | \$ (694 ) | \$ — |

## Successor Company

For The Year Ended December 31, 2016

|                        |          |          |      |
|------------------------|----------|----------|------|
| Foreign currency swaps | \$ 1,058 | \$ (60 ) | \$ — |
| Total                  | \$ 1,058 | \$ (60 ) | \$ — |

February 1, 2015 to December 31, 2015

|           |           |           |       |
|-----------|-----------|-----------|-------|
| Inflation | \$ (131 ) | \$ (131 ) | \$ 73 |
| Total     | \$ (131 ) | \$ (131 ) | \$ 73 |

## Predecessor Company

January 1, 2015 to January 31, 2015

|           |       |          |         |
|-----------|-------|----------|---------|
| Inflation | \$ 13 | \$ (36 ) | \$ (7 ) |
| Total     | \$ 13 | \$ (36 ) | \$ (7 ) |

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify \$0.6 million out of accumulated other comprehensive income into earnings during the next twelve months.

Table of Contents

The tables below present information about the nature and accounting treatment of the Company's primary derivative financial instruments and the location in and effect on the consolidated financial statements for the periods presented below:

|  | Successor Company      |             |              |           |
|--|------------------------|-------------|--------------|-----------|
|  | As of December 31,     |             |              |           |
|  | 2017                   |             | 2016         |           |
|  | Notional               | Fair        | Notional     | Fair      |
|  | Amount                 | Value       | Amount       | Value     |
|  | (Dollars In Thousands) |             |              |           |
| Other long-term investments                        |                        |             |              |           |
| Cash flow hedges:                                  |                        |             |              |           |
| Foreign currency swaps                             | \$117,178              | \$6,016     | \$117,178    | \$132     |
| Derivatives not designated as hedging instruments: |                        |             |              |           |
| Interest rate swaps                                | 1,265,000              | 55,411      | 1,135,000    | 71,644    |
| Total return swaps                                 | 190,938                | 135         | —            | —         |
| Embedded derivative - Modco reinsurance treaties   | 64,472                 | 1,009       | 64,123       | 2,573     |
| Embedded derivative - GLWB                         | 4,897,069              | 134,995     | 4,601,633    | 121,752   |
| Interest rate futures                              | 1,071,870              | 3,178       | 102,587      | 894       |
| Equity futures                                     | 62,266                 | 154         | 654,113      | 5,805     |
| Currency futures                                   | 1,117                  | 2           | 340,058      | 7,883     |
| Equity options                                     | 4,436,467              | 403,961     | 3,944,444    | 328,908   |
| Interest rate swaptions                            | 225,000                | 14          | 225,000      | 2,503     |
| Other  | 157                    | 200         | 212          | 149       |
|  | \$12,331,534           | \$605,075   | \$11,184,348 | \$542,243 |
| Other liabilities                                  |                        |             |              |           |
| Derivatives not designated as hedging instruments: |                        |             |              |           |
| Interest rate swaps                                | \$597,500              | \$2,960     | \$575,000    | \$10,208  |
| Total return swaps                                 | 243,388                | 318         | —            | —         |
| Embedded derivative - Modco reinsurance treaties   | 2,390,539              | 215,247     | 2,450,692    | 141,301   |
| Embedded derivative - GLWB                         | 4,718,311              | 246,755     | 5,962,044    | 237,122   |
| Embedded derivative - FIA                          | 1,951,650              | 218,676     | 1,496,346    | 147,368   |
| Embedded derivative - IUL                          | 168,349                | 80,212      | 103,838      | 46,051    |
| Interest rate futures                              | 230,404                | 917         | 993,842      | 6,611     |
| Equity futures                                     | 318,795                | 2,593       | 102,667      | 2,907     |
| Currency futures                                   | 255,248                | 2,087       | —            | —         |
| Equity options                                     | 3,112,812              | 237,807     | 2,590,160    | 157,253   |
|  | \$13,986,996           | \$1,007,572 | \$14,274,589 | \$748,821 |

**8. OFFSETTING OF ASSETS AND LIABILITIES**

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 14, Debt and Other Obligations for details of the Company's repurchase agreement programs.

Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2017 (Successor Company):

|   | Gross<br>Amounts<br>of<br>Recognized<br>Assets      | Gross<br>Amounts<br>Offset<br>in the<br>Statement<br>of<br>Financial<br>Position | Net<br>Amounts<br>of Assets<br>Presented<br>in<br>the<br>Statement<br>of<br>Financial<br>Position         | Gross Amounts<br>Not Offset<br>in the Statement of<br>Financial Position | Financial<br>Instrument | Collateral<br>Received | Net<br>Amount |
|---|---|--|---|--|-------------------------|------------------------|---------------|
| (Dollars In Thousands)  |   |  |   |  |                         |                        |               |
| Offsetting of Derivative Assets   |   |  |   |  |                         |                        |               |
| Derivatives:  |   |  |   |  |                         |                        |               |
| Free-Standing derivatives   | \$468,871   | \$   | —\$468,871  | \$242,105  | \$108,830               |                        | \$117,936     |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 468,871   | —  | 468,871   | 242,105  | 108,830                 |                        | 117,936       |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |  |   |  |                         |                        |               |
| Embedded derivative - Modco reinsurance treaties                                      | 1,009   | —  | 1,009   | —  | —                       |                        | 1,009         |
| Embedded derivative - GLWB  | 134,995   | —  | 134,995   | —  | —                       |                        | 134,995       |
| Other   | 200   | —  | 200   | —  | —                       |                        | 200           |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 136,204   | —  | 136,204   | —  | —                       |                        | 136,204       |
| Total derivatives   | 605,075   | —  | 605,075   | 242,105  | 108,830                 |                        | 254,140       |
| Total Assets  | \$605,075   | \$   | —\$605,075  | \$242,105  | \$108,830               |                        | \$254,140     |
|   | Gross<br>Amounts<br>of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset<br>in the<br>Statement<br>of<br>Financial<br>Position | Net<br>Amounts<br>of<br>Liabilities<br>Presented<br>in<br>the<br>Statement<br>of<br>Financial<br>Position | Gross Amounts<br>Not Offset<br>in the Statement of<br>Financial Position | Financial<br>Instrument | Collateral<br>Posted   | Net<br>Amount |
| (Dollars In Thousands)  |   |  |   |  |                         |                        |               |
| Offsetting of Derivative Liabilities  |   |  |   |  |                         |                        |               |
| Derivatives:  |   |  |   |  |                         |                        |               |
| Free-Standing derivatives   | \$246,682   | \$   | —\$246,682  | \$242,105  | \$4,577                 |                        | \$—           |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 246,682   | —  | 246,682   | 242,105  | 4,577                   |                        | —             |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |  |   |  |                         |                        |               |
| Embedded derivative - Modco reinsurance treaties                                      | 215,247   | —  | 215,247   | —  | —                       |                        | 215,247       |
| Embedded derivative - GLWB  | 246,755   | —  | 246,755   | —  | —                       |                        | 246,755       |
| Embedded derivative - FIA   | 218,676   | —  | 218,676   | —  | —                       |                        | 218,676       |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|   |             |    |              |           |          |             |
|---|-------------|----|--------------|-----------|----------|-------------|
| Embedded derivative - IUL   | 80,212      | —  | 80,212       | —         | —        | 80,212      |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 760,890     | —  | 760,890      | —         | —        | 760,890     |
| Total derivatives   | 1,007,572   | —  | 1,007,572    | 242,105   | 4,577    | 760,890     |
| Repurchase agreements <sup>(1)</sup>  | 885,000     | —  | 885,000      | —         | —        | 885,000     |
| Total Liabilities   | \$1,892,572 | \$ | —\$1,892,572 | \$242,105 | \$ 4,577 | \$1,645,890 |

(1) Borrowings under repurchase agreements are for a term less than 90 days.



Table of Contents

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2016 (Successor Company):

|   | Gross<br>Amounts<br>of<br>Recognized<br>Assets      | Gross<br>Amounts<br>Offset<br>in the<br>Statement<br>of<br>Financial<br>Position | Net<br>Amounts<br>of Assets<br>Presented<br>in<br>the<br>Statement<br>of<br>Financial<br>Position         | Gross Amounts<br>Not Offset<br>in the Statement of<br>Financial Position | Collateral<br>Received | Net<br>Amount |
|---|---|--|---|--|------------------------|---------------|
| (Dollars In Thousands)  |   |  |   |  |                        |               |
| Offsetting of Derivative Assets   |   |  |   |  |                        |               |
| Derivatives:  |   |  |   |  |                        |               |
| Free-Standing derivatives   | \$417,769   | \$ —   | —\$417,769  | \$171,384  | \$100,890              | \$145,495     |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 417,769   | —  | 417,769   | 171,384  | 100,890                | 145,495       |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |  |   |  |                        |               |
| Embedded derivative - Modco reinsurance treaties                                      | 2,573   | —  | 2,573   | —  | —                      | 2,573         |
| Embedded derivative - GLWB  | 121,752   | —  | 121,752   | —  | —                      | 121,752       |
| Other   | 149   | —  | 149   | —  | —                      | 149           |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 124,474   | —  | 124,474   | —  | —                      | 124,474       |
| Total derivatives   | 542,243   | —  | 542,243   | 171,384  | 100,890                | 269,969       |
| Total Assets  | \$542,243   | \$ —   | —\$542,243  | \$171,384  | \$100,890              | \$269,969     |
|   | Gross<br>Amounts<br>of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset<br>in the<br>Statement<br>of<br>Financial<br>Position | Net<br>Amounts<br>of<br>Liabilities<br>Presented<br>in<br>the<br>Statement<br>of<br>Financial<br>Position | Gross Amounts<br>Not Offset<br>in the Statement of<br>Financial Position | Collateral<br>Posted   | Net<br>Amount |
| (Dollars In Thousands)  |   |  |   |  |                        |               |
| Offsetting of Derivative Liabilities  |   |  |   |  |                        |               |
| Derivatives:  |   |  |   |  |                        |               |
| Free-Standing derivatives   | \$176,979   | \$ —   | —\$176,979  | \$171,384  | \$5,595                | \$—           |
| Total derivatives, subject to a master netting arrangement or similar arrangement     | 176,979   | —  | 176,979   | 171,384  | 5,595                  | —             |
| Derivatives not subject to a master netting arrangement or similar arrangement        |   |  |   |  |                        |               |
| Embedded derivative - Modco reinsurance treaties                                      | 141,301   | —  | 141,301   | —  | —                      | 141,301       |
| Embedded derivative - GLWB  | 237,122   | —  | 237,122   | —  | —                      | 237,122       |
| Embedded derivative - FIA   | 147,368   | —  | 147,368   | —  | —                      | 147,368       |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|   |             |    |              |           |          |             |
|---|-------------|----|--------------|-----------|----------|-------------|
| Embedded derivative - IUL   | 46,051      | —  | 46,051       | —         | —        | 46,051      |
| Total derivatives, not subject to a master netting arrangement or similar arrangement | 571,842     | —  | 571,842      | —         | —        | 571,842     |
| Total derivatives   | 748,821     | —  | 748,821      | 171,384   | 5,595    | 571,842     |
| Repurchase agreements <sup>(1)</sup>  | 797,721     | —  | 797,721      | —         | —        | 797,721     |
| Total Liabilities   | \$1,546,542 | \$ | —\$1,546,542 | \$171,384 | \$ 5,595 | \$1,369,563 |

(1) Borrowings under repurchase agreements are for a term less than 90 days.

## 9. MORTGAGE LOANS

### Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of December 31, 2017 (Successor Company), the Company's mortgage loan holdings were approximately \$6.8 billion. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, senior living facilities, and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view,

Table of Contents

on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

The Company's commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

As of February 1, 2015, all mortgage loans were measured at fair value. Each mortgage loan was individually analyzed to determine the fair value. Each loan was either analyzed and assigned a discount rate or given an impairment, based on whether facts and circumstances which, as of the acquisition date, indicated less than full projected collections of contractual principal and interest payments. Various market factors were considered in determining the net present value of the expected cash flow stream or underlying real estate collateral, including the characteristics of the borrower, the underlying collateral, underlying credit worthiness of the tenants, and tenant payment history. Known events and risks, such as refinancing risks, were also considered in the fair value determination. In certain cases, fair value was based on the NPV of the expected cash flow stream or the underlying value of the real estate collateral.

The following table includes a breakdown of the Company's commercial mortgage loan portfolio by property type as of December 31, 2017 (Successor Company):

| Type             | Percentage<br>of<br>Mortgage<br>Loans<br>on Real<br>Estate |
|------------------|--|
| Retail           | 52.1 %   |
| Office Buildings | 10.9   |
| Apartments       | 8.8  |
| Warehouses       | 10.4   |
| Senior housing   | 13.7   |
| Other            | 4.1  |
|                  | 100.0 %  |

The Company specializes in originating mortgage loans on either credit-oriented or credit-anchored commercial properties. No single tenant's exposure represents more than 1.5% of mortgage loans. Approximately 64.4% of the mortgage loans are on properties located in the following states:

| State   | Percentage<br>of<br>Mortgage<br>Loans<br>on Real<br>Estate |
|---------|--|
| Alabama | 9.6 %  |
| Florida | 9.4  |
| Texas   | 8.4  |
| Georgia | 7.9  |

|                |        |
|----------------|--------|
| Ohio           | 5.5    |
| Tennessee      | 5.3    |
| California     | 5.2    |
| South Carolina | 3.3    |
| North Carolina | 4.9    |
| Utah           | 4.9    |
|                | 64.4 % |

During the year ended December 31, 2017 (Successor Company), the Company funded approximately \$1.6 billion of new loans, with an average loan size of \$8.8 million. The average size mortgage loan in the portfolio as of December 31, 2017 (Successor Company), was \$4.0 million and the weighted-average interest rate was 4.8%. The largest single mortgage loan at December 31, 2017 (Successor Company) was \$61.1 million.

Certain of the mortgage loans have call options that occur within the next 11 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options on our existing mortgage loans commensurate with the

Table of Contents

significantly increased market rates. Assuming the loans are called at their next call dates, approximately \$161.2 million would become due in 2018, \$858.6 million in 2019 through 2023, \$105.8 million in 2024 through 2028, and \$2.0 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), approximately \$669.3 million and \$595.2 million, respectively, of the Company's mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income when received. During the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015, (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company recognized \$37.2 million, \$16.7 million, \$29.8 million, and \$0.1 million of participating mortgage loan income, respectively.

As of December 31, 2017 (Successor Company), approximately \$6.5 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2017 (Successor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. During the year ended December 31, 2017 (Successor Company), the Company recognized two troubled debt restructuring transactions as a result of the Company granting a concession to a borrower which included loans terms unavailable from other lenders. These concessions were the result of agreements between the creditor and the debtor. The Company did not identify any loans whose principal was permanently impaired during the year ended December 31, 2017 (Successor Company).

As of December 31, 2016 (Successor Company), approximately \$1.5 million of invested assets consisted of nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the year ended December 31, 2016 (Successor Company), certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. During the year ended December 31, 2016 (Successor Company), the Company recognized a troubled debt restructuring as a result of the Company granting a concession to a borrower which included loans terms unavailable from other lenders and reduced the expected cash flows on the loan. This concession was the result of agreements between the creditor and the debtor. The Company did not identify any loans whose principal was permanently impaired during the year ended December 31, 2016 (Successor Company).

As of December 31, 2015 (Successor Company), approximately \$4.7 million of invested assets consisted of non performing, restructured, or mortgage loans that were foreclosed and were converted to real estate properties since February 1, 2015 (Successor Company). The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the period February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company entered into certain mortgage loan transactions that were accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in the Company's investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included either the acceptance of assets in satisfaction of principal during the respective periods or at a future date and were the result of agreements between the creditor and the debtor. During the period of February 1, 2015 to December 31, 2015 (Successor Company), the Company accepted or agreed to accept assets of \$15.8 million in satisfaction of \$21.1 million of principal and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company accepted or agreed to accept assets of \$11.3 million in satisfaction of \$13.8 million of principal. Of the amounts accepted or agreed to accept in

satisfaction of principal during the period of February 1, 2015 to December 31, 2015 (Successor Company), \$3.7 million related to foreclosures. These transactions resulted in no material realized losses in the Company's investment in mortgage loans net of existing discounts for mortgage loan losses for the period of February 1, 2015 to December 31, 2015 (Successor Company).

The Company's mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of December 31, 2017 (Successor Company), \$6.5 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming, restructured, or mortgage loans that were foreclosed and were converted to real estate. None of the restructured loans were nonperforming during the year ended December 31, 2017 (Successor Company). The Company foreclosed on \$6.1 million nonperforming loans during the year ended December 31, 2017 (Successor Company).

As of December 31, 2017 (Successor Company), none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. The Company did not foreclose on any nonperforming loans subject to a pooling and servicing agreement during the year ended December 31, 2017 (Successor Company).

As of December 31, 2017 (Successor Company), there were no allowances for mortgage loan credit losses and as of December 31, 2016 (Successor Company), there was a \$0.7 million allowance for mortgage loan credit losses. Due to the Company's loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and

Table of Contents

insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the current estimated fair value of the loan's underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

A charge off is recorded by eliminating the allowance against the mortgage loan and recording the renegotiated loan or the collateral property related to the loan as investment real estate on the balance sheet, which is carried at the lower of the appraised fair value of the property or the unpaid principal balance of the loan, less estimated selling costs associated with the property:

|                   |                           |          |
|-------------------|---------------------------|----------|
|                   | Successor<br>Company      |          |
|                   | As of                     | As of    |
|                   | December                  | December |
|                   | 2017                      | 31, 2016 |
|                   | (Dollars In<br>Thousands) |          |
| Beginning balance | \$724                     | \$ —     |
| Charge offs       | (6,708)                   | (4,682 ) |
| Recoveries        | (731 )                    | —        |
| Provision         | 6,715                     | 5,406    |
| Ending balance    | \$—                       | \$ 724   |

It is the Company's policy to cease accruing interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company's general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart:

|  | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | Greater<br>than 90<br>Days<br>Delinquent | Total<br>Delinquent |
|--|-------------------------------|-------------------------------|--|---------------------|
| (Dollars In Thousands)                         |                               |                               |  |                     |
| Successor Company                              |                               |                               |  |                     |
| As of December 31, 2017                        |                               |                               |  |                     |
| Commercial mortgage loans                      | \$1,817                       | \$ —                          | —\$                                      | —\$ 1,817           |
| Number of delinquent commercial mortgage loans | 2                             | —                             | —  | 2                   |
| As of December 31, 2016                        |                               |                               |  |                     |
| Commercial mortgage loans                      | \$3,669                       | \$ —                          | —\$                                      | —\$ 3,669           |
| Number of delinquent commercial mortgage loans | 4                             | —                             | —  | 4                   |

Table of Contents

The Company's commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart:

|  | Unpaid<br>Recorded<br>Principal<br>Investment<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash<br>Basis<br>Interest<br>Income |
|--|--|----------------------|-----------------------------------|----------------------------------|-------------------------------------|
|--|--|----------------------|-----------------------------------|----------------------------------|-------------------------------------|

(Dollars In Thousands)

## Successor Company

As of December 31, 2017

Commercial mortgage loans:

|                                    |     |     |     |     |     |   |
|------------------------------------|-----|-----|-----|-----|-----|---|
| With no related allowance recorded | \$— | —\$ | —\$ | —\$ | —\$ | — |
|------------------------------------|-----|-----|-----|-----|-----|---|

|                            |   |   |   |   |   |   |
|----------------------------|---|---|---|---|---|---|
| With an allowance recorded | — | — | — | — | — | — |
|----------------------------|---|---|---|---|---|---|

As of December 31, 2016

Commercial mortgage loans:

|                                    |     |     |     |     |     |   |
|------------------------------------|-----|-----|-----|-----|-----|---|
| With no related allowance recorded | \$— | —\$ | —\$ | —\$ | —\$ | — |
|------------------------------------|-----|-----|-----|-----|-----|---|

|                            |       |     |       |    |    |  |
|----------------------------|-------|-----|-------|----|----|--|
| With an allowance recorded | 1,819 | 724 | 1,819 | 96 | 96 |  |
|----------------------------|-------|-----|-------|----|----|--|

As of December 31, 2016 (Successor Company), the Company did not carry any mortgage loans that have been modified in a troubled debt restructuring. Mortgage loans that were modified in a troubled debt restructuring as of December 31, 2017 (Successor Company) were as follows:

|  | Pre-Modification<br>Number of<br>Contracts<br>Recorded<br>Investment | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
|--|--|--|
|--|--|--|

(Dollars In Thousands)

## Successor Company

As of December 31, 2017

Troubled debt restructuring:

|                             |        |        |
|-----------------------------|--------|--------|
| Commercial mortgage loans 1 | \$ 418 | \$ 418 |
|-----------------------------|--------|--------|



Table of Contents

## 10. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

## Deferred Policy Acquisition Costs

The balances and changes in DAC are as follows:

|  | Successor Company      |              |
|--|------------------------|--------------|
|  | As of                  | As of        |
|  | December 31,           | December 31, |
|  | 2017                   | 2016         |
|  | (Dollars In Thousands) |              |
| Balance, beginning of period                             | \$572,328              | \$288,611    |
| Capitalization of commissions, sales, and issue expenses | 333,250                | 327,938      |
| Amortization   | (52,559 )              | (48,286 )    |
| Change due to unrealized investment gains and losses     | (15,234 )              | 4,065        |
| Balance, end of period                                   | \$837,785              | \$572,328    |

## Value of Business Acquired

The balances and changes in VOBA are as follows:

|  | Successor Company      |              |
|--|------------------------|--------------|
|  | As of                  | As of        |
|  | December 31,           | December 31, |
|  | 2017                   | 2016         |
|  | (Dollars In Thousands) |              |
| Balance, beginning of period                         | \$1,447,501            | \$1,270,197  |
| Acquisitions   | —                      | 285,092      |
| Amortization   | (25,662 )              | (100,778 )   |
| Change due to unrealized investment gains and losses | (60,047 )              | (7,010 )     |
| Balance, end of period                               | \$1,361,792            | \$1,447,501  |

Based on the balance recorded as of December 31, 2017 (Successor Company), the expected amortization of VOBA for the next five years is as follows:

| Years | Expected Amortization<br>(Dollars In Thousands) |
|-------|---|
| 2018  | \$ 122,802                                      |
| 2019  | 118,196   |
| 2020  | 103,120   |
| 2021  | 90,544  |
| 2022  | 83,333  |

## 11. GOODWILL

During the fourth quarter of 2017, the Company performed its annual qualitative evaluation of goodwill based on the circumstances that existed as of October 1, 2017 (Successor Company) and determined that there was no indication that its segment goodwill was more likely than not impaired, thus no quantitative assessment was performed and no adjustment to impair goodwill was necessary. The Company has assessed whether events have occurred subsequent to October 1, 2017 that would impact the Company's conclusion and no such events were identified. As part of the Company's ongoing assessment of goodwill recoverability, the impact of The Tax Reform Act and the impact that the lower corporate tax rate would have on the carrying value of the reporting units and their associated fair values was assessed in response to potential considerations as outlined under ASC 350-20-35-3C. After consideration of applicable factors and circumstances noted as part of a qualitative assessment, the Company determined that it was more likely than not that the increase in the fair value of the reporting unit would exceed the increase in the carrying value of the reporting units and thus did not consider this to be a triggering event that would require a quantitative

assessment of impairment.

155

---

Table of Contents

As of December 31, 2016 (Successor Company), the Company increased its goodwill balance by approximately \$61.0 million in the Asset Protection segment, which was attributed to the US Warranty acquisition. Refer to Note 3, Significant Transactions. The balance of goodwill for the Company as of December 31, 2017 (Successor Company) was \$793.5 million.

**12. CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS**

The Company issues variable universal life and VA products through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder. The Company also offers, for our VA products, certain GMDB. The most significant of these guarantees involve 1) return of the highest anniversary date account value, or 2) return of the greater of the highest anniversary date account value or the last anniversary date account value compounded at 5% interest or 3) return of premium. The GLWB rider provides the contract holder with protection against certain adverse market impacts on the amount they can withdraw and is classified as an embedded derivative and is carried at fair value on the Company's balance sheet. The VA separate account balances subject to GLWB were \$9.7 billion as of December 31, 2017 (Successor Company). For more information regarding the valuation of and income impact of GLWB, please refer to Note 2, Summary of Significant Accounting Policies, Note 6, Fair Value of Financial Instruments, and Note 7, Derivative Financial Instruments.

The GMDB reserve is calculated by applying a benefit ratio, equal to the present value of total expected GMDB claims divided by the present value of total expected contract assessments, to cumulative contract assessments. This amount is then adjusted by the amount of cumulative GMDB claims paid and accrued interest. Assumptions used in the calculation of the GMDB reserve were as follows: mean investment performance of 7.01%, age-based mortality from the Ruark 2015 ALB table adjusted for company and industry experience, lapse rates determined by a dynamic formula, and an average discount rate of 4.9%. Changes in the GMDB reserve are included in benefits and settlement expenses in the accompanying consolidated statements of income.

The VA separate account balances subject to GMDB were \$13.1 billion as of December 31, 2017 (Successor Company). The total GMDB amount payable based on VA account balances as of December 31, 2017 (Successor Company), was \$90.5 million (including \$72.8 million in the Annuities segment and \$17.7 million in the Acquisitions segment) with a GMDB reserve of \$30.9 million and \$3.1 million in the Annuities and Acquisitions segment, respectively. The average attained age of contract holders as of December 31, 2017 (Successor Company) for the Company was 73 years.

These amounts exclude certain VA business which has been 100% reinsured to Commonwealth Annuity and Life Insurance Company (formerly known as Allmerica Financial Life Insurance and Annuity Company) ("CALIC"), under a Modco agreement. The guaranteed amount payable associated with the annuities reinsured to CALIC was \$8.4 million and is included in the Acquisitions segment. The average attained age of contract holders as of December 31, 2017, was 67 years.

Activity relating to GMDB reserves (excluding those 100% reinsured under the Modco agreement) is as follows:

|                               | Successor Company                |                                      |                                       | Predecessor Company                 |
|-------------------------------|----------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                               | For The Year Ended December 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                               | (Dollars In Thousands)           |                                      |                                       | (Dollars In Thousands)              |
| Beginning balance             | \$34,796                         | \$ 36,427                            | \$ 29,010                             | \$ 26,251                           |
| Incurred guarantee benefits   | 849                              | 678                                  | 10,175                                | 3,073                               |
| Less: Paid guarantee benefits | 1,615                            | 2,309                                | 2,758                                 | 449                                 |
| Ending balance                | \$34,030                         | \$ 34,796                            | \$ 36,427                             | \$ 28,875                           |

Account balances of variable annuities with guarantees invested in VA separate accounts are as follows:

Successor Company

As of December 31,

2017            2016

(Dollars In Thousands)

|                           |              |              |
|---------------------------|--------------|--------------|
| Equity mutual funds       | \$8,798,847  | \$8,071,204  |
| Fixed income mutual funds | 5,005,663    | 5,085,864    |
| Total                     | \$13,804,510 | \$13,157,068 |

Certain of the Company's fixed annuities and universal life products have a sales inducement in the form of a retroactive interest credit ("RIC"). In addition, certain annuity contracts provide a sales inducement in the form of a bonus interest credit. The Company maintains a reserve for all interest credits earned to date. The Company defers the expense associated with the RIC and bonus interest credits each period and amortizes these costs in a manner similar to that used for DAC.

Table of Contents

Activity in the Company's deferred sales inducement asset was as follows:

|                                     | Successor Company                    |                                      |                                       | Predecessor Company                 |
|-------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                                     | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                                     | (Dollars In Thousands)               |                                      |                                       | (Dollars In Thousands)              |
| Deferred asset, beginning of period | \$22,497                             | \$ 11,756                            | \$—                                   | \$ 155,150                          |
| Amounts deferred                    | 14,246                               | 16,212                               | 14,557                                | 82                                  |
| Amortization                        | (5,787 )                             | (5,471 )                             | (2,801 )                              | (1,139 )                            |
| Deferred asset, end of period       | \$30,956                             | \$ 22,497                            | \$ 11,756                             | \$ 154,093                          |

**13. REINSURANCE**

The Company reinsures certain of its risks with (cedes), and assumes risks from, other insurers under yearly renewable term, coinsurance, and modified coinsurance agreements. Under yearly renewable term agreements, the Company reinsures only the mortality risk, while under coinsurance the Company reinsures a proportionate share of all risks arising under the reinsured policy. Under coinsurance, the reinsurer receives a proportionate share of the premiums less commissions and is liable for a corresponding share of all benefit payments. Modified coinsurance is accounted for in a manner similar to coinsurance except that the liability for future policy benefits is held by the ceding company, and settlements are made on a net basis between the companies.

Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to us under the terms of the reinsurance agreements. The Company monitors the concentration of credit risk the Company has with any reinsurer, as well as the financial condition of its reinsurers. As of December 31, 2017 (Successor Company), the Company had reinsured approximately 38% of the face value of its life insurance in-force. The Company has reinsured approximately 16% of the face value of its life insurance in-force with the following three reinsurers:

• Security Life of Denver Insurance Co. (currently administered by Hannover Re)

• Swiss Re Life & Health America Inc.

• The Lincoln National Life Insurance Co. (currently administered by Swiss Re Life & Health America Inc.)

The Company has not experienced any credit losses for the years ended December 31, 2017 (Successor Company), December 31, 2016 (Successor Company), or December 31, 2015 (Successor Company) related to these reinsurers.

The Company has set limits on the amount of insurance retained on the life of any one person. The amount of insurance retained by the Company on any one life on traditional life insurance was \$500,000 in years prior to mid-2005. In 2005, this retention amount was increased to \$1,000,000 for certain policies, and during 2008 it was increased to \$2,000,000 for certain policies. During 2016, the retention amount was increased to \$5,000,000.

Reinsurance premiums, commissions, expense reimbursements, benefits, and reserves related to reinsured long-duration contracts are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. The cost of reinsurance related to short-duration contracts is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers, for both short-and long-duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with reinsured policies.

The following table presents the net life insurance in-force:

|                                | Successor Company       |           |
|--------------------------------|-------------------------|-----------|
|                                | As of December 31, 2017 | 2016      |
|                                | (Dollars In Millions)   |           |
| Direct life insurance in-force | \$751,512               | \$739,249 |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                                      |            |            |
|--------------------------------------|------------|------------|
| Amounts assumed from other companies | 110,205    | 116,265    |
| Amounts ceded to other companies     | (328,377 ) | (348,995 ) |
| Net life insurance in-force          | \$533,340  | \$506,519  |
| Percentage of amount assumed to net  | 21         | % 23 %     |

157

---

Table of Contents

The following table reflects the effect of reinsurance on life, accident/health, and property and liability insurance premiums written and earned:

|                                       | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies | Net<br>Amount               |
|---------------------------------------|-----------------|--------------------------------|---------------------------------------|-----------------------------|
| (Dollars In Thousands)                |                 |                                |                                       |                             |
| Successor Company                     |                 |                                |                                       |                             |
| For The Year Ended                    |                 |                                |                                       |                             |
| December 31, 2017:                    |                 |                                |                                       |                             |
| Premiums and policy fees:             |                 |                                |                                       |                             |
| Life insurance                        | \$2,655,846     | \$(1,151,175)                  | \$ 435,113                            | \$ 1,939,784 <sup>(1)</sup> |
| Accident/health insurance             | 51,991          | (33,051 )                      | 14,945                                | 33,885                      |
| Property and liability insurance      | 309,848         | (176,509 )                     | 9,676                                 | 143,015                     |
| Total                                 | \$3,017,685     | \$(1,360,735)                  | \$ 459,734                            | \$ 2,116,684                |
| December 31, 2016:                    |                 |                                |                                       |                             |
| Premiums and policy fees:             |                 |                                |                                       |                             |
| Life insurance                        | \$2,610,682     | \$(1,126,915)                  | \$ 454,999                            | \$ 1,938,766 <sup>(1)</sup> |
| Accident/health insurance             | 58,076          | (36,935 )                      | 17,439                                | 38,580                      |
| Property and liability insurance      | 261,009         | (150,866 )                     | 5,726                                 | 115,869                     |
| Total                                 | \$2,929,767     | \$(1,314,716)                  | \$ 478,164                            | \$ 2,093,215                |
| February 1, 2015 to December 31, 2015 |                 |                                |                                       |                             |
| Premiums and policy fees:             |                 |                                |                                       |                             |
| Life insurance                        | \$2,360,643     | \$(983,143 )                   | \$ 308,280                            | \$ 1,685,780 <sup>(1)</sup> |
| Accident/health insurance             | 70,243          | (36,871 )                      | 18,252                                | 51,624                      |
| Property and liability insurance      | 243,728         | (134,964 )                     | 6,904                                 | 115,668                     |
| Total                                 | \$2,674,614     | \$(1,154,978)                  | \$ 333,436                            | \$ 1,853,072                |

|                                      | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies | Net<br>Amount             |
|--------------------------------------|-----------------|--------------------------------|---------------------------------------|---------------------------|
| (Dollars In Thousands)               |                 |                                |                                       |                           |
| Predecessor Company                  |                 |                                |                                       |                           |
| January 1, 2015 to January 31, 2015: |                 |                                |                                       |                           |
| Premiums and policy fees:            |                 |                                |                                       |                           |
| Life insurance                       | \$204,185       | \$(74,539 )                    | \$ 28,601                             | \$ 158,247 <sup>(1)</sup> |
| Accident/health insurance            | 6,846           | (4,621 )                       | 1,809                                 | 4,034                     |
| Property and liability insurance     | 19,759          | (10,796 )                      | 666                                   | 9,629                     |
| Total                                | \$230,790       | \$(89,956 )                    | \$ 31,076                             | \$ 171,910                |

Includes annuity policy fees of \$173.5 million, \$160.4 million, \$152.8 million, and \$13.9 million for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), for the periods of February 1, 2015 to December 31, 2015 (Successor Company) and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), policy and claim reserves relating to insurance ceded of \$5.1 billion and \$5.3 billion, respectively, are included in reinsurance receivables. Should any of the reinsurers be unable to meet its obligation at the time of the claim, the Company would be obligated to pay such claims. As of December 31, 2017 (Successor Company) and December 31, 2016

(Predecessor Company), the Company had paid \$96.6 million and \$87.9 million, respectively, of ceded benefits which are recoverable from reinsurers. In addition, as of December 31, 2017 (Successor Company) and December 31, 2016 (Predecessor Company), the Company had receivables of \$65.1 million and \$64.5 million, respectively, related to insurance assumed.



Table of Contents

The Company's third party reinsurance receivables amounted to \$5.1 billion and \$5.3 billion as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively. These amounts include ceded reserve balances and ceded benefit payments. The ceded benefit payments are recoverable from reinsurers. The following table sets forth the receivables attributable to our more significant reinsurance partners:

|   | Successor Company     |             | Successor Company  |             |
|---|-----------------------|-------------|--------------------|-------------|
|   | As of December 31,    |             | As of December 31, |             |
|   | 2017                  | 2016        | 2017               | 2016        |
|   | Reinsurance           | Reinsurance | Reinsurance        | Reinsurance |
|   | Receivable            | Receivable  | Receivable         | Receivable  |
|   | Rating                | Rating      | Rating             | Rating      |
|   | (Dollars In Millions) |             |                    |             |
| Security Life of Denver Insurance Company | \$740.8               | A           | \$762.2            | A           |
| Swiss Re Life & Health America, Inc.      | 614.8                 | A+          | 682.6              | A+          |
| Lincoln National Life Insurance Co.       | 489.1                 | A+          | 530.9              | A+          |
| Transamerica Life Insurance Co.           | 335.6                 | A+          | 367.8              | A+          |
| SCOR Global Life <sup>(1)</sup>           | 331.8                 | A+          | 354.8              | A           |
| RGA Reinsurance Company                   | 278.3                 | A+          | 269.0              | A+          |
| American United Life Insurance Company    | 266.7                 | A+          | 285.6              | A+          |
| Scottish Re (U.S.) Inc.                   | 249.5                 | NR          | 232.8              | NR          |
| Centre Reinsurance (Bermuda) Ltd          | 212.2                 | NR          | 243.6              | NR          |
| Employers Reassurance Corporation         | 193.9                 | A-          | 201.7              | A-          |

<sup>(1)</sup> Includes SCOR Global Life Americas Reinsurance Company, SCOR Global Life USA Reinsurance Co, and SCOR Global Life Reinsurance Co of Delaware

The Company's reinsurance contracts typically do not have a fixed term. In general, the reinsurers' ability to terminate coverage for existing cessions is limited to such circumstances as material breach of contract or non-payment of premiums by the ceding company. The reinsurance contracts generally contain provisions intended to provide the ceding company with the ability to cede future business on a basis consistent with historical terms. However, either party may terminate any of the contracts with respect to future business upon appropriate notice to the other party. Generally, the reinsurance contracts do not limit the overall amount of the loss that can be incurred by the reinsurer. The amount of liabilities ceded under contracts that provide for the payment of experience refunds is immaterial.

Table of Contents

## 14. DEBT AND OTHER OBLIGATIONS

## Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

|   | Successor Company<br>As of December 31, |                     |                          |                     |
|---|---|---------------------|--------------------------|---------------------|
|   | 2017                                    |                     | 2016                     |                     |
|   | Outstanding<br>Principal                | Carrying<br>Amounts | Outstanding<br>Principal | Carrying<br>Amounts |
|   | (Dollars In Thousands)                  |                     |                          |                     |
| Debt (year of issue):   |   |                     |                          |                     |
| Credit Facility   | \$—                                     | \$—                 | \$170,000                | \$170,000           |
| Capital lease obligation                                      | 1,682                                   | 1,682               | —                        | —                   |
| 6.40% Senior Notes (2007), due 2018                           | 150,000                                 | 150,518             | 150,000                  | 156,663             |
| 7.375% Senior Notes (2009), due 2019                          | 400,000                                 | 435,806             | 400,000                  | 454,688             |
| 8.45% Senior Notes (2009), due 2039                           | 232,928                                 | 357,046             | 246,926                  | 381,934             |
|   | \$784,610                               | \$945,052           | \$966,926                | \$1,163,285         |
| Subordinated debt securities (year of issue):                 |   |                     |                          |                     |
| 6.25% Subordinated Debentures (2012), due 2042, callable 2017 | \$—                                     | \$—                 | \$287,500                | \$290,002           |
| 6.00% Subordinated Debentures (2012), due 2042, callable 2017 | —                                       | —                   | 150,000                  | 151,200             |
| 5.35% Subordinated Debentures (2017), due 2052                | 500,000                                 | 495,289             | —                        | —                   |
|   | \$500,000                               | \$495,289           | \$437,500                | \$441,202           |

The Company's future maturities of debt, excluding notes payable to banks and subordinated debt securities, are \$150.5 million in 2018, \$435.8 million in 2019, and \$357.0 million thereafter.

During the year ended December 31, 2017 (Successor Company), the Company repurchased and subsequently extinguished \$21.6 million (par value - \$14.0 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a \$2.0 million pre-tax gain for the Company. The gain is recorded in other income in the consolidated statements of income.

During 2017, the Company issued \$500.0 million of its Subordinated Debentures due 2052. These Subordinated Debentures are carried on the Company's balance sheet net of the associated deferred issuance expenses of \$4.8 million. The Company used the net proceeds from the offering to call and redeem, at par, the entire \$150.0 million of 6.00% Subordinated Debentures due 2042 and \$287.5 million of 6.25% Subordinated Debentures due 2042.

During the year ended December 31, 2016 (Successor Company), the Company repurchased and subsequently extinguished \$82.7 million (par value - \$53.1 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a \$9.8 million pre-tax gain for the Company. The gain is recorded in other income in the consolidated statements of income.

The Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion under a Credit Facility. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company's Senior Debt. The Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The annual facility fee rate is 0.125% of the aggregate principal amount. The Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date of the Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of December 31, 2017 (Successor Company). The Company did not have an outstanding balance on the Credit Facility

as of December 31, 2017 (Successor Company).

160

---

Table of Contents

The following is a summary of the Company's estimated debt covenant calculations as of December 31, 2017 (Successor Company):

|                               | Requirement                  | Actual Results           |
|-------------------------------|------------------------------|--------------------------|
| Consolidated net worth margin | greater than or equal to \$0 | greater than \$1 billion |
| Debt to total capital ratio   | less than 40%                | less than 22%            |

On August 10, 2017, the Company called for redemption \$287.5 million of its 6.25% Subordinated Debentures due in 2042 and \$150.0 million of its 6.00% Subordinated Debentures due in 2042.

#### Non-Recourse Funding Obligations

##### Golden Gate Captive Insurance Company

On January 15, 2016, Golden Gate Captive Insurance Company (“Golden Gate”), a Vermont special purpose financial insurance company and a wholly owned subsidiary of PLICO, and Steel City, LLC (“Steel City”), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance \$2.188 billion of “XXX” reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and WCL, a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of \$2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of \$2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the “Risk-Takers”) provide credit enhancement to the Steel City Notes for the 18-year term in exchange for credit enhancement fees. The transaction is “non-recourse” to PLICO, WCL and the Company, meaning that none of these companies, other than Golden Gate, are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. As of December 31, 2017 (Successor Company), the aggregate principal balance of the Steel City Notes was \$2.014 billion. In connection with this transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. The support agreements provide that amounts would become payable by the Company if Golden Gate’s annual general corporate expenses were higher than modeled amounts, certain reinsurance rates applicable to the subject business increase beyond modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into a separate agreement to guarantee payment of certain fee amounts in connection with the credit enhancement of the Steel City Notes. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate had a \$2.014 billion outstanding non-recourse funding obligation as of December 31, 2017 (Successor Company). This non-recourse funding obligation matures in 2039 and accrues interest at a fixed annual rate of 4.75%.

##### Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (“Golden Gate II”), a South Carolina special purpose financial captive insurance company and a wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of December 31, 2017 (Successor Company). These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of December 31, 2017 (Successor Company), securities related to \$58.6 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to \$516.4 million of the non-recourse funding obligations were held by the Company and its affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. As of December 31, 2017 (Successor Company), no payments have been made under these agreements, however, certain support agreement obligations to Golden Gate II of approximately \$2.8 million have

been collateralized by the Company. Re-evaluation and, if necessary, adjustments of any support agreement collateralization amounts occur annually during the first quarter pursuant to the terms of the support agreements. During the year ended December 31, 2017 (Successor Company), the Company and its affiliates did not repurchase any of its outstanding non-recourse funding obligations. During the year ended December 31, 2016 the Company and its affiliates repurchased \$86.3 million of its outstanding non-recourse funding obligations, at a discount.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V Vermont Captive Insurance Company ("Golden Gate V"), a Vermont special purpose financial insurance company, and Red Mountain, LLC ("Red Mountain"), both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to \$945 million of "AXXX" reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company ("WCL"). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through

Table of Contents

the structure, Hannover Life Reassurance Company of America ("Hannover Re"), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is "non-recourse" to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of December 31, 2017 (Successor Company), the principal balance of the Red Mountain note was \$620 million. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$121.8 million and will be paid in annual installments through 2031. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a \$620 million outstanding non-recourse funding obligation as of December 31, 2017 (Successor Company). This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of December 31, 2017 (Successor Company), on a consolidated basis, are shown in the following table:

| Issuer  | Outstanding Carrying   |                      | Maturity Year | Year-to-Date |               |
|---|------------------------|----------------------|---------------|--------------|---------------|
|   | Principal              | Value <sup>(1)</sup> |               | Weighted-Avg | Interest Rate |
|   | (Dollars In Thousands) |                      |               |              |               |
| Golden Gate Captive Insurance Company <sup>(2)(3)</sup>           | \$2,014,000            | \$2,014,000          | 2039          | 4.75         | %             |
| Golden Gate II Captive Insurance Company                          | 58,600                 | 49,787               | 2052          | 3.88         | %             |
| Golden Gate V Vermont Captive Insurance Company <sup>(2)(3)</sup> | 620,000                | 681,285              | 2037          | 5.12         | %             |
| MONY Life Insurance Company <sup>(3)</sup>                        | 1,091                  | 2,405                | 2024          | 6.19         | %             |
| Total   | \$2,693,691            | \$2,747,477          |               |              |               |

(1) Carrying values include premiums and discounts and do not represent unpaid principal balances.

(2) Obligations are issued to non-consolidated subsidiaries of the Company. These obligations collateralize certain held-to-maturity securities issued by wholly owned subsidiaries of PLICO.

(3) Fixed rate obligations

Non-recourse funding obligations outstanding as of December 31, 2016 (Successor Company), on a consolidated basis, are shown in the following table:

| Issuer  | Outstanding Carrying |                      | Maturity Year | Year-to-Date |               |
|---|----------------------|----------------------|---------------|--------------|---------------|
|   | Principal            | Value <sup>(1)</sup> |               | Weighted-Avg | Interest Rate |
| Golden Gate Captive Insurance Company <sup>(2)(3)</sup>           | \$2,116,000          | \$2,116,000          | 2039          | 4.75         | %             |
| Golden Gate II Captive Insurance Company                          | 58,600               | 49,983               | 2052          | 2.52         | %             |
| Golden Gate V Vermont Captive Insurance Company <sup>(2)(3)</sup> | 565,000              | 628,025              | 2037          | 5.12         | %             |
| MONY Life Insurance Company <sup>(3)</sup>                        | 1,091                | 2,466                | 2024          | 6.19         | %             |
| Total   | \$2,740,691          | \$2,796,474          |               |              |               |

(1) Carrying values include premiums and discounts and do not represent unpaid principal balances.

(2) Obligations are issued to non-consolidated subsidiaries of the Company. These obligations collateralize certain held-to-maturity securities issued by wholly owned subsidiaries of PLICO.

(3) Fixed rate obligations



Table of Contents

## Letters of Credit

## Golden Gate III Vermont Captive Insurance Company

On April 23, 2010, Golden Gate III Vermont Captive Insurance Company ("Golden Gate III"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, entered into a Reimbursement Agreement (the "Reimbursement Agreement") with UBS AG, Stamford Branch ("UBS"), as issuing lender. Under the Reimbursement Agreement, UBS issued a letter of credit (the "LOC") to a trust for the benefit of WCL. The Reimbursement Agreement has undergone three separate amendments and restatements. The Reimbursement Agreement's current effective date is June 25, 2014. The LOC balance reached its scheduled peak of \$935 million in 2015. As of December 31, 2017 (Successor Company), the LOC balance was \$885 million. The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is "non-recourse" to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately \$70.0 million and will be paid in two installments with the last payment occurring in 2021. These contributions may be subject to potential offset against dividend payments as permitted under the terms of the Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Reimbursement Agreement. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

## Golden Gate IV Vermont Captive Insurance Company

Golden Gate IV Vermont Captive Insurance Company ("Golden Gate IV"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. Pursuant to the terms of the Reimbursement Agreement, the LOC reached its scheduled peak amount of \$790 million in 2016. As of December 31, 2017 (Successor Company), the LOC balance was \$785 million. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is "non-recourse" to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

## Secured Financing Transactions

## Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific



price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of December 31, 2017 (Successor Company), the fair value of securities pledged under the repurchase program was \$1,006.6 million and the repurchase obligation of \$885.0 million was included in the Company's consolidated balance sheets (at an average borrowing rate of 142 basis points). During the year ended December 31, 2017 (Successor Company), the maximum balance outstanding at any one point in time related to these programs was \$988.5 million. The average daily balance was \$624.7 million (at an average borrowing rate of 101 basis points, respectively) during the year ended December 31, 2017 (Successor Company). During the year ended December 31, 2016 (Successor Company), the maximum balance outstanding at any one point in time related to these programs was \$1,065.8 million. The average daily balance was \$505.4 million (at an average borrowing rate of 44 basis points) during the year ended December 31, 2016 (Successor Company).

#### Securities Lending

The Company participates in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. The Company requires initial collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis. As of December 31, 2017 (Successor Company), securities with a market value of \$125.3 million were loaned under this program. As collateral for the loaned securities, the Company receives short-term investments, which are recorded in "short-

Table of Contents

term investments” with a corresponding liability recorded in “secured financing liabilities” to account for its obligation to return the collateral. As of December 31, 2017 (Successor Company), the fair value of the collateral related to this program was \$132.7 million and the Company has an obligation to return \$132.7 million of collateral to the securities borrowers.

The following table provides the fair value of collateral pledged for repurchase agreements, grouped by asset class, as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company):

Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

|   | Remaining Contractual Maturity of the Agreements<br>As of December 31, 2017 (Successor Company)<br>(Dollars In Thousands) |               |              |                      |              |
|---|---|---------------|--------------|----------------------|--------------|
|   | Overnight and Continuous  | Up to 30 days | 30 - 90 days | Greater Than 90 days | Total        |
| Repurchase agreements and repurchase-to-maturity transactions       |   |               |              |                      |              |
| U.S. Treasury and agency securities                                 | \$307,633   | \$ —          | \$ —         | \$ —                 | —\$307,633   |
| Mortgage loans  | 698,974   | —             | —            | —                    | 698,974      |
| Total repurchase agreements and repurchase-to-maturity transactions | 1,006,607   | —             | —            | —                    | 1,006,607    |
| Securities lending transactions                                     |   |               |              |                      |              |
| Corporate securities  | 118,817   | —             | —            | —                    | 118,817      |
| Equity securities   | 5,699   | —             | —            | —                    | 5,699        |
| Redeemable preferred stock  | 755   | —             | —            | —                    | 755          |
| Total securities lending transactions                               | 125,271   | —             | —            | —                    | 125,271      |
| Total securities  | \$1,131,878   | \$ —          | \$ —         | \$ —                 | —\$1,131,878 |

Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

|   | Remaining Contractual Maturity of the Agreements<br>As of December 31, 2016 (Successor Company)<br>(Dollars In Thousands) |               |              |                      |            |
|---|---|---------------|--------------|----------------------|------------|
|   | Overnight and Continuous  | Up to 30 days | 30 - 90 days | Greater Than 90 days | Total      |
| Repurchase agreements and repurchase-to-maturity transactions |   |               |              |                      |            |
| U.S. Treasury and agency securities                           | \$357,705   | \$23,758      | \$ —         | \$ —                 | —\$381,463 |
| Mortgage loans  | 480,269   | —             | —            | —                    | 480,269    |
| Total securities  | \$837,974   | \$23,758      | \$ —         | \$ —                 | —\$861,732 |

Interest Expense

Interest expense is summarized as follows:

|                   |                     |
|-------------------|---------------------|
| Successor Company | Predecessor Company |
|-------------------|---------------------|

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|  | For<br>The<br>Year<br>Ended<br>December<br>31,<br>2017 | For The<br>Year<br>Ended<br>December<br>31, 2016 | February<br>1, 2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January<br>31, 2015 |
|--|--|--|---|---|
|  | (Dollars In Millions)                                  |  |   | (Dollars In<br>Millions)                        |
| Debt and subordinated debt securities  | \$61.3   | \$ 62.1  | \$ 58.6   | \$ 8.9  |
| Non-recourse funding obligations, other obligations, and repurchase agreements | 171.9  | 163.7  | 54.1  | 4.9   |
| Total interest expense   | \$233.2  | \$ 225.8   | \$ 112.7  | \$ 13.8   |

Table of Contents

## 15. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors other than those that are employees of Dai-ichi Life that provide, among other things and subject to certain limitations, a contractual right to indemnification to the fullest extent permissible under the law. The Company has agreements with certain of its officers providing up to \$10 million in indemnification. These obligations are in addition to the customary obligation to indemnify officers and directors contained in the Company's governance documents.

The Company leases administrative and marketing office space in approximately 16 cities (excluding the home office building), with most leases being for periods of three to ten years. The Company had rental expense of \$7.8 million, \$6.7 million, \$6.3 million, and \$0.6 million for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), for the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. The aggregate annualized rent was approximately \$7.8 million for the year ended December 31, 2017 (Successor Company). The following is a schedule by year of future minimum rental payments required under these leases:

| Year       | Amount<br>(Dollars In<br>Thousands) |
|------------|-------------------------------------|
| 2018       | \$ 4,562                            |
| 2019       | 4,320                               |
| 2020       | 4,044                               |
| 2021       | 3,778                               |
| 2022       | 3,520                               |
| Thereafter | 8,945                               |

Additionally, the Company leases a building contiguous to its home office. The lease was renewed in December 2013 and was extended to December 2018. At the end of the lease term the Company may purchase the building for approximately \$75 million. Monthly rental payments are based on the current LIBOR rate plus a spread. The following is a schedule by year of future minimum rental payments required under this lease:

| Year | Amount<br>(Dollars In<br>Thousands) |
|------|-------------------------------------|
| 2018 | \$ 77,219                           |

The following is a summary of the Company's estimated synthetic lease covenant calculations as of December 31, 2017 (Successor Company):

|   | Requirement                  | Actual Results           |
|---|------------------------------|--------------------------|
| Consolidated net worth margin   | greater than or equal to \$0 | greater than \$4 billion |
| Debt to total capital ratio   | less than 40%                | less than 19%            |
| Total adjusted capital ratio  | greater than or equal to \$0 | greater than \$3 billion |
| Interest cash inflow available compared to adjusted consolidated interest expense | greater than 2.0 to 1        | greater than 9.0 to 1    |

As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company had outstanding mortgage loan commitments of \$572.3 million at an average rate of 4.14% and \$855.3 million at an average rate of 4.17%, respectively.

Under the insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In addition, legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long term care insurance and other specialty products, that increases the cost of future assessments or alters future premium tax offsets received in connection with

guaranty fund assessments. The Company cannot predict the amount, nature or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company's financial condition or results of operations.

A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Often these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive

Table of Contents

and non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The financial services and insurance industries in particular are also sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some companies have been the subject of law enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

The Company establishes liabilities for litigation and regulatory actions when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. For matters where a loss is believed to be reasonably possible, but not probable, no liability is established. For such matters, the Company may provide an estimate of the possible loss or range of loss or a statement that such an estimate cannot be made. The Company reviews relevant information with respect to litigation and regulatory matters on a quarterly and annual basis and updates its established liabilities, disclosures and estimates of reasonably possible losses or range of loss based on such reviews.

Certain of the Company's insurance subsidiaries, as well as certain other insurance companies for which the Company has coinsured blocks of life insurance and annuity policies, are under audit for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments or unclaimed property administrators in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company is presently unable to estimate the reasonably possible loss or range of loss that may result from the audits due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, the early stages of the audits being conducted, and uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with certain co-insured policies. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with the audits reasonably estimable.

Certain of the Company's subsidiaries are under a targeted multi-state examination with respect to their claims paying practices and their use of the U.S. Social Security Administration's Death Master File or similar databases (a "Death Database") to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts. There is no clear basis in previously existing law for requiring a life insurer to search for unreported deaths in order to determine whether a benefit is owed, and substantial legal authority exists to support the position that the prevailing industry practice was lawful. A number of life insurers, however, have entered into settlement or consent agreements with state insurance regulators under which the life insurers agreed to implement procedures for periodically comparing their life insurance and annuity contracts and retained asset accounts against a Death Database, treating confirmed deaths as giving rise to a death benefit under their policies, locating beneficiaries and paying them the benefits and interest, escheating the benefits and interest to the state if the beneficiary could not be found, and paying penalties to the state, if required. It has been publicly reported that the life insurers have paid administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company does not believe such fees, if assessed, would have a material effect on its financial statements.

Table of Contents

## 16. EMPLOYEE BENEFIT PLANS

Beginning with the December 31, 2015 measurement, the Company changed its method used to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefits by applying a spot rate approach. Historically, the Company utilized a single weighted average discount rate derived from a selected yield curve used to measure the benefit obligation as of the measurement date. Under the new spot rate approach, the actual calculation of service and interest cost will reflect an array of spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot rates from the selected yield curve. This new approach does not affect the measurement of the total benefit obligation.

**Qualified Pension Plan and Nonqualified Excess Pension Plan**

The Company sponsors a the Qualified Pension Plan covering substantially all of its employees. Benefits are based on years of service and the employee's compensation.

Effective January 1, 2008, the Company made the following changes to its Qualified Pension Plan. These changes have been reflected in the computations within this note.

Employees hired after December 31, 2007 and any former employee hired after that date, will receive a cash balance benefit.

Employees active on December 31, 2007, with age plus years of vesting service less than 55 years will receive a final pay-based pension benefit for service through December 31, 2007, plus a cash balance benefit for service after December 31, 2007.

Employees active on December 31, 2007, with age plus years of vesting service equaling or exceeding 55 years, will receive a final pay-based pension benefit for service both before and after December 31, 2007, with a modest reduction in the formula for benefits earned after December 31, 2007.

All participants terminating employment on or after December of 2007 may elect to receive a lump sum benefit.

In 2016, the Company amended its Qualified Pension Plan to offer a limited-time opportunity of benefit payouts to eligible, terminated-vested participants ("lump sum window"). The lump sum window provided eligible, terminated-vested participants with an option to elect to receive a lump sum settlement of his or her pension benefit in December 2016 or to elect receipt of monthly pension benefits commencing in December 2016. This event triggered settlement accounting for the Company and resulted in the recognition of \$0.9 million of settlement income for the twelve months ended December 31, 2016.

The Company also sponsors the Nonqualified Excess Pension Plan, which is an unfunded nonqualified plan that provides defined pension benefits in excess of limits imposed on the Qualified Pension Plan by federal tax law. In 2016, the Board of Directors of Protective Life Corporation approved the conversion of the accrued benefit payable under the Nonqualified Excess Pension Plan as of March 31, 2016 to John D. Johns, the Company's Chairman and Chief Executive Officer at the time, into a lump sum amount. The lump sum amount is allocated to a book entry that will be treated as though it were a pay deferral account under the Company's deferred compensation plan for officers. Mr. Johns will continue to accrue benefits as though he were accruing benefits under the Nonqualified Excess Pension Plan with respect to this continued service as an employee of the Company after March 31, 2016. The conversion event required the Company to re-measure the Nonqualified Excess Pension Plan as of May 31, 2016 and resulted in the recognition of \$2.1 million in settlement expense during the twelve months ended December 31, 2016.

Table of Contents

The following table presents the benefit obligation, fair value of plan assets, funded status, and amounts not yet recognized as components of net periodic pension costs for the Company's defined benefit pension plan and unfunded excess benefit plan as of December 31, 2017 and 2016 (Successor Company):

|   | Successor Company      |                                  |                        |                                  |
|---|------------------------|----------------------------------|------------------------|----------------------------------|
|   | December 31, 2017      |                                  | December 31, 2016      |                                  |
|   | Qualified Pension Plan | Nonqualified Excess Pension Plan | Qualified Pension Plan | Nonqualified Excess Benefit Plan |
|   | (Dollars In Thousands) |                                  |                        |                                  |
| Accumulated benefit obligation, end of year                   | \$278,084              | \$ 50,149                        | \$247,595              | \$ 45,594                        |
| Change in projected benefit obligation:                       |                        |                                  |                        |                                  |
| Projected benefit obligation at beginning of year             | \$265,848              | \$ 47,802                        | \$268,221              | \$ 56,985                        |
| Service cost  | 12,011                 | 1,350                            | 12,791                 | 1,413                            |
| Interest cost   | 9,846                  | 1,480                            | 9,751                  | 1,353                            |
| Amendments  | —                      | —                                | —                      | —                                |
| Actuarial (gain)/loss   | 26,539                 | 7,861                            | 5,988                  | 4,124                            |
| Benefits paid   | (13,821 )              | (3,903 )                         | (30,903 )              | (16,073 )                        |
| Projected benefit obligation at end of year                   | 300,423                | 54,590                           | 265,848                | 47,802                           |
| Change in plan assets:  |                        |                                  |                        |                                  |
| Fair value of plan assets at beginning of year                | 201,843                | —                                | 196,042                | —                                |
| Actual return on plan assets                                  | 29,404                 | —                                | 15,815                 | —                                |
| Employer contributions <sup>(1)</sup>                         | 43,500                 | 3,903                            | 20,889                 | 16,073                           |
| Benefits paid <sup>(2)</sup>                                  | (13,821 )              | (3,903 )                         | (30,903 )              | (16,073 )                        |
| Fair value of plan assets at end of year                      | 260,926                | —                                | 201,843                | —                                |
| After reflecting FASB guidance:                               |                        |                                  |                        |                                  |
| Funded status   | (39,497 )              | (54,590 )                        | (64,005 )              | (47,802 )                        |
| Amounts recognized in the balance sheet:                      |                        |                                  |                        |                                  |
| Other liabilities   | (39,497 )              | (54,590 )                        | (64,005 )              | (47,802 )                        |
| Amounts recognized in accumulated other comprehensive income: |                        |                                  |                        |                                  |
| Net actuarial (gain)/loss                                     | 2,850                  | 13,521                           | (7,855 )               | 6,294                            |
| Prior service cost/(credit)                                   | —                      | —                                | —                      | —                                |
| Total amounts recognized in AOCI                              | \$2,850                | \$ 13,521                        | \$(7,855 )             | \$ 6,294                         |

(1) Employer contributions disclosed are based on the Company's fiscal filing year

(2) Includes amount related to Mr. Johns' conversion of his benefit under the Nonqualified Excess Pension Plan to a Retirement Pay Deferral Account as discussed above in Nonqualified Excess Pension Plan.

Weighted-average assumptions used to determine benefit obligations as of December 31 are as follows:

|                               | Successor Company                                 |   | Nonqualified Excess Pension Plan                  |   |   |
|-------------------------------|---|---|---|---|---|
|                               | Qualified Pension Plan                            |   | Nonqualified Excess Pension Plan                  |   |   |
|                               | 2017  | 2016  | 2017  | 2016  |   |
| Discount rate                 | 3.55  | % 4.04  | % 3.26  | % 3.60  | % |
| Rate of compensation increase | 4.75% prior to age 40/ 3.75% for age 40 and above | 4.75% prior to age 40/ 3.75% for age 40 and above | 4.75% prior to age 40/ 3.75% for age 40 and above | 4.75% prior to age 40/ 3.75% for age 40 and above |   |



Table of Contents

Weighted-average assumptions used to determine the net periodic benefit cost for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), and for the period of February 1, 2015 to December 31, 2015 (Successor Company) are as follows:

|  | Successor Company<br>For The Year Ended December 31, |  |  |  |  |  |
|--|--|--|--|--|--|--|
|  | 2017   | 2016   | 2015   | 2017   | 2016   | 2015   |
|  | Qualified Pension Plan                               |  |  | Nonqualified Excess Pension Plan               |  |  |
| Discount rate                            | 4.04   | % 4.29   | % 3.95   | % 3.60   | % 3.63   | % 3.65   |
|  | 4.75% prior  | 4.75% prior                                    | 4.75% prior                                    | 4.75% prior                                    | 4.75% prior                                    | 4.75% prior                                    |
| Rate of compensation increase            | to age 40/<br>3.75% for<br>age 40 and<br>above       | to age 40/<br>3.75% for<br>age 40 and<br>above | to age 40/<br>3.75% for<br>age 40 and<br>above | to age 40/<br>3.75% for<br>age 40 and<br>above | to age 40/<br>3.75% for<br>age 40 and<br>above | to age 40/<br>3.75% for<br>age 40 and<br>above |
| Expected long-term return on plan assets | 7.00   | % 7.25   | % 7.50   | % N/A  | N/A  | N/A  |

The assumed discount rates used to determine the benefit obligations were based on an analysis of future benefits expected to be paid under the plans. The assumed discount rate reflects the interest rate at which an amount that is invested in a portfolio of high-quality debt instruments on the measurement date would provide the future cash flows necessary to pay benefits when they come due.

To determine an appropriate long-term rate of return assumption, the Company obtained a 25 year annualized return for each of the represented asset classes. In addition, the Company received evaluations of market performance based on the Company's asset allocation as provided by external consultants. A combination of these statistical analytics provided results that the Company utilized to determine an appropriate long-term rate of return assumption. Components of the net periodic benefit cost for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016, for the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) are as follows:

|  | Successor Company<br>For The Year Ended December 31, |   |                              |   | February 1, 2015<br>to<br>December 31, 2015 |   | Predecessor<br>Company<br>January 1, 2015<br>to<br>January 31, 2015 |   |
|--|--|---|------------------------------|---|---|---|---|---|
|  | 2017   | 2017                                      | 2016                         | 2016                                      | Qualified<br>Pension<br>Plan                | Nonqualified<br>Excess<br>Pension<br>Plan | Qualified<br>Pension<br>Plan  | Nonqualified<br>Excess<br>Pension<br>Plan |
|  | Qualified<br>Pension<br>Plan                         | Nonqualified<br>Excess<br>Pension<br>Plan | Qualified<br>Pension<br>Plan | Nonqualified<br>Excess<br>Pension<br>Plan | Qualified<br>Pension<br>Plan                | Nonqualified<br>Excess<br>Pension<br>Plan | Qualified<br>Pension<br>Plan  | Nonqualified<br>Excess<br>Pension<br>Plan |
|  | (Dollars In Thousands)                               |   |                              |   |   |   | (Dollars In<br>Thousands)   |   |
| Service cost—benefits earned during the period       | \$12,011   | \$ 1,350                                  | \$12,791                     | \$ 1,413                                  | \$11,220                                    | \$ 1,229                                  | \$974   | \$ 95                                     |
| Interest cost on projected benefit obligation        | 9,846  | 1,480                                     | 9,751                        | 1,353                                     | 9,072                                       | 1,499                                     | 1,002   | 140                                       |
| Expected return on plan assets                       | (13,570 )  | —   | (13,780 )                    | —   | (13,214 )                                   | —   | (1,293 )  | —   |
| Amortization of prior service cost/(credit)          | —  | —   | —                            | —   | —   | —   | (33 )   | 1   |
| Amortization of actuarial loss/(gain) <sup>(1)</sup> | —  | 634                                       | —                            | 178                                       | —   | —   | 668   | 138                                       |
| Preliminary net periodic benefit cost                | 8,287  | 3,464                                     | 8,762                        | 2,944                                     | 7,078                                       | 2,728                                     | 1,318   | 374                                       |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|   |         |          |         |          |         |          |         |        |
|---|---------|----------|---------|----------|---------|----------|---------|--------|
| Settlement/curtailment expense <sup>(2)</sup> | —       | —        | (964    | ) 2,135  | —       | —        | —       | —      |
| Total net periodic benefit cost               | \$8,287 | \$ 3,464 | \$7,798 | \$ 5,079 | \$7,078 | \$ 2,728 | \$1,318 | \$ 374 |

(1) 2017 average remaining service period used is 9.24 years and 8.23 years for the Qualified Pension Plan and Nonqualified Excess Pension Plan, respectively.

(2) The Nonqualified Excess Pension Plan triggered settlement accounting for the year ended December 31, 2016 since the total lump sum payments exceeded the settlement threshold of service cost plus interest cost.

For the Qualified Pension Plan, the Company does not expect to amortize any net actuarial loss/(gain) from other comprehensive income into net periodic benefit cost during 2018 since the net actuarial loss/(gain) subject to amortization is less than 10% of the greater of the smooth value of assets or the projected benefit obligation. For the unfunded excess benefit plan, the Company expects to amortize approximately \$1.0 million of net actuarial loss from other comprehensive income into net periodic benefit cost during 2018.

Table of Contents

Estimated future benefit payments under the Qualified Pension Plan and Nonqualified Excess Pension Plan are as follows:

| Years       | Qualified Pension Plan<br>(Dollars In Thousands) | Nonqualified Excess Pension Plan |
|-------------|--|----------------------------------|
| 2018        | \$ 19,479  | \$ 3,542                         |
| 2019        | 20,719   | 7,242                            |
| 2020        | 21,062   | 6,087                            |
| 2021        | 21,351   | 5,709                            |
| 2022        | 23,537   | 6,267                            |
| 2023 - 2027 | 116,400  | 23,324                           |

## Qualified Pension Plan Assets

Allocation of plan assets of the Qualified Pension Plan by category as of December 31 are as follows:

| Asset Category            | Successor Company Target Allocation |       |       |
|---------------------------|-------------------------------------|-------|-------|
|                           | 2017                                | 2016  | 2018  |
| Cash and cash equivalents | 2 %                                 | 15 %  | 2 %   |
| Equity securities         | 60                                  | 55    | 61    |
| Fixed income              | 38                                  | 30    | 37    |
| Total                     | 100 %                               | 100 % | 100 % |

(1) During 2017, the Company made a \$43.5 million contribution to the defined benefit pension plan and allocated the contribution to cash and cash equivalents pending further analysis of its investment strategy. The plan's investment policy was amended to allow for an actual asset allocation outside of the current target allocation until the investment strategy analysis is complete. The Company anticipates completing this analysis during the first quarter of 2018. The Company's target asset allocation is designed to provide an acceptable level of risk and balance between equity assets and fixed income assets. The weighting towards equity securities is designed to help provide for an increased level of asset growth potential and liquidity.

Prior to the amendment for the \$43.5 million contribution made in 2017, the defined benefit pension plan had a target asset allocation of 60% domestic equities, 38% fixed income, and 2% cash. The Company's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. The Company is currently performing an asset and liability study of its defined benefit pension plan and the associated investment portfolio to ensure that the current investment policy is appropriate for the plan. We anticipate this analysis being complete in the first quarter of 2018.

The Qualified Pension Plan's equity assets are in a Russell 3000 index fund that invests in a domestic equity index collective trust managed by Northern Trust Corporation and in a Spartan 500 index fund managed by Fidelity. The Plan's cash is invested in a collective trust managed by Northern Trust Corporation. The plan's fixed income assets are invested in a group deposit administration annuity contract with PLICO.

Table of Contents

Plan assets of the Qualified Pension Plan by category as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), are as follows:

| Asset Category                            | Successor Company      |           |
|---|------------------------|-----------|
|   | As of December 31,     |           |
|   | 2017                   | 2016      |
|   | (Dollars In Thousands) |           |
| Cash and cash equivalents                 | \$39,897               | \$4,175   |
| Equity securities:                        |                        |           |
| Collective Russell 3000 equity index fund | 74,511                 | 67,627    |
| Fidelity Spartan 500 index fund           | 71,632                 | 58,815    |
| Fixed income                              | 74,886                 | 71,226    |
| Total investments                         | 260,926                | 201,843   |
| Employer contribution receivable          | —                      | —         |
| Total                                     | \$260,926              | \$201,843 |

The valuation methodologies used to determine the fair values reflect market participant assumptions and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. The Qualified Pension Plan's group deposit administration annuity contract with PLICO is recorded at contract value, which the Company believes approximates fair value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities (the plan has not purchased annuities on behalf of participants under this contract during the periods presented). Units in collective short-term and collective investment funds are valued at the unit value, which approximates fair value, as reported by the trustee of the collective short-term and collective investment funds on each valuation date. These methods of valuation may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Qualified Pension Plan's assets at fair value as of December 31, 2017 (Successor Company):

|   | Level 1                | Level 2  | Level 3  | Total     |
|---|------------------------|----------|----------|-----------|
|   | (Dollars In Thousands) |          |          |           |
| Collective short-term investment fund         | \$39,897               | \$—      | \$—      | \$39,897  |
| Collective investment funds:                  |                        |          |          |           |
| Equity index funds                            | 71,632                 | 74,511   | —        | 146,143   |
| Group deposit administration annuity contract | —                      | —        | 74,886   | 74,886    |
| Total investments                             | \$111,529              | \$74,511 | \$74,886 | \$260,926 |

The following table sets forth by level, within the fair value hierarchy, the Qualified Pension Plan's assets at fair value as of December 31, 2016 (Successor Company):

|   | Level 1                | Level 2  | Level 3  | Total     |
|---|------------------------|----------|----------|-----------|
|   | (Dollars In Thousands) |          |          |           |
| Collective short-term investment fund         | \$4,175                | \$—      | \$—      | \$4,175   |
| Collective investment funds:                  |                        |          |          |           |
| Equity index funds                            | 58,815                 | 67,627   | —        | 126,442   |
| Group deposit administration annuity contract | —                      | —        | 71,226   | 71,226    |
| Total investments                             | \$62,990               | \$67,627 | \$71,226 | \$201,843 |

For the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), there were no transfers between levels.



Table of Contents

The following table summarizes the Qualified Pension Plan investments measured at fair value based on NAV per share as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively:

| Name  | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|------------|----------------------|----------------------|--------------------------|
| (Dollars In Thousands)                            |            |                      |                      |                          |
| Successor Company                                 |            |                      |                      |                          |
| As of December 31, 2017:                          |            |                      |                      |                          |
| Collective short-term investment fund             | \$ 39,897  | Not Applicable       | Daily                | 1 day                    |
| Collective Russell 3000 index fund <sup>(1)</sup> | 74,511     | Not Applicable       | Daily                | 1 day                    |
| Fidelity Spartan 500 index fund                   | 71,632     | Not Applicable       | Daily                | 1 day                    |
| As of December 31, 2016:                          |            |                      |                      |                          |
| Collective short-term investment fund             | \$ 4,175   | Not Applicable       | Daily                | 1 day                    |
| Collective Russell 3000 index fund <sup>(1)</sup> | 67,627     | Not Applicable       | Daily                | 1 day                    |
| Fidelity Spartan 500 index fund                   | 58,815     | Not Applicable       | Daily                | 1 day                    |

(1) Non-lending collective trust that does not publish a daily NAV but tracks the Russell 3000 index and provides a daily NAV to the Plan.

The following table presents a reconciliation of the beginning and ending balances for the fair value measurements for the year ended December 31, 2017 (Successor Company) and for the year ended December 31, 2016 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

|   | Successor Company | December 31, 2017      | December 31, 2016 |
|---|-------------------|------------------------|-------------------|
|   |                   | (Dollars In Thousands) |                   |
| Balance, beginning of year                            |                   | \$71,226               | \$ 67,707         |
| Interest income                                       |                   | 3,660                  | 3,519             |
| Transfers from collective short-term investments fund |                   | —                      | —                 |
| Transfers to collective short-term investments fund   |                   | —                      | —                 |
| Balance, end of year                                  |                   | \$74,886               | \$ 71,226         |

The following table represents the Plan's Level 3 financial instrument, the valuation technique used, and the significant unobservable input and the ranges of values for that input as of December 31, 2017 (Successor Company):

| Instrument                                    | Fair Value             | Principal Valuation Technique | Significant Unobservable Inputs | Range of Significant Input Values |
|---|------------------------|-------------------------------|---------------------------------|-----------------------------------|
|   | (Dollars In Thousands) |                               |                                 |                                   |
| Group deposit administration annuity contract | \$ 74,886              | Contract Value                | Contract Rate                   | 5.10% - 5.19%                     |

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported.

**Qualified Pension Plan Funding Policy**

The Company's funding policy is to contribute amounts to the Qualified Pension Plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act ("ERISA") plus such additional amounts as

the Company may determine to be appropriate from time to time. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

Under the Pension Protection Act of 2006 ("PPA"), a plan could be subject to certain benefit restrictions if the plan's adjusted funding target attainment percentage ("AFTAP") drops below 80%. Therefore, the Company may make additional contributions in future periods to maintain an AFTAP of at least 80%. In general, the AFTAP is a measure of how well a plan is funded and is obtained by dividing a plan's assets by its funding liabilities. AFTAP is based on participant data, plan provisions, plan methods and assumptions, funding credit balances, and plan assets as of the plan valuation date. Some of the assumptions and methods used to determine a plan's AFTAP may be different from the assumptions and methods used to measure a plan's funded status on a GAAP basis.

In July of 2012, the Moving Ahead for Progress in the 21st Century Act ("MAP-21"), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the

Table of Contents

segment rates used to determine funding requirements from the effects of interest rate volatility. In August of 2014, the Highway and Transportation Funding Act of 2014 ("HATFA") was signed into law. HATFA extends the funding relief provided by MAP-21 by delaying the interest rate corridor expansion. The funding stabilization provisions of MAP-21 and HATFA reduced the Company's minimum required Qualified Pension Plan contributions for the 2013 and 2014 plan years. Since the funding stabilization provisions of MAP-21 and HATFA do not apply for Pension Benefit Guaranty Corporation ("PBGC") reporting purposes, the Company may also make additional contributions in future periods to avoid certain PBGC reporting triggers.

During the twelve months ended December 31, 2017 (Successor Company), the Company contributed \$43.5 million to the Qualified pension plan for the 2016 plan year. The Company has not yet determined what amount it will fund during 2018, but may contribute an amount that would eliminate the PGBC variable-rate premiums payable in 2018. The Company currently estimates that amount will be between \$10 million and \$20 million.

**Other Postretirement Benefits**

In addition to pension benefits, the Company provides limited healthcare benefits to eligible retired employees until age 65. This postretirement benefit is provided by an unfunded plan. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the accumulated postretirement benefit obligation and projected benefit obligation were immaterial.

For a closed group of retirees over age 65, the Company provides a prescription drug benefit. As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company's liability related to this benefit was immaterial.

The Company also offers life insurance benefits for retirees from \$10,000 up to a maximum of \$75,000 which are provided through the payment of premiums under a group life insurance policy. This plan is partially funded at a maximum of \$50,000 face amount of insurance. The benefit obligation associated with these benefits is as follows:

| Postretirement Life Insurance Plan    | Successor Company             |                               |
|---------------------------------------|-------------------------------|-------------------------------|
|                                       | As of<br>December<br>31, 2017 | As of<br>December<br>31, 2016 |
|                                       | (Dollars In<br>Thousands)     |                               |
| Change in Benefit Obligation          |                               |                               |
| Benefit obligation, beginning of year | \$9,634                       | \$ 9,063                      |
| Service cost                          | 122                           | 102                           |
| Interest cost                         | 354                           | 338                           |
| Actuarial (gain)/loss                 | 1,347                         | 604                           |
| Benefits paid                         | (479 )                        | (473 )                        |
| Benefit obligation, end of year       | \$10,978                      | \$ 9,634                      |

For the postretirement life insurance plan, the Company's discount rate assumption used to determine the benefit obligation and the net periodic benefit cost as of December 31, 2017 (Successor Company), is 3.74% and 4.35%, respectively.

The Company's expected long-term rate of return assumption used to determine the net periodic benefit cost as of December 31, 2017 (Successor Company), is 2.75%. To determine an appropriate long-term rate of return assumption, the Company utilized 25 year average and annualized return results on the Barclay's short treasury index.

Investments of the Company's group life insurance plan are held by Wells Fargo Bank, N.A. Plan assets held by the Custodian are invested in a money market fund.

The fair value of each major category of plan assets for the Company's postretirement life insurance plan is as follows:

| Successor<br>Company  |      |
|-----------------------|------|
| As of<br>December 31, |      |
| 2017                  | 2016 |



(Dollars In  
Thousands)

Category of Investment

Money market fund     \$5,104   \$5,362

Investments are stated at fair value and are based on the application of the fair value hierarchy that prioritizes observable market inputs over unobservable inputs. The money market funds are valued based on historical cost, which represents fair value, at year end. This method of valuation may produce a fair value calculation that may not be reflective of future fair values. Furthermore, while the Company believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a different fair value measurement at the reporting date.

173

---

Table of Contents

The following table sets forth by level, within the fair value hierarchy, the life insurance plan's assets at fair value as of December 31, 2017 (Successor Company):

|                   | Level 1                | Level 2 | Level 3 | Total    |
|-------------------|------------------------|---------|---------|----------|
|                   | (Dollars In Thousands) |         |         |          |
| Money market fund | \$5,104                | \$ —    | \$ —    | —\$5,104 |

The following table sets forth by level, within the fair value hierarchy, the life insurance plan's assets at fair value as of December 31, 2016 (Successor Company):

|                   | Level 1                | Level 2 | Level 3 | Total    |
|-------------------|------------------------|---------|---------|----------|
|                   | (Dollars In Thousands) |         |         |          |
| Money market fund | \$5,362                | \$ —    | \$ —    | —\$5,362 |

For the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), there were no transfers between levels.

Investments are exposed to various risks, such as interest rate and credit risks. Due to the level of risk associated with investments and the level of uncertainty related to credit risks, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported.

**401(k) Plan**

The Company sponsors a tax-qualified 401(k) Plan ("401 (k) Plan") which covers substantially all employees. Employee contributions are made on a before-tax basis as provided by Section 401(k) of the Internal Revenue Code or as after-tax "Roth" contributions. Employees may contribute up to 25% of their eligible annual compensation to the 401(k) Plan, limited to a maximum annual contribution amount as set periodically by the Internal Revenue Service (\$18,000 for 2017). The Plan also provides a "catch-up" contribution provision which permits eligible participants (age 50 or over at the end of the calendar year), to make additional contributions that exceed the regular annual contribution limits up to a limit periodically set by the Internal Revenue Service (\$6,000 for 2017). The Company matches the sum of all employee contributions dollar for dollar up to a maximum of 4% of an employee's pay per year per person. All matching contributions vest immediately. For the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company recorded an expense of \$8.2 million and \$7.5 million associated with 401(k) Plan matching contributions, respectively.

The Company also has a supplemental matching contribution program, which is a nonqualified plan that provides supplemental matching contributions in excess of the limits imposed on qualified defined contribution plans by federal tax law. The expense recorded by the Company for this employee benefit was \$1.1 million, \$0.6 million, and \$0.5 million, respectively, in 2017, 2016, and 2015.

**Deferred Compensation Plan**

On February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life and the Company stock ceased to be publicly traded. Thus, any common stock equivalents within the plans converted into rights to receive the merger consideration of \$70.00 per common stock equivalent.

As of February 1, 2015, the Company has continued the deferred compensation plans for officers and others. Compensation deferred was credited to the participants in cash, mutual funds, or a combination thereof. As of December 31, 2017 (Successor Company), the Company's obligations related to its deferred compensation plans are reported in other liabilities.

Table of Contents

## 17. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the accumulated balances for each component of AOCI as of December 31, 2017 (Successor Company), December 31, 2016 (Successor Company), December 31, 2015 (Successor Company), and January 31, 2015 (Predecessor Company).

## Changes in Accumulated Other Comprehensive Income (Loss) by Component

| Successor Company   | Unrealized<br>Gains and<br>Losses<br>on<br>Investments <sup>(2)</sup> | Accumulated<br>Gain and<br>Loss<br>Derivatives | Minimum<br>Pension<br>Benefits<br>Liability<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|--|---|---|
| (Dollars In Thousands, Net of Tax)  |   |  |   |   |
| Beginning Balance, December 31, 2016  | \$ (656,322)  | \$ 727   | \$ 1,072  | \$ (654,523 )   |
| Other comprehensive income (loss) before reclassifications  | 700,536   | (563 )   | (15,726 )   | 684,247   |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | 7,153   | —  | —   | 7,153   |
| Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>  | 642   | 451  | 501   | 1,594   |
| Net current-period other comprehensive income (loss)  | 708,331   | (112 )   | (15,225 )   | 692,994   |
| Cumulative effect adjustments   | (26,135 )   | 132  | 228   | (25,775 )   |
| Ending Balance, December 31, 2017   | \$25,874  | \$ 747   | \$ (13,925 )  | \$ 12,696   |

(1) See Reclassification table below for details.

As of December 31, 2016 (Successor Company) and December 31, 2017 (Successor Company), net unrealized losses reported in AOCI were offset by \$424.1 million and \$(6.3) million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

## Changes in Accumulated Other Comprehensive Income (Loss) by Component

| Successor Company   | Unrealized<br>Gains and<br>Losses on<br>Investments <sup>(2)</sup> | Accumulated<br>Gain and<br>Loss<br>Derivatives | Minimum<br>Pension<br>Liability<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|--|--|---|---|
| (Dollars In Thousands, Net of Tax)  |  |  |   |   |
| Beginning Balance, December 31, 2015  | \$ (1,247,065)   | \$ —   | \$ 5,931                                      | \$ (1,241,134 )   |
| Other comprehensive income (loss) before reclassifications  | 606,985  | 688  | (5,659 )                                      | 602,014   |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | (6,782 )   | —  | —   | (6,782 )  |
| Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>  | (9,460 )   | 39   | 800   | (8,621 )  |
| Net current-period other comprehensive income (loss)  | 590,743  | 727  | (4,859 )                                      | 586,611   |
| Ending Balance, December 31, 2016   | \$ (656,322 )  | \$ 727   | \$ 1,072                                      | \$ (654,523 )   |

(1) See Reclassification table below for details.

As of December 31, 2015 (Successor Company) and December 31, 2016 (Successor Company), net unrealized losses reported in AOCI were offset by \$623.0 million and \$424.1 million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.



Table of Contents

## Changes in Accumulated Other Comprehensive Income (Loss) by Component

| Successor Company   | Unrealized<br>Gains and<br>Losses<br>on<br>Investments <sup>(2)</sup> | Accumulated<br>Gain and<br>Loss<br>Derivatives | Minimum<br>Postretirement<br>Benefits<br>Liability<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|--|--|---|
| (Dollars In Thousands, Net of Tax)  |   |  |  |   |
| Beginning Balance, February 1, 2015   | \$—   | \$ —   | \$ —   | \$ —  |
| Other comprehensive income (loss) before reclassifications  | (1,264,034 )  | (86 )  | 5,931  | (1,258,189 )  |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | (393 )  | —  | —  | (393 )  |
| Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>  | 17,362  | 86   | —  | 17,448  |
| Net current-period other comprehensive income (loss)  | (1,247,065 )  | —  | 5,931  | (1,241,134 )  |
| Ending Balance, December 31, 2015   | \$(1,247,065 )  | \$ —   | \$ 5,931   | \$(1,241,134 )  |

(1) See Reclassification table below for details.

As of December 31, 2015, net unrealized losses reported in AOCI were offset by \$623.0 million, due to the impact (2) those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

## Changes in Accumulated Other Comprehensive Income (Loss) by Component

| Predecessor Company   | Unrealized<br>Gains and<br>Losses<br>on<br>Investments <sup>(2)</sup> | Accumulated<br>Gain and<br>Loss<br>Derivatives | Minimum<br>Postretirement<br>Benefits<br>Liability<br>Adjustment | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|---|--|--|---|
| (Dollars In Thousands, Net of Tax)  |   |  |  |   |
| Beginning Balance, December 31, 2014  | \$1,484,169   | \$ (82 )                                       | \$ (66,011 )   | \$ 1,418,076  |
| Other comprehensive income (loss) before reclassifications  | 482,370   | 9  | (12,527 )  | 469,852   |
| Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings | (243 )  | —  | —  | (243 )  |
| Amounts reclassified from accumulated other comprehensive income (loss) <sup>(1)</sup>  | (4,166 )  | 23   | 502  | (3,641 )  |
| Net current-period other comprehensive income (loss)  | 477,961   | 32   | (12,025 )  | 465,968   |
| Ending Balance, January 31, 2015  | \$1,962,130   | \$ (50 )                                       | \$ (78,036 )   | \$ 1,884,044  |

(1) See Reclassification table below for details.

As of January 31, 2015 and December 31, 2014, net unrealized losses reported in AOCI were offset by \$(492.6) million and \$(504.4) million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

Table of Contents

The following tables summarize the reclassifications amounts out of AOCI for the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

## Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

|  | Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(Dollars In<br>Thousands) | Affected Line Item in the Consolidated<br>Statements of Income |
|--|---|--|
| Successor Company  |   |  |
| For The Year Ended December 31, 2017                         |   |  |
| Gains and losses on derivative instruments                   |   |  |
| Net settlement (expense)/benefit <sup>(1)</sup>              | \$ (694   | ) Benefits and settlement expenses, net of reinsurance ceded   |
|  | (694  | ) Total before tax   |
|  | 243   | Tax (expense) or benefit                                       |
|  | \$ (451   | ) Net of tax   |
| Unrealized gains and losses on available-for-sale securities |   |  |
| Net investment gains/losses                                  | \$ 10,611   | Realized investment gains (losses): All other investments      |
| Impairments recognized in earnings                           | (11,742   | ) Net impairment losses recognized in earnings                 |
|  | (1,131  | ) Total before tax   |
|  | 489   | Tax (expense) or benefit                                       |
|  | \$ (642   | ) Net of tax   |
| Pension benefits liability adjustment                        |   |  |
| Amortization of net actuarial gain/(loss)                    | \$ (634   | ) Other operating expenses                                     |
| Amortization of prior service credit/(cost)                  | —   | Other operating expenses                                       |
| Amortization of transition asset/(obligation)                | —   | Other operating expenses                                       |
|  | (634  | ) Total before tax   |
|  | 133   | Tax (expense) or benefit                                       |
|  | \$ (501   | ) Net of tax   |

(1) See Note 7, Derivative Financial Instruments for additional information.

Table of Contents

## Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

|  | Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(Dollars In<br>Thousands) | Affected Line Item in the Consolidated<br>Statements of Income |
|--|---|--|
| Successor Company  |   |  |
| For The Year ended December 31, 2016                         |   |  |
| Gains and losses on derivative instruments                   |   |  |
| Net settlement (expense)/benefit <sup>(1)</sup>              | \$ (60)   | ) Benefits and settlement expenses, net of reinsurance ceded   |
|  | (60)  | ) Total before tax   |
|  | 21  | ) Tax (expense) or benefit                                     |
|  | \$ (39)   | ) Net of tax   |
| Unrealized gains and losses on available-for-sale securities |   |  |
| Net investment gains/losses                                  | \$ 32,302   | ) Realized investment gains (losses): All other investments    |
| Impairments recognized in earnings                           | (17,748)  | ) Net impairment losses recognized in earnings                 |
|  | 14,554  | ) Total before tax   |
|  | (5,094)   | ) Tax (expense) or benefit                                     |
|  | \$ 9,460  | ) Net of tax   |
| Postretirement benefits liability adjustment                 |   |  |
| Amortization of net actuarial gain/(loss)                    | \$ (1,231)  | ) Other operating expenses                                     |
| Amortization of prior service credit/(cost)                  | —   | ) Other operating expenses                                     |
| Amortization of transition asset/(obligation)                | —   | ) Other operating expenses                                     |
|  | (1,231)   | ) Total before tax   |
|  | 431   | ) Tax (expense) or benefit                                     |
|  | \$ (800)  | ) Net of tax   |

(1) See Note 7, Derivative Financial Instruments for additional information.

Table of Contents

## Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

|  | Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(Dollars In<br>Thousands) | Affected Line Item in the Consolidated<br>Statements of Income |
|--|---|--|
| Successor Company<br>February 1, 2015 to December 31, 2015   |   |  |
| Gains and losses on derivative instruments                   |   |  |
| Net settlement (expense)/benefit <sup>(1)</sup>              | \$ (131)  | ) Benefits and settlement expenses, net of reinsurance ceded   |
|  | (131)   | ) Total before tax   |
|  | 45  | ) Tax (expense) or benefit                                     |
|  | \$ (86)   | ) Net of tax   |
| Unrealized gains and losses on available-for-sale securities |   |  |
| Net investment gains/losses                                  | \$ 281  | ) Realized investment gains (losses): All other investments    |
| Impairments recognized in earnings                           | (26,992)  | ) Net impairment losses recognized in earnings                 |
|  | (26,711)  | ) Total before tax   |
|  | 9,349   | ) Tax (expense) or benefit                                     |
|  | \$ (17,362)   | ) Net of tax   |

(1) See Note 7, Derivative Financial Instruments for additional information.



Table of Contents

## Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

|  | Amount<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Income (Loss)<br>(Dollars In<br>Thousands) | Affected Line Item in the Consolidated<br>Statements of Income |
|--|---|--|
| Predecessor Company<br>January 1, 2015 to January 31, 2015   |   |  |
| Gains and losses on derivative instruments                   |   |  |
| Net settlement (expense)/benefit <sup>(1)</sup>              | \$ (36 )  | Benefits and settlement expenses, net of reinsurance ceded     |
|  | (36 )   | Total before tax   |
|  | 13  | Tax (expense) or benefit                                       |
|  | \$ (23 )  | Net of tax   |
| Unrealized gains and losses on available-for-sale securities |   |  |
| Net investment gains/losses                                  | \$ 6,891  | Realized investment gains (losses): All other investments      |
| Impairments recognized in earnings                           | (481 )  | Net impairment losses recognized in earnings                   |
|  | 6,410   | Total before tax   |
|  | (2,244 )  | Tax (expense) or benefit                                       |
|  | \$ 4,166  | Net of tax   |
| Pension benefits liability adjustment                        |   |  |
| Amortization of net actuarial gain/(loss)                    | \$ (808 )   | Other operating expenses                                       |
| Amortization of prior service credit/(cost)                  | 31  | Other operating expenses                                       |
| Amortization of transition asset/(obligation)                | 5   | Other operating expenses                                       |
|  | (772 )  | Total before tax   |
|  | 270   | Tax (expense) or benefit                                       |
|  | \$ (502 )   | Net of tax   |

(1) See Note 7, Derivative Financial Instruments for additional information.

## 18. INCOME TAXES

The Company's effective income tax rate related to continuing operations varied from the maximum federal income tax rate as follows:

|   | Successor Company                            |  |   | Predecessor Company                             |   |
|---|--|--|---|---|---|
|   | For The<br>Year<br>Ended<br>December<br>2017 | For The<br>Year<br>Ended<br>December<br>31, 2016 | February<br>1, 2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January 31,<br>2015 |   |
| Statutory federal income tax rate applied to pre-tax income | 35.0   | % 35.0   | %   | 35.0  | % |
| State income taxes  | 0.6  | 0.8  | 2.0   | 0.8   |   |
| Investment income not subject to tax                        | (5.0 )                                       | (2.7 )   | (4.3 )  | (3.2 )  |   |
| Uncertain tax positions                                     | (0.2 )                                       | (0.3 )   | 0.2   | (0.1 )  |   |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                         |          |        |        |        |
|-------------------------|----------|--------|--------|--------|
| Federal Tax law changes | (183.3)  | —      | —      | —      |
| Other                   | (1.4 )   | 1.0    | —      | (0.1 ) |
|                         | (154.3)% | 33.8 % | 32.9 % | 32.4 % |

180

---

Table of Contents

The annual provision for federal income tax in these financial statements differs from the annual amounts of income tax expense reported in the Company's income tax returns. Certain significant revenues and expenses are appropriately reported in different years with respect to the financial statements and the tax returns.

The components of the Company's income tax are as follows:

|                              | Successor Company                    |                                      | Predecessor Company                   |                                     |
|------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|                              | For The Year Ended December 31, 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|                              | (Dollars In Thousands)               |                                      | (Dollars In Thousands)                |                                     |
| Current income tax expense:  |                                      |                                      |                                       |                                     |
| Federal                      | \$21,853                             | \$(50,638)                           | \$5,715                               | \$(32,803)                          |
| State                        | 4,399                                | 3,919                                | (4,244)                               | 1,685                               |
| Total current                | \$26,252                             | \$(46,719)                           | \$1,471                               | \$(31,118)                          |
| Deferred income tax expense: |                                      |                                      |                                       |                                     |
| Federal                      | \$(693,860)                          | \$240,127                            | \$118,338                             | \$30,858                            |
| State                        | (3,867)                              | 7,560                                | 11,734                                | (67)                                |
| Total deferred               | \$(697,727)                          | \$247,687                            | \$130,072                             | \$30,791                            |

The components of the Company's net deferred income tax liability are as follows:

|  | Successor Company       |               |
|--|-------------------------|---------------|
|  | As of December 31, 2017 | 2016          |
|  | (Dollars In Thousands)  |               |
| Deferred income tax assets:                            |                         |               |
| Loss and credit carryforwards                          | \$209,401               | \$453,880     |
| Deferred compensation                                  | 138,945                 | 209,979       |
| Deferred policy acquisition costs                      | 23,876                  | 156,012       |
| Premium on corporate debt                              | 57,402                  | 104,839       |
| Net unrealized loss on investments                     | —                       | 353,448       |
| Other  | 28,179                  | 44,956        |
| Valuation allowance                                    | (3,951)                 | (6,007)       |
|  | 453,852                 | 1,317,107     |
| Deferred income tax liabilities:                       |                         |               |
| Premium receivables and policy liabilities             | 573,469                 | 884,255       |
| VOBA and other intangibles                             | 433,321                 | 720,750       |
| Invested assets (other than unrealized gains (losses)) | 672,549                 | 1,311,866     |
| Net unrealized gains on investments                    | 6,920                   | —             |
|  | 1,686,259               | 2,916,871     |
| Net deferred income tax liability                      | \$(1,232,407)           | \$(1,599,764) |

The deferred tax assets reported above include certain deferred tax assets related to nonqualified deferred compensation and other employee benefit liabilities that were assumed by AXA and they were not acquired by the Company in connection with the acquisition of MONY. The future tax deductions stemming from these liabilities will be claimed by the Company on MONY's tax returns in its post-acquisition periods. These deferred tax assets have been estimated as of the MONY Acquisition date (and through the December 31, 2017 reporting date) based on all available information. However, it is possible that these estimates may be adjusted in future reporting periods based on actuarial changes to the projected future payments associated with these liabilities. Any such adjustments will be

recognized by the Company as an adjustment to income tax expense during the period in which they are realized. On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation significantly changes U.S. tax law by, among other things, lowering the corporate income tax rate. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

Table of Contents

As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% and changes to tax law related to the deductibility of certain deferred tax assets under the Tax Reform Act, we revalued our ending net deferred tax liabilities at December 31, 2017, and recognized a provisional \$797.6 million tax benefit in our consolidated statement of income for the year ended December 31, 2017.

Also on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act. The Company has recognized the provisional tax impacts based on reasonable estimates made by the Company as to the effects of tax reform on deferred assets as discussed below and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued, additional analysis, and resulting changes in interpretations and assumptions the Company has made. Any adjustments to these provisional amounts will be reported as a component of income tax expense (benefit) in the reporting period in which any such adjustments are determined. The Company will not extend the measurement period beyond December 22, 2018.

As a result of the Tax Reform Act, compensation paid to our covered employees in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain written binding arrangements that were in place as of November 2, 2017 and that have not been materially modified after such date. Because of ambiguities and uncertainties as to the application and interpretation of Section 162(m), including the uncertain application of transition relief to companies that had not been subject to Section 162(m) prior to the effectiveness of the Tax Reform Act, it is unclear whether or to what extent the deferred tax assets related to amounts paid or payable by the Company to covered employees after January 1, 2018 pursuant to written binding arrangements that were in place on November 2, 2017 will be subject to the \$1 million dollar deduction limit of Section 162(m).

In management's judgment, the gross deferred income tax asset as of December 31, 2017 (Successor Company) will more likely than not be fully realized. The Company has recognized a valuation allowance of \$5.0 million and \$9.2 million as of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively, related to state-based loss carryforwards that it has determined are more likely than not to expire unutilized. This resulting favorable change of \$4.2 million, before federal income taxes, decreased state income tax expense in 2017 by the same amount.

At December 31, 2017 (Successor Company), the Company has non-life net operating loss carryforwards for federal income tax purposes of \$259.6 million, which are available to offset future non-life group federal taxable income (and life group taxable income with limitations) and begin to expire in 2035. The Company also has life net operating loss carryforwards for federal income tax purposes of \$578.3 million which are available to offset both future life group taxable income and non-life group taxable income through 2031. Alternative minimum tax credits of \$8.9 million are available to offset regular tax beginning in 2018, as a result of The Tax Reform Act, with any remaining credits being fully refundable beginning in 2021. Foreign tax credits of \$7.2 million are available to offset both future life group income tax and non-life group income tax and will begin to expire in 2024. Research and Development credits of \$1.2 million are available to offset both future life group income tax and non-life group income tax and will begin to expire in 2036. In addition, included in the deferred income tax assets above are approximately \$22.8 million in state net operating loss carryforwards attributable to certain jurisdictions, which are available to offset future tax in the respective state jurisdictions, expiring between 2018 and 2036.

As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), some of the Company's fixed maturities were reported at an unrealized loss, although the net amount is an unrealized gain at December 31, 2017 (Successor Company). If the Company were to realize a tax-basis net capital loss for a year, then such loss could not be deducted against that year's other taxable income. However, such a loss could be carried back and forward against any prior year or future year tax-basis net capital gains. Therefore, the Company has relied upon a prudent and feasible tax-planning strategy regarding its fixed maturities that were reported at an unrealized loss. The Company has the ability and the intent to either hold such fixed maturities to maturity, thereby avoiding a realized loss, or to generate an offsetting realized gain from unrealized gain fixed maturities if such unrealized loss fixed

maturities are sold at a loss prior to maturity.

182

---

Table of Contents

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

|   | Successor Company      |          |            | Predecessor Company    |
|---|------------------------|----------|------------|------------------------|
|   | As of                  | As of    | February   | January 1,             |
|   | December               | December | 1, 2015    | 2015                   |
|   | 2017                   | 31, 2016 | December   | to                     |
|   |                        |          | 31, 2015   | January 31,            |
|   |                        |          |            | 2015                   |
|   | (Dollars In Thousands) |          |            | (Dollars In Thousands) |
| Balance, beginning of period                    | \$9,856                | \$13,138 | \$137,593  | \$193,244              |
| Additions for tax positions of the current year | 1,857                  | 2,122    | 2,213      | (5,010 )               |
| Additions for tax positions of prior years      | 70                     | 1,318    | 1,811      | 7,724                  |
| Reductions of tax positions of prior years:     |                        |          |            |                        |
| Changes in judgment                             | (430 )                 | (975 )   | (16,416 )  | (58,365 )              |
| Settlements during the period                   | —                      | (5,747 ) | (112,063 ) | —                      |
| Lapses of applicable statute of limitations     | —                      | —        | —          | —                      |
| Balance, end of period                          | \$11,353               | \$9,856  | \$13,138   | \$137,593              |

Included in the end of period balance above, as of December 31, 2017 (Successor Company), December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), are approximately \$0.7 million, \$0.7 million, \$5.6 million, and \$126.0 million of unrecognized tax benefits, respectively, for which the ultimate deductibility is certain but for which there is uncertainty about the timing of such deductions. Other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective income tax rate but would accelerate to an earlier period the payment of cash to the taxing authority. The total amount of unrecognized tax benefits, if recognized, that would affect the effective income tax rate is approximately \$10.7 million, \$9.2 million, \$7.5 million, and \$11.5 million for the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

Any accrued interest related to the unrecognized tax benefits and other accrued income taxes have been included in income tax expense. These amounts were a \$2.4 million benefit, a \$3.1 million benefit, a \$1.6 million detriment, and a \$0.9 million benefit for the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. The Company has approximately \$1.1 million, \$2.8 million, \$15.4 million, and \$12.7 million of accrued interest associated with unrecognized tax benefits as of December 31, 2017 (Successor Company), as of December 31, 2016 (Successor Company), as of December 31, 2015 (Successor company), and as of January 31, 2015 (Predecessor Company), respectively (before taking into consideration the related income tax benefit that is associated with such an expense).

In June 2012, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and sought resolution at the IRS' Appeals Division. In October 2015, Appeals accepted the Company's earlier proposed settlement offer. In September 2015, the IRS proposed favorable and unfavorable adjustments to the Company's 2008 through 2011 reported taxable income. The Company agreed to these adjustments. In April 2017, a routine review by Congress' Joint Committee on Taxation was finalized without change and the Company received an approximate \$6.2 million net refund in the fourth quarter of 2017.

The resulting net adjustment to the Company's current income taxes for the years 2003 through 2011 did not materially affect the Company or its effective tax rate.

In July 2016, the IRS proposed favorable and unfavorable adjustments to the Company's 2012 and 2013 reported taxable income. The Company agreed to these adjustments. The resulting settlement paid in September 2016 did not

materially impact the Company or its effective tax rate.

These agreements with the IRS are the primary cause for the reductions of unrecognized tax benefits shown in the above chart. The Company believes that in the next 12 months, \$0.7 million of the unrecognized tax benefits will be reduced due to recent changes in tax law. In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2014. Due to the aforementioned IRS adjustments to the Company's pre-2014 taxable income, the Company is amending certain of its 2003 through 2013 state income tax returns. Such amendments will cause such years to remain open, pending the states' acceptances of the returns.

During the year ended December 31, 2016 (Successor Company), the Company filed a non-automatic tax accounting method change related to income recognition for unearned premium reserve and discounted loss reserve for claims incurred. The IRS accepted the Company's request for the non-automatic tax accounting method. This change did not materially impact the Company or its effective tax rate.

#### 19. SUPPLEMENTAL CASH FLOW INFORMATION

The following table sets forth supplemental cash flow information:

183

---



Table of Contents

|   | Successor Company                |                                      |                                       | Predecessor Company                 |
|---|----------------------------------|--------------------------------------|---------------------------------------|-------------------------------------|
|   | For The Year Ended December 2017 | For The Year Ended December 31, 2016 | February 1, 2015 to December 31, 2015 | January 1, 2015 to January 31, 2015 |
|   | (Dollars In Thousands)           |                                      |                                       | (Dollars In Thousands)              |
| Cash paid / (received) during the year:     |                                  |                                      |                                       |                                     |
| Interest on debt                            | \$253,708                        | \$234,928                            | \$124,829                             | \$22,802                            |
| Income taxes                                | (14,163)                         | 112,886                              | (53,486)                              | (1)                                 |
| Noncash investing and financing activities: |                                  |                                      |                                       |                                     |
| Stock-based compensation                    | —                                | —                                    | —                                     | 1,550                               |

Total cash interest paid on debt for the year ended December 31, 2017 (Successor Company), was \$253.7 million. Of this amount, \$58.7 million related to interest on debt, \$20.2 million related to interest on subordinated debt, \$6.3 million on repurchase agreements, and \$168.5 million related to non-recourse funding obligations and other obligations.

## 20. RELATED PARTY TRANSACTIONS

Certain corporations with which the Company's directors were affiliated paid us premiums and policy fees or other amounts for various types of insurance and investment products, interest on bonds we own and commissions on securities underwriting in which our affiliates participated. Such amounts totaled \$6.8 million, \$7.2 million, \$45.3 million, and \$2.6 million, for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively. The Company paid commissions, interest on debt and investment products, and fees to these same corporations totaling \$6.5 million, \$8.6 million, \$10 million, and \$0.8 million for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

Prior to the Merger, the Company had no related party transactions with Dai-ichi Life. During the periods ending December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company paid a management fee to Dai-ichi Life of \$10.9 million and \$6.4 million for certain services provided to the Company, respectively.

The Company paid \$143.8 million and \$89.3 million of dividends during the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), respectively, to its parent, Dai-ichi Life. The Company has guaranteed PLICO's obligations for borrowings or letters of credit under the revolving line of credit arrangement to which the Company is also a party. The Company has also issued guarantees, entered into support agreements and/or assumed a duty to indemnify its indirect wholly owned captive insurance companies in certain respects.

The Company guarantees the obligations of PLICO under a synthetic lease entered into by PLICO, as lessee, with a non-affiliated third party, as lessor. Under the terms of the synthetic lease, financing of \$75 million was available to PLICO for construction of an office building and parking deck which was completed on February 1, 2000. The synthetic lease was amended and restated as of December 19, 2013, wherein as of December 31, 2017, the Company continues to guarantee the obligations of PLICO thereunder.

The Company has agreements with certain of its subsidiaries under which it supplies investment, legal and data processing services on a fee basis and provides other managerial and administrative services on a shared cost basis. Such other managerial and administrative services include but are not limited to accounting, financial reporting, compliance services, reinsurance administration, tax reporting, reserve computation, and projections.

The Company has an intercompany capital support agreement with Shades Creek Captive Insurance Company ("Shades Creek"), a direct wholly owned subsidiary. The agreement provides through a guarantee that the Company will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek's regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. As of December 31, 2017 (Successor Company), Shades Creek maintained capital levels in excess of the required minimum thresholds. The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

#### 21. STATUTORY REPORTING PRACTICES AND OTHER REGULATORY MATTERS

The Company's insurance subsidiaries prepare statutory financial statements for regulatory purposes in accordance with accounting practices prescribed by the NAIC and the applicable state insurance department laws and regulations. These financial statements vary materially from GAAP. Statutory accounting practices include publications of the NAIC, state laws, regulations, general administrative rules as well as certain permitted accounting practices granted by the respective state insurance department. Generally, the most significant differences are that statutory financial statements do not reflect 1) deferred acquisition costs and VOBA, 2) benefit liabilities that are calculated using Company estimates of expected mortality, interest, and withdrawals,

Table of Contents

3) deferred income taxes that are not subject to statutory limits, 4) recognition of realized gains and losses on the sale of securities in the period they are sold, and 5) fixed maturities recorded at fair values, but instead at amortized cost. Statutory net income (loss) for PLICO was \$731.2 million, \$(391.6) million, and \$440 million for the year ended December 31, 2017, 2016 and 2015, respectively. Statutory capital and surplus for PLICO was \$4.3 billion and \$4.2 billion as of December 31, 2017 and 2016, respectively. The Statutory net loss incurred by PLICO for the year ended December 31, 2016 was caused by the required Statutory accounting treatment of the initial gain recognized on the retrocession of the term business assumed from Genworth Life and Annuity Insurance Company to Golden Gate Captive Insurance Company, which resulted in approximately a \$1.2 billion gain being included as a component of surplus, rather than reflected in Statutory net income as of the January 15, 2016 cession date.

The Company's insurance subsidiaries are subject to various state statutory and regulatory restrictions on the insurance subsidiaries' ability to pay dividends to Protective Life Corporation. In general, dividends up to specified levels are considered ordinary and may be paid without prior approval of the insurance commissions of the state of domicile. Dividends in larger amounts are considered extraordinary and are subject to prior approval by such commissioner. The maximum amount that would qualify as ordinary dividends to the Company from our insurance subsidiaries, and which would consequently be free from restriction and available for the payment of dividends to the Company's shareowner in 2018 is approximately \$853.2 million. This results in approximately \$6.3 billion of the Company's net assets being restricted from transfer to PLC without prior approval from the respective state insurance department. State insurance regulators and the National Association of Insurance Commissioners ("NAIC") have adopted risk-based capital ("RBC") requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile.

A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to the RBC. Under specific RBC requirements, regulatory compliance is determined by the ratio of a company's total adjusted capital, as defined by the insurance regulators, to its company action level of RBC (known as the RBC ratio), also as defined by insurance regulators. As of December 31, 2017, the Company's total adjusted capital and company action level RBC were approximately \$4.7 billion and \$759.3 million, respectively, providing an RBC ratio of approximately 614%.

Additionally, the Company has certain assets that are on deposit with state regulatory authorities and restricted from use. As of December 31, 2017, the Company's insurance subsidiaries had on deposit with regulatory authorities, fixed maturity and short-term investments with a fair value of approximately \$42.4 million.

The states of domicile of the Company's insurance subsidiaries have adopted prescribed accounting practices that differ from the required accounting outlined in NAIC Statutory Accounting Principles ("SAP"). The insurance subsidiaries also have certain accounting practices permitted by the states of domicile that differ from those found in NAIC SAP.

Certain prescribed practices impact the statutory surplus of PLICO, the Company's primary operating subsidiary. These practices include the non-admission of goodwill as an asset for statutory reporting.

The favorable (unfavorable) effects of PLICO's statutory surplus, compared to NAIC statutory surplus, from the use of this prescribed practices was as follows:

|                           | As of        |         |
|---------------------------|--------------|---------|
|                           | December 31, |         |
|                           | 2017         | 2016    |
|                           | (Dollars In  |         |
|                           | Millions)    |         |
| Non-admission of goodwill | \$(219)      | \$(257) |
| Total (net)               | \$(219)      | \$(257) |

The Company also has certain prescribed and permitted practices which are applied at the subsidiary level and do not have a direct impact on the statutory surplus of PLICO. These practices include permission to follow the actuarial

guidelines of the domiciliary state of the ceding insurer for certain captive reinsurers, accounting for the face amount of all issued, and outstanding letters of credit and a note issued by an affiliate as assets in the statutory financial statements of certain wholly owned subsidiaries that are considered "Special Purpose Financial Captives", and a reserve difference related to a captive insurance company.

185

---

Table of Contents

The favorable (unfavorable) effects on the statutory surplus of the Company's insurance subsidiaries, compared to NAIC statutory surplus, from the use of these prescribed and permitted practices were as follows:

|   | As of        |           |
|---|--------------|-----------|
|   | December 31, | 2017 2016 |
|   | (Dollars In  |           |
|   | Millions)    |           |
| Accounting for Letters of Credit as admitted assets         | \$1,670      | \$1,720   |
| Accounting for certain notes as admitted assets             | \$2,634      | \$2,681   |
| Reserving based on state specific actuarial practices       | \$122        | \$120     |
| Reserving difference related to a captive insurance company | \$(37 )      | \$(109 )  |

**22. OPERATING SEGMENTS**

The Company has several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments and makes adjustments to its segment reporting as needed. A brief description of each segment follows.

The Life Marketing segment markets fixed UL, IUL, VUL, BOLI, and level premium term insurance ("traditional") products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, independent distribution organizations, and affinity groups.

The Acquisitions segment focuses on acquiring, converting, and servicing policies and contracts acquired from other companies. The segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically 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 Annuities segment markets fixed and VA products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.

The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. This segment also issues funding agreements to the FHLB, and markets GICs to 401(k) and other qualified retirement savings plans. The Company also has an unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.

The Asset Protection segment markets extended service contracts, GAP products, credit life and disability insurance, and other specialized ancillary products to protect consumers' investments in automobiles, recreational vehicles, watercraft, and powersports. GAP covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss. Each type of specialized ancillary product protects against damage or other loss to a particular aspect of the underlying asset.

The Corporate and Other segment primarily consists of net investment income on assets supporting our equity capital, unallocated corporate overhead and expenses not attributable to the segments above (including interest on corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various financing and investment related transactions, and the operations of several small subsidiaries.

The Company's management and Board of Directors analyzes and assesses the operating performance of each segment using "pre-tax adjusted operating income (loss)" and "after-tax adjusted operating income (loss)". Consistent with GAAP accounting guidance for segment reporting, pre-tax adjusted operating income (loss) is the Company's measure of segment performance. Pre-tax adjusted operating income (loss) is calculated by adjusting "income (loss) before income tax," by excluding the following items:

- realized gains and losses on investments and derivatives,
- changes in the GLWB embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,

actual GLWB incurred claims, and  
the amortization of DAC, VOBA, and certain policy liabilities that is impacted by the exclusion of these items. The items excluded from adjusted operating income (loss) are important to understanding the overall results of operations. Pre-tax adjusted operating income (loss) and after-tax adjusted operating income (loss) are not substitutes for income before income taxes or net income (loss), respectively. These measures may not be comparable to similarly titled measures reported by other companies. The Company believes that pre-tax and after-tax adjusted operating income (loss) enhances management's and the Board of Directors' understanding of the ongoing operations, the underlying profitability of each segment, and helps facilitate the allocation of resources.

Table of Contents

After-tax adjusted operating income (loss) is derived from pre-tax adjusted operating income (loss) with the inclusion of income tax expense or benefits associated with pre-tax adjusted operating income. Income tax expense or benefits is allocated to the items excluded from pre-tax adjusted operating income (loss) at the statutory federal income tax rate for the associated period. For periods ending on and prior to December 31, 2017, a rate of 35% was used. Beginning in 2018, a statutory federal income tax rate of 21% will be used to allocate income tax expense or benefits to items excluded from pre-tax adjusted operating income (loss). Income tax expense or benefits allocated to after-tax adjusted operating income (loss) can vary period to period based on changes in the Company's effective income tax rate.

In determining the components of the pre-tax adjusted operating income (loss) for each segment, premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC and VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

During 2016, the Company modified its labeling of its non-GAAP measures presented herein as "Adjusted operating income (loss)" or "Pre-tax adjusted operating income (loss)". In previous filings, the Company referred to "Pre-tax adjusted operating income (loss)" as "Pre-tax operating income", "Operating income before tax", or "Segment operating income". In addition, the Company referred to "After-tax adjusted operating income (loss)" as "After-tax operating income" or "Operating earnings". The definition of these labels remains unchanged, but the Company has modified the labels to provide further clarity that these measures are non-GAAP.

There were no significant intersegment transactions during the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

Table of Contents

The following tables presents a summary of results and reconciles pre-tax adjusted operating income (loss) to consolidated income before income tax and net income (Predecessor and Successor periods are not comparable):

|  | Successor Company      |             |             | Predecessor Company    |
|--|------------------------|-------------|-------------|------------------------|
|  | For The                | For The     | February 1, | January 1,             |
|  | Year Ended             | Year Ended  | 2015        | 2015                   |
|  | December 31,           | December    | to          | to                     |
|  | 2017                   | 31, 2016    | December    | January 31,            |
|  |                        |             | 31, 2015    | 2015                   |
|  | (Dollars In Thousands) |             |             | (Dollars In Thousands) |
| Revenues   |                        |             |             |                        |
| Life Marketing   | \$1,667,118            | \$1,627,848 | \$1,426,090 | \$145,595              |
| Acquisitions   | 1,569,083              | 1,676,017   | 1,333,430   | 139,761                |
| Annuities  | 450,306                | 574,934     | 443,419     | 7,884                  |
| Stable Value Products                                  | 190,006                | 114,580     | 79,670      | 8,181                  |
| Asset Protection                                       | 327,573                | 269,145     | 261,693     | 21,953                 |
| Corporate and Other                                    | 214,706                | 221,423     | 166,367     | 17,535                 |
| Total revenues   | \$4,418,792            | \$4,483,947 | \$3,710,669 | \$340,909              |
| Pre-tax Adjusted Operating Income (Loss)               |                        |             |             |                        |
| Life Marketing   | \$50,778               | \$39,745    | \$57,414    | \$(1,618 )             |
| Acquisitions   | 249,749                | 260,511     | 194,654     | 20,134                 |
| Annuities  | 213,080                | 213,293     | 180,231     | 13,164                 |
| Stable Value Products                                  | 105,261                | 61,294      | 56,581      | 4,529                  |
| Asset Protection                                       | 24,356                 | 16,487      | 20,627      | 2,420                  |
| Corporate and Other                                    | (136,332 )             | (87,961 )   | (25,067 )   | (10,144 )              |
| Pre-tax adjusted operating income                      | 506,892                | 503,369     | 484,440     | 28,485                 |
| Realized gains (losses) on investments and derivatives | (71,835 )              | 90,628      | (84,598 )   | (27,303 )              |
| Income before income tax                               | 435,057                | 593,997     | 399,842     | 1,182                  |
| Income tax (benefit) expense                           | (671,475 )             | 200,968     | 131,543     | (327 )                 |
| Net income   | \$1,106,532            | \$393,029   | \$268,299   | \$1,509                |
| Pre-tax adjusted operating income                      | \$506,892              | \$503,369   | \$484,440   | \$28,485               |
| Adjusted operating income tax benefit (expense)        | 646,333                | (169,247 )  | (161,153 )  | (9,228 )               |
| After-tax adjusted operating income                    | 1,153,225              | 334,122     | 323,287     | 19,257                 |
| Realized gains (losses) on investments and derivatives | (71,835 )              | 90,628      | (84,598 )   | (27,303 )              |
| Income tax (expense) benefit on adjustments            | 25,142                 | (31,721 )   | 29,610      | 9,555                  |
| Net income   | \$1,106,532            | \$393,029   | \$268,299   | \$1,509                |
| Realized investment (losses) gains:                    |                        |             |             |                        |
| Derivative financial instruments                       | \$(305,828 )           | \$(40,288 ) | \$29,997    | \$(123,274 )           |
| All other investments                                  | 121,428                | 90,659      | (166,886 )  | 81,153                 |
| Net impairment losses recognized in earnings           | (11,742 )              | (17,748 )   | (26,993 )   | (481 )                 |
| Less: related amortization <sup>(1)</sup>              | (39,480 )              | 24,360      | (8,726 )    | (9,143 )               |
| Less: VA GLWB economic cost                            | (84,827 )              | (82,365 )   | (70,558 )   | (6,156 )               |
| Realized (losses) gains on investments and derivatives | \$(71,835 )            | \$90,628    | \$(84,598 ) | \$(27,303 )            |

(1) Includes amortization of DAC/VOBA and benefits and settlement expenses that are impacted by realized gains (losses).





Table of Contents

|                                    | Successor Company        |                     |                    | Predecessor Company    |
|------------------------------------|--------------------------|---------------------|--------------------|------------------------|
|                                    | For The                  | For The             | February 1,        | January 1,             |
|                                    | Year Ended               | Year Ended          | 2015               | 2015                   |
|                                    | December 31,             | December 31,        | to                 | to                     |
|                                    | 2017                     | 2016                | December 31,       | January 31,            |
|                                    |                          |                     | 2015               | 2015                   |
|                                    | (Dollars In Thousands)   |                     |                    | (Dollars In Thousands) |
| Net investment income              |                          |                     |                    |                        |
| Life Marketing                     | \$553,999                | \$525,495           | \$446,439          | \$47,460               |
| Acquisitions                       | 752,520                  | 764,571             | 639,422            | 71,088                 |
| Annuities                          | 321,844                  | 322,608             | 297,114            | 37,189                 |
| Stable Value Products              | 186,576                  | 107,010             | 78,459             | 6,888                  |
| Asset Protection                   | 27,325                   | 22,082              | 17,459             | 1,878                  |
| Corporate and Other                | 209,324                  | 200,690             | 154,055            | 10,677                 |
| Total net investment income        | \$2,051,588              | \$1,942,456         | \$1,632,948        | \$175,180              |
| Amortization of DAC and VOBA       |                          |                     |                    |                        |
| Life Marketing                     | \$120,753                | \$130,708           | \$107,811          | \$4,813                |
| Acquisitions                       | (6,939)                  | ) 8,178             | 2,035              | 5,033                  |
| Annuities                          | (54,471)                 | ) (11,031)          | ) (41,071)         | ) (7,706)              |
| Stable Value Products              | 2,354                    | 1,176               | 43                 | 25                     |
| Asset Protection                   | 16,524                   | 20,033              | 25,211             | 1,820                  |
| Corporate and Other                | —                        | —                   | 27                 | 87                     |
| Total amortization of DAC and VOBA | \$78,221                 | \$149,064           | \$94,056           | \$4,072                |
| Successor Company                  |                          |                     |                    |                        |
|                                    | Operating Segment Assets |                     |                    |                        |
|                                    | As of December 31, 2017  |                     |                    |                        |
|                                    | (Dollars In Thousands)   |                     |                    |                        |
|                                    | Life Marketing           | Acquisitions        | Annuities          | Stable Value Products  |
| Investments and other assets       | \$14,914,418             | \$19,588,133        | \$20,938,409       | \$4,569,639            |
| DAC and VOBA                       | 1,320,776                | 74,862              | 772,634            | 6,864                  |
| Other intangibles                  | 282,361                  | 34,548              | 170,117            | 8,056                  |
| Goodwill                           | 200,274                  | 14,524              | 336,677            | 113,813                |
| Total assets                       | \$16,717,829             | \$19,712,067        | \$22,217,837       | \$4,698,372            |
|                                    | Asset Protection         | Corporate and Other | Total Consolidated |                        |
| Investments and other assets       | \$918,952                | \$15,043,597        | \$75,973,148       |                        |
| DAC and VOBA                       | 24,441                   | —                   | 2,199,577          |                        |
| Other intangibles                  | 133,234                  | 35,256              | 663,572            |                        |
| Goodwill                           | 128,182                  | —                   | 793,470            |                        |
| Total assets                       | \$1,204,809              | \$15,078,853        | \$79,629,767       |                        |

Table of Contents

## Successor Company

Operating Segment Assets  
As of December 31, 2016  
(Dollars In Thousands)

|                              | Life<br>Marketing   | Acquisitions           | Annuities             | Stable<br>Value<br>Products |
|------------------------------|---------------------|------------------------|-----------------------|-----------------------------|
| Investments and other assets | \$ 14,050,170       | \$ 19,679,690          | \$ 20,243,333         | \$ 3,373,646                |
| DAC and VOBA                 | 1,218,944           | 106,532                | 655,618               | 5,455                       |
| Other intangibles            | 301,399             | 37,103                 | 183,449               | 8,722                       |
| Goodwill                     | 200,274             | 14,524                 | 336,677               | 113,813                     |
| Total assets                 | \$ 15,770,787       | \$ 19,837,849          | \$ 21,419,077         | \$ 3,501,636                |
|                              | Asset<br>Protection | Corporate<br>and Other | Total<br>Consolidated |                             |
| Investments and other assets | \$ 1,013,399        | \$ 13,141,759          | \$ 71,501,997         |                             |
| DAC and VOBA                 | 33,280              | —                      | 2,019,829             |                             |
| Other intangibles            | 143,865             | 13,545                 | 688,083               |                             |
| Goodwill                     | 128,182             | —                      | 793,470               |                             |
| Total assets                 | \$ 1,318,726        | \$ 13,155,304          | \$ 75,003,379         |                             |

**23. CONSOLIDATED QUARTERLY RESULTS—UNAUDITED**

The Company's unaudited consolidated quarterly operating data for the year ended December 31, 2017 (Successor Company) and for the year ended December 31, 2016 (Successor Company) is presented below. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair statement of quarterly results have been reflected in the following data. It is also management's opinion, however, that quarterly operating data for insurance enterprises are not necessarily indicative of results that may be expected in succeeding quarters or years. In order to obtain a more accurate indication of performance, there should be a review of operating results, changes in shareowner's equity, and cash flows for a period of several quarters.

Table of Contents

|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| (Dollars In Thousands)                       |                  |                   |                  |                   |
| Successor Company                            |                  |                   |                  |                   |
| For The Year Ended December 31, 2017         |                  |                   |                  |                   |
| Premiums and policy fees                     | \$860,586        | \$868,139         | \$855,088        | \$893,606         |
| Reinsurance ceded                            | (316,076 )       | (342,898 )        | (325,120 )       | (376,641 )        |
| Net of reinsurance ceded                     | 544,510          | 525,241           | 529,968          | 516,965           |
| Net investment income                        | 506,413          | 507,771           | 507,914          | 529,490           |
| Realized investment gains (losses)           | (47,037 )        | (54,471 )         | (64,191 )        | (18,701 )         |
| Net impairment losses recognized in earnings | (7,831 )         | (2,785 )          | (273 )           | (853 )            |
| Other income                                 | 109,242          | 111,311           | 110,970          | 115,139           |
| Total revenues                               | 1,105,297        | 1,087,067         | 1,084,388        | 1,142,040         |
| Total benefits and expenses                  | 992,948          | 961,299           | 973,538          | 1,055,950         |
| Income before income tax                     | 112,349          | 125,768           | 110,850          | 86,090            |
| Income tax expense (benefit)                 | 36,935           | 41,500            | 28,308           | (778,218 )        |
| Net income                                   | \$75,414         | \$84,268          | \$82,542         | \$864,308         |

|  | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter |
|--|------------------|-------------------|------------------|-------------------|
| (Dollars In Thousands)                       |                  |                   |                  |                   |
| Successor Company                            |                  |                   |                  |                   |
| For The Year Ended December 31, 2016         |                  |                   |                  |                   |
| Premiums and policy fees                     | \$852,795        | \$857,948         | \$834,544        | \$862,644         |
| Reinsurance ceded                            | (310,327 )       | (336,605 )        | (322,229 )       | (345,555 )        |
| Net of reinsurance ceded                     | 542,468          | 521,343           | 512,315          | 517,089           |
| Net investment income                        | 475,117          | 488,460           | 482,729          | 496,150           |
| Realized investment gains (losses)           | 8,229            | 5,417             | 24,268           | 12,457            |
| Net impairment losses recognized in earnings | (2,617 )         | (967 )            | (3,308 )         | (10,856 )         |
| Other income                                 | 103,716          | 102,148           | 107,642          | 102,147           |
| Total revenues                               | 1,126,913        | 1,116,401         | 1,123,646        | 1,116,987         |
| Total benefits and expenses                  | 955,071          | 947,740           | 990,567          | 996,572           |
| Income before income tax                     | 171,842          | 168,661           | 133,079          | 120,415           |
| Income tax expense                           | 56,494           | 56,541            | 39,785           | 48,148            |
| Net income                                   | \$115,348        | \$112,120         | \$93,294         | \$72,267          |

**24. SUBSEQUENT EVENTS**

The Company has evaluated the effects of events subsequent to December 31, 2017 (Successor Company), and through the date we filed our consolidated financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated financial statements.

On January 18, 2018, PLICO and for the limited purposes set forth therein, the Company, entered into a Master Transaction Agreement (the "Master Transaction Agreement") with Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company, for the limited purposes set forth therein, Liberty Mutual Group Inc. ("Liberty Mutual"), The Lincoln National Life Insurance Company ("Lincoln Life"), and for the limited purposes set forth therein, Lincoln National Corporation, pursuant to which Lincoln Life will acquire Liberty Mutual's Group Benefits Business and Individual Life and Annuity Business (the "Life Business") through the acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston ("Liberty") (the "Transaction"). Pursuant to the Master Transaction Agreement, the Company, PLICO and Protective Life and Annuity Insurance Company

("PLAIC"), a wholly owned subsidiary of PLICO, agreed to enter into reinsurance agreements and related ancillary documents at the closing of the Transaction. On the terms and subject to the conditions of the reinsurance agreements, Liberty will cede to PLICO and PLAIC, effective as of the closing of the Transaction, substantially all of the insurance

Table of Contents

policies relating to the Life Business. The aggregate statutory reserves of Liberty to be ceded to PLICO and PLAIC as of the closing of the Transaction are expected to be approximately \$13.0 billion. To support its obligations under the reinsurance agreements, PLICO and PLAIC will each establish a trust account for the benefit of Lincoln Life. Entry into the reinsurance agreements represents an estimated capital investment by PLICO of approximately \$1.17 billion. The transaction is expected to be completed in the second quarter of 2018, pending regulatory approvals and other customary closing conditions.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowner of Protective Life Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Protective Life Corporation and its subsidiaries (the "Company" or "Successor Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), shareowner's equity and cash flows for the years ended December 31, 2017 and 2016, and for the period from February 1, 2015 to December 31, 2015, including the related notes and financial statement schedules listed in the index appearing under Item 15(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years ended December 31, 2017 and 2016 and for the period from February 1, 2015 to December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Controls over Financial Reporting" appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included

performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### Basis of Accounting

As discussed in Note 1 to the consolidated financial statements, the Company was acquired on February 1, 2015 by The Dai-ichi Life Insurance Company, Limited. The Company elected to apply “pushdown” accounting as of the acquisition date.

#### Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.



Table of Contents

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Birmingham, Alabama

March 2, 2018

We have served as the Company's auditor since 1974.

194

---

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowner of  
Protective Life Corporation

In our opinion, the consolidated statements of income, comprehensive income (loss), shareowner's equity and cash flows for the period from January 1, 2015 to January 31, 2015 present fairly, in all material respects, the results of operations and cash flows of Protective Life Corporation and its subsidiaries (the "Predecessor Company") for the period from January 1, 2015 to January 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules for the period from January 1, 2015 to January 31, 2015 listed in the index appearing under Item 15(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audit. We conducted our audit of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company was acquired on February 1, 2015 by The Dai-ichi Life Insurance Company, Limited. The Company elected to apply the "pushdown" basis of accounting as of the acquisition date.

Birmingham, Alabama  
February 25, 2016

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure  
None.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

In order to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), except as otherwise noted below. Based on their evaluation as of the end of the period covered by this Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

(b) Management's Report on Internal Controls Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework (2013).

Based on the Company's assessment of internal control over financial reporting, management has concluded that, as of December 31, 2017, the Company's internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included in Item 8.

March 2, 2018



Table of Contents

(c) Changes in Internal Control Over Financial Reporting

During the third quarter of 2017, the Company implemented components of SAP's enterprise resource planning ("ERP") solution, which includes a new general ledger, a new consolidation system, and new financial reporting tools. The upgraded ERP system represents a systems improvement initiative designed to provide more effective management of our business operations as we continue to grow in size and scale. This initiative was not undertaken in response to any identified deficiency in the Company's internal control over financial reporting. The Company's internal controls exist within a dynamic environment, and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

There were no other changes in the Company's internal control over financial reporting during the annual period ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

Table of Contents

## PART III

## Item 10. Directors, Executive Officers and Corporate Governance

The current executive officers and directors of the Company are as follows:

| Name                   | Age<br>(as of 2/1/2018) | Title  |
|------------------------|-------------------------|--|
| John D. Johns          | 65                      | Executive Chairman of the Company and a Director             |
| Richard J. Bielen      | 57                      | President, Chief Executive Officer and a Director            |
| D. Scott Adams         | 53                      | Executive Vice President and Chief Administrative Officer    |
| Mark L. Drew           | 56                      | Executive Vice President and General Counsel                 |
| Deborah J. Long        | 64                      | Executive Vice President, Chief Legal Officer, and Secretary |
| Michael G. Temple      | 55                      | Executive Vice President, Finance and Risk                   |
| Carl S. Thigpen        | 61                      | Executive Vice President and Chief Investment Officer        |
| Steven G. Walker       | 58                      | Executive Vice President and Chief Financial Officer         |
| Shinichi Aizawa        | 57                      | Director   |
| Tomohiko Asano         | 50                      | Director   |
| Vanessa Leonard        | 57                      | Director   |
| John J. McMahon, Jr.   | 75                      | Director   |
| Ungyong Shu            | 55                      | Director   |
| Jesse J. Spikes        | 67                      | Director   |
| William A. Terry       | 60                      | Director   |
| W. Michael Warren, Jr. | 70                      | Director   |

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 Executive Chairman of the Company since July 2017. He previously served as Chairman of the Board of the Company from January 2003 to July 2017 and Chief Executive Officer of the Company from December 2001 to July 2017. He has been a director of the Company since May 1997. From August 1996 to January 2016, Mr. Johns also served as President of the Company. Mr. Johns has been employed by the Company and its subsidiaries since 1993.

Mr. Bielen has been Chief Executive Officer of the Company since July 2017 and President of the Company since January 2016. From January 2016 to July 2017, Mr. Bielen also served as Chief Operating Officer of the Company. From June 2007 to January 2016, Mr. Bielen served as Vice Chairman and Chief Financial Officer of the Company. From August 2006 to June 2007, Mr. Bielen served as Executive Vice President, Chief Investment Officer, and Treasurer of the Company. Mr. Bielen became a director of the Company on February 1, 2015. Mr. Bielen has been employed by the Company and its subsidiaries since 1991.

Mr. Adams has been Executive Vice President and Chief Administrative Officer of the Company since January 2016. From April 2006 to January 2016, Mr. Adams served as Senior Vice President and Chief Human Resources Officer of the Company.

Mr. Drew has been Executive Vice President and General Counsel of the Company since August 2016. From 2006 to August 2016, Mr. Drew served as Managing Shareholder of Maynard Cooper & Gale, P.C., a Birmingham, Alabama based law firm, where Mr. Drew worked from 1988 until July 2016.

Ms. Long has been Executive Vice President, Chief Legal Officer, and Secretary of the Company since August 2016. From March 2007 to August 2016, Ms. Long served as Executive Vice President, General Counsel, and Secretary of the Company, and from January 2016 to August 2016, Ms. Long also served as Chief Legal Officer of the Company. Ms. Long has been employed by the Company and its subsidiaries since 1994.

Mr. Temple has been Executive Vice President, Finance and Risk of the Company since November 2016. From January 2016 to November 2016, Mr. Temple served as Executive Vice President, Finance and Risk, and Chief Risk Officer of the Company. From December 2012 to January 2016, Mr. Temple served as Executive Vice President and Chief Risk Officer of the Company. Prior to joining the Company, Mr. Temple served as Senior Vice President and Chief Risk Officer at Unum Group, an insurance company in Chattanooga, Tennessee.

Mr. Thigpen has been Executive Vice President and Chief Investment Officer of the Company since June 2007. From January 2002 to June 2007, Mr. Thigpen served as Senior Vice President and Chief Mortgage and Real Estate Officer of the Company. Mr. Thigpen has been employed by the Company and its subsidiaries since 1984.

Mr. Walker has been Executive Vice President and Chief Financial Officer of the Company since January 2016. From January 2016 to March 2017, Mr. Walker also served as Controller of the Company. From March 2004 to January 2016, Mr. Walker

Table of Contents

served as Senior Vice President, Chief Accounting Officer, and Controller of the Company. Mr. Walker has been employed by the Company and its subsidiaries since 2002.

Certain of these executive officers also serve as executive officers and/or directors of various of the Company's subsidiaries.

**Qualification of Directors**

The Company's Board consists of 10 directors. The following summarizes some of the key experiences, qualifications, education, and other attributes of the current directors:

**Shinichi Aizawa.** From April 2017, Mr. Aizawa has served as the Senior Managing Executive Officer and General Manager of Dai-ichi Life Holdings, Inc. ("Dai-ichi Life") and, as of January 2018, also serves as the Director, President, and Chief Executive Officer of DLI North America Inc. Mr. Aizawa joined Dai-ichi Mutual Life Insurance Company (now Dai-ichi Life) in 1983 and has had various roles at Dai-ichi Life, including General Manager of the Investment Affiliated Enterprise Department, Staff General Manager of the Investment Planning Department, General Manager of the Investment Planning Department, Staff General Manager of the International Business Management Department, and Executive Vice President of Asset Management One Co., Ltd (formerly named DIAM Co., Ltd.). Mr. Aizawa has been an executive officer of Dai-ichi Life since April 2010. Mr. Aizawa served as the General Manager of the International Business Management Department. Mr. Aizawa has served as the Non-Executive Director of TAL (Australia). Mr. Aizawa also served as a Commissioner of Panin Dai-ichi Life (Indonesia) and was a member of the Members' Council of Dai-ichi Life Vietnam. Mr. Aizawa received a Bachelor of Laws degree from Waseda University in Tokyo, Japan. Mr. Aizawa became a Director for the Company in 2015. We believe that Mr. Aizawa's background in business, including his experience and service in investment and overseas business areas and investment planning knowledge, are valuable to us and our Board of Directors.

**Tomohiko Asano.** Mr. Asano joined Dai-ichi Mutual Life Insurance Company (now Dai-ichi Life) in 1990 and has had various roles at Dai-ichi Life, including General Manager of DIAM Co., Ltd. (now Asset Management One Co., Ltd), General Manager of the International Business Management Department, and Chief of the International Life Insurance Business Unit. Mr. Asano currently serves as Executive Officer and Chief of International Life Insurance Business Unit. Mr. Asano serves as a Director of TAL Dai-ichi Life Australia Pty Limited, TAL Life Limited, DLI North America Inc., and DLI Asia Pacific Pte. Ltd. Mr. Asano also serves as a Commissioner for PT Panin Dai-ichi Life and as a Vice-President Commissioner for PT Panin International. Mr. Asano earned a Bachelor of Arts in Economics from Keio University in Tokyo, Japan. Mr. Asano became a Director for the Company in April 2017. We believe that Mr. Asano's background in business, including his experience and service in international life insurance business and identifying and evaluating business opportunities, is valuable to us and our Board of Directors.

**Richard J. Bielen.** Mr. Bielen joined the Company in July 1991 as Vice President. In June 1996, Mr. Bielen became Senior Vice President of the Company; in January 2002, he became Chief Investment Officer and Treasurer of the Company; in August 2006, he became Executive Vice President of the Company; in June 2007 he became Vice Chairman and Chief Financial Officer of the Company; in January 2016, he became President and Chief Operating Officer of the Company; and in July 2017, he became Chief Executive Officer and President of the Company. Before joining Protective, Mr. Bielen was Senior Vice President of Oppenheimer & Company. Prior to joining Oppenheimer, Mr. Bielen was a Senior Accountant with Arthur Andersen and Company. Mr. Bielen is on the Board of Directors of Infinity Property and Casualty Corporation. Mr. Bielen serves on the Board of Directors of the United Way of Central Alabama and Children's of Alabama. Mr. Bielen is a former Director of the McWane Science Center. Mr. Bielen received his undergraduate degree and Masters of Business Administration from New York University. Mr. Bielen became a Director for the Company in 2015. We believe that Mr. Bielen's background in business; his skills and experience as a senior executive of the Company and Oppenheimer and as a leader in other business, civic, educational and charitable organizations; his knowledge and experience as a leader in the life insurance industry, along with his long-standing knowledge of the Company and his seasoned business judgment, are valuable to us and our Board of Directors.

**John D. Johns.** Mr. Johns joined Protective in October 1993 as Executive Vice President and Chief Financial Officer. In August 1996, Mr. Johns became President and Chief Operating Officer; in January 2002, he became President and Chief Executive Officer; in January 2003, he became Chairman, President and Chief Executive Officer;



in January 2016, he became the Chairman and Chief Executive Officer; and as of July 2017, he became Executive Chairman of the Company. Before joining Protective, Mr. Johns was Executive Vice President and General Counsel of Sonat Inc. Prior to joining Sonat, Mr. Johns was an attorney in private practice, focusing on commercial and financing transactions and the financial services industry. Mr. Johns is on the Boards of Directors of Regions Financial Corporation, Genuine Parts Company and The Southern Company. He is a Trustee of the Altamont School. He is on the executive committee of the American Council of Life Insurers and served as Chairman from 2013-2014. He is a member of the Financial Services Roundtable. He is a director of the Economic Development Partnership of Alabama and the Coalition for Regional Transportation. He has previously served on the Board of Trustees of The University of Alabama System and in a leadership role for the Birmingham Civil Rights Institute, other financial services industry associations, and civic and educational organizations. He was inducted into the Alabama Academy of Honor in 2013. Mr. Johns received an undergraduate degree from the University of Alabama and a Master of Business Administration and a Juris Doctorate from Harvard University. Mr. Johns became a Director for the Company in 1997. We believe that Mr. Johns' background in the practice of law; his skills and experience as a senior executive of the Company and Sonat; his experience as a leader in other business, civic, educational and charitable organizations; his knowledge and experience as a leader in the life insurance industry; his long-standing knowledge of the Company; and his seasoned business judgment are valuable to our Board of Directors.

Vanessa Leonard. Ms. Leonard is a practicing attorney and is a Principal at Leonard Mitchell Consulting. She provides consulting services for not-for-profit organizations, primarily in the areas of management, legal, and organizational behavior. She was previously a senior consultant and manager with KPMG, Higher Education Consulting, Southeast Market in Washington, D.C. and Atlanta, Georgia and a financial analyst for Emory University in Atlanta, Georgia. In her consulting and analyst roles, Ms. Leonard focused on management accounting matters (primarily governmental compliance and indirect cost accounting) for

Table of Contents

higher education institutions. Ms. Leonard is a member of the Board of Trustees of the University of Alabama, where she is Chairman of its Audit Committee and serves on its Physical Properties, Compensation, Finance, Nominating, Legal Affairs and Public Review Committees. Ms. Leonard is also a member of the Health Care Authority for Baptist Health Board and UAB Education Foundation Board. Ms. Leonard previously served on the Governor's Task Force to Strengthen Alabama's Families and the Board of the United Way for the Lake Martin Area in Alabama. Ms. Leonard received an undergraduate degree in Health Care Management from the University of Alabama, a Master of Business Administration from the University of Mississippi, and a Juris Doctorate from the University of Alabama School of Law. Ms. Leonard became a Director for the Company in 2004. We believe that Ms. Leonard's experience as an attorney; her management accounting experience and skills in the field of accounting and compliance with complicated regulations for large, complex organizations; and her leadership roles in civic and not-for-profit organizations are valuable to our Board of Directors.

**John J. McMahon, Jr.** Mr. McMahon is Chairman of Ligon Industries, LLC. Previously, Mr. McMahon was a lawyer in private practice in Birmingham, Alabama, before spending twenty-five years with McWane, Inc., a privately held manufacturing company with international operations having over twenty plants and over one billion dollars in sales. During his career at McWane, Inc., Mr. McMahon held numerous management positions, including President and Chairman of the Board, and negotiated over twenty-five acquisitions ranging from publicly held companies to small privately held companies. Mr. McMahon serves on the Board of Directors of ProAssurance Corporation, and he serves or has served on the Boards of Directors of other publicly and privately held companies, including National Bank of Commerce, Alabama National Bancorporation, John H. Harland Company, and Cooper/T. Smith Company. He was on the Board of Trustees of Birmingham-Southern College. He has also been a Director or Trustee of the Birmingham Airport Authority and the University of Alabama System. Mr. McMahon received his undergraduate degree from Birmingham-Southern College and a Juris Doctorate from the University of Alabama School of Law. Mr. McMahon became a Director for the Company in 1987. We believe that Mr. McMahon's background as a lawyer in private practice; his skills and his long experience as a senior executive of McWane and Ligon Industries; his experience as a leader in other business, civic, educational, and not-for-profit organizations; his long-standing knowledge of the financial services industry; and his seasoned business judgment are valuable to our Board of Directors.

**Ungyong Shu.** Mr. Shu is the President and Chief Executive Officer of Core Value Management Company, Limited, an advisory firm that he established in 2013. Mr. Shu worked in various positions for J.P. Morgan Securities Japan, Limited from 1986 to 2007. These positions included Mergers and Acquisitions Analyst, Corporate Finance Associate, Vice President of Investment Banking, head of Japan Financial Institutions Group, Managing Director, Co-Chief Operating Officer of Japan Investment Banking, and Senior Investor Client Management. Mr. Shu worked in various positions for Merrill Lynch Japan Securities Limited from 2007 to 2013. These positions included Chairman of Japan Financial Institutions Group, Co-Head of Asia Financial Institutions Group, Co-Head of Japan Investment Banking, and Vice Chairman. Mr. Shu serves as a director Dai-ichi Life and DESCENTE, LTD. Mr. Shu graduated from Hitotsubashi University in Japan, where he majored in laws. Mr. Shu became a Director for the Company in 2015, and he served as a director of Dai-ichi Life Insurance Company, Limited from 2015 to 2016. We believe that Mr. Shu's background in business, including his experience and service in investment banking, his legal training, and strategic and financial planning knowledge, are valuable to us and our Board of Directors.

**Jesse J. Spikes.** Mr. Spikes is President of Ribs on the Run, Inc., an Atlanta-based company that develops recipes for, and then prepares and sells, rubs, sauces and smoked-meat products. Until May 31, 2017, Mr. Spikes was Senior Counsel with the Atlanta based law firm, Dentons US, LLP, specializing in corporate law. During his legal career, Mr. Spikes also worked with businesses in the areas of advertising, marketing, and sports law, including the negotiation of endorsements and the preparation of chance promotions and licensing agreements. Mr. Spikes practiced law for almost forty years. He joined one of Dentons' legacy firms in 1986, became a partner in 1989, and became senior counsel in 2010. Mr. Spikes serves on the Board of Trustees for HSOC, Inc., an affiliate of Children's Healthcare of Atlanta. Mr. Spikes also served previously as General Counsel of Atlanta Life Insurance Company, legal advisor for Al Bahrain Arab African Bank, and as a director of publicly and privately held companies. He has also served in leadership roles with Boy Scouts of America. Mr. Spikes received his undergraduate degree in English from

Dartmouth College, his undergraduate degree in Philosophy and Politics from University College at Oxford University, and his Juris Doctorate from Harvard University. Mr. Spikes became a Director for the Company in 2011. We believe that Mr. Spikes' skills and experience as an attorney whose practice concentrated in areas of corporate and insurance law, with particular emphasis on corporate governance and compliance, internal investigations and audits, special board committee representations, corporate finance and mergers and acquisitions, and his experience as an entrepreneur and as a leader in other business and civic organizations are valuable to our Board of Directors.

William A. Terry. Mr. Terry is Chairman and one of the founders of Highland Associates, Inc., an investment advisory firm that has advised on approximately twenty billion dollars of assets (as of December 2016) for not-for-profit health care organizations, foundations, endowments, and select individuals. He is also a managing member and director of Highland Strategies, LLC. He serves as a member and director of Alabama Capital Network, LLC. Before starting Highland Associates in 1987, Mr. Terry worked in the Investment Management Consulting Group of Interstate/Johnson Lane Corporation. Mr. Terry previously served as a member of the Executive Committee and President for the Mountain Brook City Schools Foundation and Chairman of the Executive Board of the Greater Alabama Council of Boy Scouts of America. Mr. Terry received an undergraduate degree from Davidson College and is a CFA charter holder. Mr. Terry became a Director for the Company in 2004. We believe that Mr. Terry's skills and experience at Highland Associates in the field of investments and as a leader of the firm; his experience as a leader in civic, educational, and not-for-profit organizations; and his seasoned business judgment are valuable to our Board of Directors.

W. Michael Warren, Jr. Mr. Warren is President and Chief Executive Officer of Children's of Alabama, an independent, not-for-profit, free-standing pediatric healthcare center. Prior to joining Children's in January 2008, Mr. Warren was Chairman and Chief Executive Officer of Energen Corporation and its two primary subsidiaries, Alagasco and Energen Resources. Mr. Warren became President of Alagasco in 1984 and held a number of increasingly important positions with Energen before being named President and Chief Executive Officer in February 1997 and Chairman in January 1998. Mr. Warren was a lawyer in private

Table of Contents

practice in Birmingham, Alabama, before joining Alabama Gas in 1983. Mr. Warren served on the Board of Directors of Energen Corporation until his term expired in April 2010. Mr. Warren has served as Chairman of the Board of Directors of the Business Council of Alabama, the United Way, and Children's of Alabama. He also has been Chairman of the Metropolitan Development Board, the Alabama Symphony Board of Directors, and the American Heart Association Board of Directors. He has chaired the general campaign of the United Way for Central Alabama and the United Negro College Fund. Mr. Warren received an undergraduate degree from Auburn University and a Juris Doctorate from Duke University. Mr. Warren became a Director for the Company in 2001. We believe that Mr. Warren's background as an attorney; his skills and long experience as Chairman and CEO of a highly-regulated publicly-held utility; his continuing experience as President and CEO of Children's of Alabama; his experience as a leader in other business, civic, and not-for-profit organizations; and his seasoned business judgment are valuable to our Board of Directors.

**Audit Committee**

The Board has a separately designated standing audit committee. Its members are Vanessa Leonard, Chairperson, William A. Terry and W. Michael Warren, Jr.

Our Board has determined that William A. Terry, a member of our Audit Committee, is an audit committee financial expert under the rules of the SEC and is independent under applicable SEC standards. While Mr. Terry possesses the attributes of an audit committee financial expert (as defined under the SEC rules), he is not and has never been an accountant or auditor, and this financial expert designation does not impose any duties, obligations or liabilities that are greater than the duties, obligations, and liabilities imposed by being a member of the Audit Committee or the Board.

**Code of Ethics**

The Company has adopted a Code of Business Conduct, which applies to all directors, officers, and employees of the Company. 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 the Chief Accounting Officer) of the Company.

The Code of Business Conduct is available on the Company's website at

<http://investor.protective.com/corporate-governance/code-of-conduct>.

In the event the Company amends or waives any of the provisions of the Code of Business Conduct applicable to our principal executive officer or principal financial officer that relate to any element of the definition of "code of ethics" enumerated in Item 406(b) of Regulation S-K under the 1934 Act, the Company intends to disclose these actions on the Company's website.

Table of Contents

Item 11. Executive Compensation

Unless the context otherwise requires, the “Company,” “we,” “us,” or “our” refers to Protective Life Corporation. Compensation Discussion and Analysis

In this section, we describe the material components of our executive compensation program in 2017 for our named executive officers, whose compensation is set forth in the Summary Compensation Table and other compensation tables contained herein:

Named Executive Officers for 2017

• John D. Johns, our Executive Chairman of the Company;  
• Richard J. Bielen, our President and Chief Executive Officer;  
• Steven G. Walker, our Executive Vice President and Chief Financial Officer;  
• Deborah J. Long, our Executive Vice President, Chief Legal Officer and Secretary;  
• Michael G. Temple, our Executive Vice President, Finance and Risk; and  
• Carl S. Thigpen, our Executive Vice President and Chief Investment Officer.

Our Compensation Philosophy

The objectives of our executive compensation program are to: 1) attract and retain the most qualified executives; 2) reward them for achieving high levels of performance; and 3) align executive and Dai-ichi Life interests.

Background of Compensation Program

In 2015, the Company consummated an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which the Company became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a kabushiki kaisha organized under the laws of Japan (now known as Dai-ichi Life Holdings, Inc., “Dai-ichi Life”), and the Company’s stock ceased to be publicly traded. The Compensation Discussion and Analysis and the related tables and disclosures that follow provide details regarding our 2017 compensation programs, which were originally restructured upon the Merger in 2015 to reflect the fact that we no longer have a publicly traded class of stock to use in our compensation programs.

As a result of the Merger in 2015, we adopted new long-term incentive and annual incentive programs. In addition, in anticipation of the Merger, the named executive officers, as well as many other of the Company’s key officers, entered into Employment Agreements with the Company in 2014 (the “Employment Agreements”), which provided for, among other things, minimum compensation and benefits that each named executive officer would be entitled to receive for his or her continuing services to the Company. Many of the Employment Agreements between the Company and our officers were amended to reflect new minimum annual incentive amounts to account for annual incentives paid in March 2015 due to the occurrence of the Merger earlier in 2015. The Employment Agreements for Mr. Bielen and Mr. Thigpen were amended in March 2015 to reflect increases in their guaranteed minimum annual incentive amounts. There were no guaranteed annual incentive payments in 2017 as there were in 2016 under the Employment Agreements due to the expiration of the minimum guaranteed annual incentive payments under such agreements for all of the named executive officers.

The employment period and the term of the Employment Agreements expired upon the second anniversary of the effective date of the Merger (February 2017) for Mr. Walker and upon the third anniversary of the effective date of the Merger (February 2018) for Mr. Johns, Mr. Bielen, Ms. Long and Mr. Thigpen. In December 2016, Ms. Long entered into a transition letter agreement (the “Transition Letter Agreement”) that sets forth her compensation arrangements related to the period from December 2016 to July 31, 2018, when she plans to retire. In November 2017, Mr. Johns entered into a letter agreement (the “Letter Agreement”) with the Company that established his compensation arrangements during the period he is serving as Executive Chairman of the Company. For more information about the Employment Agreements, the Transition Letter Agreement, and the Letter Agreement, please see “Potential Payments upon Termination or Change of Control” in this Item 11.

In November 2017, the Board adopted the Protective Life Corporation Annual Incentive Plan (“AIP”) and the Protective Life Corporation Long-Term Incentive Plan (“LTIP”), which became effective January 1, 2018, under which annual and long-term incentives are expected to be made available to our named executive officers and certain other employees beginning in 2018. For more information about these plans, please see “Adoption of Annual Incentive Plan and

Long-Term Incentive Plan” in this Item 11.

#### Principles of Our Compensation Program

To meet our executive compensation objectives, we design our program to: 1) align compensation with business goals and results; 2) compete for executive talent; 3) support risk management practices; 4) take into account market and industry pay and practices; and 5) be communicated effectively, so our officers understand how compensation is linked to performance.

#### Compensation Committee

The Compensation and Management Succession Committee of our Board of Directors (“Compensation Committee”), which consists of three independent directors, oversees the compensation program for our officers. During 2017, the members of the Compensation Committee were John J. McMahon, Jr., Chairperson, Jesse J. Spikes, and William A. Terry. In 2017, the Compensation Committee met three times.

202

---

Table of Contents

Among its duties, the Compensation Committee is responsible for formulating compensation and related recommendations for approval by the Board, including: policies and programs applicable to the Company’s officers and key employees; the Company’s annual incentive plan, including the total amount of bonuses to be paid each year under the annual incentive plan and the methodology used to determine individual bonuses; the administration of the Company’s long-term incentive plan and the achievement of any applicable performance objectives; corporate goals and objectives relevant to the compensation of the Chief Executive Officer (“CEO”) and evaluation of the CEO’s performance in light of these goals and objectives; base salary, annual incentive plan bonus, long-term incentive compensation, and other compensation of the CEO and the other senior officers of the Company; and the performance of senior officers and senior management succession plans. The Compensation Committee’s charter, which sets out its duties and responsibilities, can be found on our website at <http://investor.protective.com/corporate-governance/compensation>.

The Compensation Committee has retained Willis Towers Watson (“Willis”), an independent compensation consultant, to review, assess and provide input with respect to certain aspects of our compensation program for executive officers. The consultant reports directly to the Compensation Committee with respect to these services, and the Compensation Committee may replace the consultant at any time. The consultant gives the Compensation Committee advice about: 1) the compensation provided to officers at other companies, using proxy statement data, published survey sources, and the consultant’s proprietary data; 2) the amount and type of compensation to provide to our officers and key employees; 3) the value of long-term incentive grants; 4) the allocation of total compensation between cash and stock-based incentives; and 5) internal pay equity among key executives. Representatives of the compensation consultant attend regular Compensation Committee meetings and consult with the Chairperson of the Compensation Committee (with or without management present) upon request. The consultant also advises the Corporate Governance and Nominating Committee on director compensation.

Compensation Committee Interlocks and Insider Participation

During 2017, the members of our Compensation Committee were Mr. McMahon (Chairperson), Mr. Spikes, and Mr. Terry. No interlocking relationship (as defined in the SEC rules) existed during 2017 between any of these individuals and any of our executive officers.

Compensation Peer Group

For 2017, the compensation consultant focused on the pay practices of a peer group of 14 life insurance and financial services companies that are similar to us in size and business mix and that represent a possible source of officer and key employee talent. The Compensation Committee selects the companies in this compensation peer group taking into account the recommendations of the consultant and our management. The consultant also provides a summary of compensation survey data for other companies to give the Compensation Committee additional information for comparison purposes.

The compensation peer group for the 2017 compensation cycle included:

Lincoln National Corporation

Principal Financial Group, Inc.

Ameriprise Financial, Inc.

Aflac Incorporated

Genworth Financial, Inc.

Unum Group

Reinsurance Group of America, Inc.

CNO Financial Group, Inc.

Assurant, Inc.

Torchmark Corporation

Primerica, Inc.

FBL Financial Group, Inc.

XL Group Ltd.

StanCorp Financial Group, Inc.

Our compensation consultant, along with our Compensation Committee and our management, consider the composition of the peer group annually. We believe that the peer group has the appropriate mix of companies and that it provides the appropriate means of comparing our compensation programs and performance to that of key competitors.

Pay for Performance

The Compensation Committee is committed to tying executive compensation to Company performance. To evaluate its implementation of this pay for performance philosophy, the Compensation Committee members consider a wide range of information (including information they receive both as Compensation Committee members and as Board members), including: 1) our deployment of capital for acquisitions and products; 2) our adjusted operating earnings, the rate of growth of our adjusted



## Table of Contents

operating earnings, and the degree of difficulty in achieving our earnings goals; 3) our financial strength (as measured by our statutory capital, risk-based capital (“RBC”), and rating agency ratings); 4) our budgets, expense management, and budget variances; and 5) pay for performance analyses prepared by the compensation consultant.

The Compensation Committee does not place a particular weighting on any of these factors, but instead considers the information as a whole. Based on this ongoing review, the Compensation Committee believes that our compensation program provides a strong link between Company performance and the compensation of our officers.

### Components of Our 2017 Compensation Program

The key components of our executive compensation program are: 1) base salaries; 2) annual cash incentive awards; 3) long-term incentives; and 4) retirement and deferred compensation plans.

The Compensation Committee considers each component (separately and with the others) for our senior officers. The Compensation Committee targets the total annual compensation package to be at the median of the compensation peer group. As part of this review, the Compensation Committee considers the total “mix” of the base salary, annual cash incentive and long-term compensation delivered to our senior officers, and compares that compensation mix to the compensation mix of comparable officers at other companies. The annual incentive and long-term incentive components of the program are designed so above-average company performance will result in above-median total compensation, and below-average company performance will result in below-median total compensation. The Compensation Committee does not have formal policies regarding these factors, but tries to make our practices generally consistent with the practices of the peer group.

The compensation consultant recommends a compensation package for our CEO. Our Human Resources Department provides the Compensation Committee with additional information about our officers and our compensation arrangements. Our CEO, with advice from the compensation consultant, recommends compensation packages for our senior officers; however, he does not provide recommendations about his own compensation.

As previously disclosed, effective upon the Merger, the named executive officers, as well as many other key officers, entered into Employment Agreements with the Company. The Employment Agreements prescribed, for the two-year (for Mr. Walker) or three-year (for Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen) employment period commencing on February 1, 2015, among other things, the minimum compensation and benefits that each named executive officer would be entitled to receive for his or her continuing services (including minimum base salaries; minimum annual bonus amounts; target long-term incentive compensation opportunities and the terms and conditions thereof (including normal and early retirement provisions); and retention payments). As noted above, the employment periods under these Employment Agreements have all now expired. The Employment Agreement with Mr. Johns was generally superseded by the terms of the Letter Agreement entered into with him in November 2017. Under the terms of the Letter Agreement, there was no change in Mr. Johns’ compensation arrangements through December 31, 2017. On and after January 1, 2018, for so long as Mr. Johns serves as the Company’s Executive Chairman, unless otherwise agreed, Mr. Johns will be working on a part-time basis and will be entitled to an annual base salary of \$1.2 million, payable semi-monthly consistent with the Company’s normal payroll policy, and to the same perquisites and benefits as were currently in effect on the date of the Letter Agreement, but he will not be entitled to any new or additional annual incentive bonuses or long-term incentive grants. The Letter Agreement further provides that any amounts that had accrued to Mr. Johns under his Employment Agreement but that remained unpaid as of the date on which Mr. Johns executed the Letter Agreement, including any accrued but unpaid portion of his base salary and annual bonus with respect to 2017 performance, are to be paid to Mr. Johns no later than March 15, 2018. Any current or future amounts payable under outstanding long-term incentive awards are to be paid in accordance with the terms of such awards and his Employment Agreement. For more information about the Employment Agreements, the Transition Letter Agreement and the Letter Agreement, see “Potential Payments upon Termination or Change of Control” in this Item 11.

### Base Salaries

Base salary is the primary fixed portion of executive pay. It compensates individuals for performing their day-to-day duties and responsibilities and provides them with a level of income certainty. Salary adjustments have historically been made in late February/early March and have been effective March 1 of that year. In making its base salary recommendations to the Board, the Compensation Committee considers the responsibilities of the job, individual

performance, the relative value of a position, experience, comparisons to salaries for similar positions in other companies, and internal pay equity. For the CEO, the Compensation Committee also considers Company performance. No particular weighting is given to any of these factors. For 2017, minimum base salaries for Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen were established by their Employment Agreements with the Company. The 2017 salaries, as determined by the Committee, for Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen were greater than the minimum base salaries established by their Employment Agreements.

The Compensation Committee reviewed the performance and base salaries of the named executive officers at its February 2017 meeting. At the recommendation of the Compensation Committee, the Board approved the following annual base salaries (and the related percentage increases from the previously-effective base salaries), effective March 1, 2017: 1) Johns, \$1,000,000 (0.0%); 2) Bielen, \$620,000 (3.3%); 3) Walker, \$415,000 (7.8%); 4) Long, \$490,000 (2.1%); 5) Temple, \$475,000 (11.8%); and 6) Thigpen, \$515,000 (2.0%). In connection with Mr. Bielen's promotion to CEO effective July 2017, the Board approved, at the recommendation of the Compensation Committee, an increase in his base salary to \$750,000. At the recommendation of the Compensation Committee, there were no changes to Mr. Johns' base salary in connection with his election to Executive Chairman of the Company through December 31, 2017; commencing January 1, 2018, his base salary became \$1,200,000 per the terms of his Letter Agreement.

Table of Contents

## Annual Cash Incentive Awards

Officers and key employees are eligible for annual cash incentive opportunities under our annual incentive plan. The annual incentive plan's purpose is to attract, retain, motivate and reward qualified officers and key employees by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance. As previously disclosed, starting in 2017, none of the named executive officers were entitled to any guaranteed minimum amount of annual incentive payment. In February 2017, the Board approved the terms of the 2017 annual incentive opportunities for named executive officers.

The Compensation Committee recommends to the Board for its approval the target annual incentive opportunities and performance objectives for our named executive officers for the current year. Historically, in recommending these target opportunities, the Compensation Committee has considered the responsibilities of the job, individual performance, the relative value of a position, comparisons to annual incentive opportunities for similar positions in other companies, and internal pay equity. No particular weight is given to any of these factors.

Payment of annual incentives is based on achievement of one or more performance goals. For 2017, the Board of Directors established, at the recommendation of the Compensation Committee, these performance goals (weighted as shown in the table) for the named executive officers:

| Goal (in millions, except percentages)    | Threshold<br>(50%<br>payout) | Target<br>(100%<br>payout) | Maximum<br>(200%<br>payout) |
|---|------------------------------|----------------------------|-----------------------------|
| After-tax Adjusted Operating Income (60%) | \$ 300                       | \$350                      | \$ 400                      |
| Value of New Business (30%)               | \$ 52                        | \$62                       | \$ 72                       |
| Expense Management (10%)                  | \$ 501                       | \$486                      | \$ 471                      |
| RBC below 375% (Negative modifier (20%))  | 375 %                        | 375 %                      | 375 %                       |

After-tax adjusted operating income, measured from January 1 through December 31, 2017, is derived from pre-tax adjusted operating income with the inclusion of income tax expense or benefits associated with pre-tax adjusted operating income. Pre-tax adjusted operating income is calculated by adjusting "income before income tax" by excluding the following items:

- realized gains and losses on investments and derivatives,
- changes in the GLWB embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,
- actual GLWB incurred claims, and
- the amortization of DAC, VOBA, and certain policy liabilities that is impacted by the exclusion of these items.

Income tax expense or benefits is allocated to the items excluded from pre-tax adjusted operating income at the statutory federal income tax rate of thirty-five percent. Income tax expense or benefits allocated to after-tax adjusted operating income can vary period to period based on changes in the Company's effective income tax rate.

Value of new business is measured as the expected value of new policies written from January 1 through December 31, 2017. The value of new business includes income expected to be realized in both the current year and future years. For purposes of the value of new business goal, the variable annuity business measurement is based on a market consistent embedded value analysis. All other business is measured as present value of expected future earnings from new sales above the 6.5% assumed cost of capital.

The expense management performance goal provides management with an incentive to prudently manage operating expenses and to maintain efficient operations. The expense management performance goal is measured from January 1 through December 31, 2017 and is defined as other operating expenses before the effect of policy acquisition cost deferrals, excluding interest expense, the effects of reinsurance, certain performance incentives, agent commissions, certain non-deferred selling costs, certain expenses associated with acquisition-related activity, expenses incurred as part of long-term expense reduction initiatives, certain legal costs, certain regulatory fees or other expenses imposed on the Company, and management fees paid to Dai-ichi Life. In addition, certain expense items are considered variable and are therefore adjusted based on variations in new business volumes.

RBC is the company action level "risk based capital" percentage of Protective Life Insurance Company ("PLICO") as of December 31, 2017, determined as set forth in the applicable instructions established by the National Association of Insurance Commissioners ("NAIC") and filed with the state of Tennessee, and based on statutory accounting principles.

RBC is intended to be a limit on the amount of risk the Company can take, and it requires a company with a higher amount of risk to hold a higher amount of capital. The Board determined that the overall results achieved in adjusted operating earnings, expense management, and capital deployment goals would be reduced by 20% if RBC was less than 375% on December 31, 2017. For a further discussion of RBC, see Note 21, Statutory Reporting Practices and Other Regulatory Matters, to the audited financial statements included in this Annual Report on Form 10-K. The amount payable based on each of the above-described performance objectives can range from 50% (for performance at threshold levels) to 200% (for performance at or above maximum) of the portion of target award related to such performance objective. At the threshold level of performance, fifty percent (50%) of the allocable portion of the target award will be payable, with 100% payable for performance at target. For achievement between the stated performance levels (i.e., between threshold and target, and between target and maximum), the amount payable will be determined by mathematical interpolation. The Compensation Committee recommends to the Board of Directors for its determination the achievement of the performance objectives for the

Table of Contents

incentive opportunities granted to the named executive officers in the previous year. For other officers and managers, the Compensation Committee reviews the total incentive opportunities and the methods used to determine individual payments.

At its February 21, 2018 meeting, the Board determined that, in respect to 2017 performance: 1) our after-tax adjusted operating income was \$1,153 million; 2) our value of new business was \$71 million; 3) our expense management amount was \$480 million; and 4) our RBC was above 600%.

**Long-Term Incentive Awards**

In connection with the Merger in 2015, the Board approved a new long-term incentive program that established a formula equity value for the Company under which our named executive officers receive awards, payable in cash, that will increase or decrease in value as the value determined under this formula changes based on the operation of our business. In 2015 and 2016, the Compensation Committee granted three forms of long-term incentive awards (Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards, as defined below) to the named executive officers under the new program, the details of which were disclosed in the Company's Annual Reports on Forms 10-K for the years ended December 31, 2015 and 2016. Those awards have the potential to vest and be earned beginning in 2017 and 2018.

In February 2017, the Compensation Committee and the Board determined a total target value of the long-term incentive awards to be granted to each executive officer in 2017. Such awards again consisted of Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards, which will vest or be earned on various dates in 2019 or 2020. In determining the total target value of long-term incentive awards in a given year, the Compensation Committee considers a named executive officer's responsibilities, performance, previous long-term incentive awards, the amount of long-term incentives provided to officers in similar positions at our peer companies, and internal compensation equity. No particular weight is given to any of these factors. As previously disclosed, beginning with the awards made in 2015 and extending through the awards made in 2016 (for Mr. Walker) and in 2017 (for Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen), the Employment Agreements provide for a minimum target amount for awards that are made under our long-term incentive program. Additionally, under Ms. Long's Transition Letter Agreement, her long-term incentive award had a minimum guaranteed value for 2017. Pursuant to the Employment Agreements, the performance metrics and weightings under the long-term incentive program are established by the Board, Dai-ichi Life, and the Company's CEO.

The Compensation Committee considered a number of factors when it granted long-term incentive awards in 2017, including the desire to maintain the appropriate balance between performance-based and retention-based incentives and information provided by the compensation consultant comparing the value of our long-term incentive awards granted to named executive officers to the value provided by our compensation peer group.

The 2017 long-term incentive opportunities for the named executive officers are comprised of three separate awards:

1. Performance units are generally designed to vest based on the achievement of two objectives - cumulative after-tax adjusted operating income ("Operating Income Objective") and average return on equity ("ROE Objective") - over the period from January 1, 2017 to December 31, 2019 and generally subject to the named executive officer's continued employment until the applicable payment date of the earned award (the "Performance Unit Awards");

2. Restricted units are generally designed to vest in two equal installments on each of December 31, 2019 and December 31, 2020, are valued based on the tangible book value of the Company on the applicable vesting date and are generally subject to the named executive officer's continued employment until such respective dates (the "Restricted Unit Awards"); and

3. A dollar denominated award that is generally designed to vest in December 2019 based on the named executive officer's continued employment, the value of which will be adjusted to reflect the change in the value of Dai-ichi Life's common stock over the measurement period stated below (the "Parent Based Awards").

The number of units subject to each Performance Unit Award is determined by dividing 60% of each named executive officer's target long-term incentive opportunity by an amount equal to 90% of the Company's applicable tangible book value per unit as of January 1, 2017. One-half of the units subject to each Performance Unit Award will be subject to achieving the ROE Objective and one-half will be subject to achieving the Operating Income Objective. The amount payable in respect of each unit can range from 0% (for performance against the applicable objective below the

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

threshold level) to 200% (for performance at or above maximum). One hundred percent (100%) of the award will be payable for performance at target. For achievement between the stated performance levels (i.e., between threshold and target, and between target and maximum), the amount will be determined by mathematical interpolation.

Specifically, payment with respect to the ROE Objective will be based on the following schedule:

| Average Return on Equity | Percentage of Performance<br>Units Earned |
|--------------------------|---|
| Less than 5.2%           | —%  |
| 5.6%                     | 100%                                      |
| 6.1% or more             | 200%                                      |

206

---

Table of Contents

There will be straight-line interpolation between average return on equity between 5.2% and 5.6% to determine the exact percentage to be paid between 0% and 100%; and between 5.6% and 6.1% to determine the exact percentage to be paid between 100% and 200%.

Payment with respect to the Operating Income Objective will be based on the following schedule:

| Cumulative After-tax<br>Adjusted Operating Income<br>(Dollars In Millions) | Percentage of Performance<br>Units Earned |
|--|---|
| Less than \$985  | —%  |
| \$1,075  | 100%                                      |
| \$1,165 or more  | 200%                                      |

There will be straight-line interpolation between cumulative after-tax adjusted operating income between \$985,000,000 and \$1,075,000,000 to determine the exact percentage to be paid between 0% and 100%; and between \$1,075,000,000 and \$1,165,000,000 to determine the exact percentage to be paid between 100% and 200%.

The Performance Unit Awards generally will be forfeited if the named executive officer's employment terminates prior to the date of payment. However, a named executive officer whose employment terminates earlier due to death, disability or retirement on or after early retirement or normal retirement eligibility under the terms of the Qualified Pension Plan will receive a payment with respect to a pro-rata portion, based on service through the date of termination, of the Performance Unit Awards that would otherwise be payable (or such greater amount as the Compensation Committee may determine in its discretion), and the remaining portion will be forfeited.

The number of restricted units subject to each Restricted Unit Award is determined by dividing 30% of each named executive officer's target long-term incentive opportunity by an amount equal to the Company's applicable tangible book value per unit as of January 1, 2017. The initial cash value of the Parent Based Awards is equal to 10% of the target long-term incentive award opportunity for each named executive officer. At vesting, the amount payable in respect of such Parent Based Awards shall be such initial value multiplied by the percentage change in the value of the common stock of Dai-ichi Life, whether such value has increased or decreased, over the period from February 1, 2017 to December 31, 2019, as measured based on the average value of such common stock in February 2017 and December 2019, respectively.

Payment of the Restricted Unit Awards and Parent Based Awards will generally be contingent upon the officer's being employed on the date of vesting, except that a named executive officer whose employment terminates due to death, disability, or retirement on or after normal retirement age under the terms of the Qualified Pension Plan will fully vest in such award. A named executive officer whose employment terminates on or after early retirement eligibility but before normal retirement age under the terms of the Qualified Pension Plan will receive a pro-rated portion of the Parent Based Award, which will immediately vest, based on a fraction, the numerator of which is the number of complete and partial calendar months between January 1, 2017 and the retirement date, and the denominator of which is 36. A named executive officer whose employment terminates on or after early retirement eligibility but before normal retirement age under the terms of the Qualified Pension Plan will receive a pro-rated portion of the restricted units, which will immediately vest, based on multiplying 1) the number of unvested restricted units that would become vested at the applicable date by 2) a fraction, the numerator of which is the number of complete and partial calendar months between January 1, 2017 and the retirement date, and the denominator of which is (x) 36, in the case of the portion of the restricted units that would become vested at December 31, 2019, and (y) 48, in the case of the portion of the restricted units that would become vested at December 31, 2020.

In the case of a special termination of the named executive officer, which consists of a termination of employment due to (i) a divestiture of a business segment or a significant portion of the assets of the Company or (ii) a significant reduction by the Company of its work force, the determination of whether, to what extent, and on what conditions any payment shall be made with respect to any unvested portion of your long-term incentive awards shall be at the discretion of the Compensation Committee. In the case of any other termination, the named executive officer's Restricted Unit Awards and Parent Based Awards will be forfeited.

The Grants of Plan-Based Awards Table has more information about these awards.

#### Retirement and Deferred Compensation Plans

We believe it is important to provide our employees, including our named executive officers, with the opportunity to accumulate retirement savings. All similarly-situated employees earn benefits under our tax-qualified pension plan (“Qualified Pension Plan”) using the same formula. Benefits under our Qualified Pension Plan are limited by the Internal Revenue Code. We believe that we should provide retirement savings without imposing the restrictions on benefits contained in the Internal Revenue Code that would otherwise limit our employees’ retirement security. Therefore, like many large companies, we have implemented a nonqualified excess benefit pension plan (“Nonqualified Excess Pension Plan”) that makes up the difference between: 1) the benefit determined under the Qualified Pension Plan formula, without applying these limits; and 2) the benefit actually payable under the Qualified Pension Plan, taking these limits into account. All of the named executive officers, except for Mr. Johns, participate in the Nonqualified Excess Pension Plan.

In addition, we provide a nonqualified deferred compensation plan (“DCP”) for named executive officers and other key officers. Eligible officers may defer: 1) up to 75% of their base salary; 2) up to 85% of any annual incentive award; and/or 3) up to 94% of the amounts payable when Performance Unit Awards, Restricted Unit Awards, or Parent Based Awards are earned (for the Restricted Unit Awards and Parent Based Awards, percentages are subject to reduction if the employee is eligible for early



## Table of Contents

retirement). Officers were also entitled to defer up to 85% of their retention bonus installments payable under their Employment Agreements.

Employees that contribute a portion of their salary, overtime and cash incentives to our tax-qualified 401(k) plan (“401(k) Plan”) receive a dollar-for-dollar company matching contribution, which may be at the maximum 4% of the employee's eligible pay (which is subject to limits imposed by the Internal Revenue Code).

For more information about these plans, see the “All Other Compensation Table”, “Post-Employment Benefits”, and “Nonqualified Deferred Compensation” in this Item 11.

### Perquisites and Other Benefits

The Company has other programs that help us attract and retain key talent and enhance their productivity. In 2017, we provided modest perquisites to our named executive officers, including a financial and tax planning program for certain senior officers and dining club memberships for Mr. Johns. We reimburse the officers for business-related meals in accordance with our regular policies. They pay for all personal meals.

### Company Aircraft Policy

We do business in every state in the United States and have offices in ten states. Our employees and officers routinely use commercial air service for business travel, and we generally reimburse them only for the coach fare for domestic air travel. We also maintain a company aircraft program in order to provide for timely and cost-effective travel to these wide-spread locations.

Under this program, we do not operate any aircraft, own a hangar, or employ pilots. Instead, we have purchased a fractional interest in each of four aircraft. We pay a fixed fee per aircraft, plus a variable charge for hours actually flown, in exchange for the right to use the four aircraft for an aggregate of approximately 400 hours per year. Our directors, officers, and employees use these aircraft for selected business trips, and, in certain circumstances, a spouse or guest of a director or officer may accompany him or her on business-related travel. All travel under the program must be approved by the Executive Chairman. Whether a particular trip will be made on a Company aircraft or on a commercial flight depends, in general, upon the availability of commercial air service at the destination, the schedule and cost of the commercial air travel, the number of employees who are making the trip, the expected travel time, and the need for flexible travel arrangements.

Based on information provided by the compensation consultant, the Compensation Committee has adopted a policy that allows each of the Executive Chairman and the CEO (and their respective guests) to use the Company aircraft for personal trips for up to 25 hours per year to reduce their personal travel time and thereby increase the time they can effectively conduct Company business. The Company does not provide tax reimbursement payments with respect to this air travel.

### Spousal Travel Policy

If an employee's spouse travels with the employee on Company business, we reimburse the employee for the associated travel expenses if the spouse's presence on the trip is deemed necessary or appropriate for the purpose of the trip. Beginning in 2017, the Company provides the named executive officers with tax reimbursement payments with respect to these reimbursed expenses.

For more information about perquisites and other benefits, see the “All Other Compensation Table” in this Item 11.

### Accounting and Tax Issues

Prior to the enactment of the Tax Cuts and Jobs Act (the “Tax Reform Act”), which was signed into law on December 22, 2017, and generally became effective for the Company on January 1, 2018, we were not subject to the executive compensation deduction limitations of Section 162(m) of the Internal Revenue Code since the date of the Merger because the Company has not had any publicly traded equity securities. However, as a result of the enactment of the Tax Reform Act, Section 162(m) now applies to all companies that file reports pursuant to Section 15(d) of the Securities Exchange Act of 1934, including companies that have issued publicly traded debt securities. Accordingly, effective January 1, 2018, the Company became subject to Section 162(m). Section 162(m) generally imposes a \$1 million limit on the amount of compensation that a public company can deduct in any one year for any “covered employee”. Under Section 162(m), as amended by the Tax Reform Act, the following individuals will be considered our covered employees whose compensation by us is generally subject to Section 162(m)'s deduction limitations for the tax year beginning January 1, 2018:

• Any individual who served as the Company's principal executive officer or principal financial officer at any time during the taxable year;

• The three most highly compensated executive officers of the Company (as identified in the Summary Compensation Table of this Annual Report on Form 10-K) for the taxable year; and

• Any individual who has been a covered employee for any prior tax years, beginning January 1, 2018.

As a result of the Tax Reform Act, compensation paid to our covered employees in excess of \$1 million will not be deductible unless it qualifies for transition relief applicable to certain written binding arrangements that were in place as of November 2, 2017 and that have not been materially modified after such date. Because of ambiguities and uncertainties as to the application and interpretation of Section 162(m), including the uncertain application of transition relief to companies that had not been subject to Section 162(m) prior to the effectiveness of the Tax Reform Act, it is unclear whether or to what extent the deferred tax assets related to amounts paid or payable by the Company to covered employees after January 1, 2018 pursuant to written binding arrangements that were in place on November 2, 2017 will be subject to the \$1 million dollar deduction limit of Section

Table of Contents

162(m). Further, the Compensation Committee reserves the right to modify compensation arrangements that were in effect as of November 2, 2017 if it determines that such modifications are consistent with the Company's business needs.

While the Compensation Committee may consider the deductibility of awards as one factor in determining executive compensation, the Compensation Committee also looks at other factors in making its decisions, as noted above, and retains the flexibility to award compensation that it determines to be consistent with the goals of our executive compensation program even if the awards are not deductible by Company for tax purposes.

Because our stock is not publicly traded, we are no longer using our stock as a currency for our long-term incentive awards, which limits our flexibility in structuring our compensation to avail ourselves of the benefit of fixed equity accounting.

We still structure our programs taking into account the provisions of Section 409A of the Internal Revenue Code, and the Employment Agreements entered into in anticipation of the Merger have provisions addressing the application of section 280G of the Internal Revenue Code.

**Clawback Policy**

Under the federal securities laws, if we have to prepare an accounting restatement due to our material noncompliance due to misconduct with the United States Securities and Exchange Commission (the "SEC") financial reporting requirements, then our CEO and Chief Financial Officer would have to reimburse us for: 1) any bonus or other incentive or equity-based compensation they received during the twelve-month period after we first issue or file the financial document that reflects the restatement; and 2) any profits they realized from the sale of our stock during the twelve-month period.

The Company's long-term incentive award agreements include a provision requiring the executive to repay, as liquidated damages, amounts received under the awards if the Compensation Committee reasonably determines in good faith that the executive violated certain provisions of the award agreement related to soliciting customers or employees, violating trade secret protections, or failing to cooperate with the Company in connection with claims, lawsuits, arbitrations, proceedings, examinations, inquiries or investigations involving the Company.

**Risk Assessment**

Based on its review of the Company's compensation policies as described in the Compensation Discussion and Analysis, the Compensation Committee concluded that our compensation program in 2017: 1) provided the appropriate level of compensation to our senior officers; 2) was properly designed to link compensation and performance; and 3) did not encourage our officers or employees to take unnecessary and excessive risks or to manipulate earnings or other financial measures.

**COMPENSATION COMMITTEE REPORT**

The Compensation and Management Succession Committee reviewed and discussed the Compensation Disclosure and Analysis with management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Disclosure and Analysis be included in this annual report.

**COMPENSATION AND MANAGEMENT**

**SUCCESSION COMMITTEE**

John J. McMahon, Jr., Chairperson

Jesse J. Spikes

William A. Terry

Table of Contents

## Summary Compensation Table

The following table sets forth the total compensation earned by each of the Company's named executive officers for the fiscal years ended December 31, 2017, December 31, 2016 and December 31, 2015.

## Summary Compensation Table

| Name and principal position with the Company (a)  | Year (b)   | Salary (\$)(c) | Bonus <sup>(1)</sup> (\$)(d) | Non equity incentive plan compensation <sup>(2)</sup> (\$)(g) | Change in pension value & nonqualified deferred compensation earnings (\$)(h) | All other compensation (\$)(i) | Total Compensation (\$)(j) |
|---|------------|----------------|------------------------------|---|---|--------------------------------|----------------------------|
| John D. Johns   | 2017       | \$ 1,000,000   | \$—                          | \$ 11,148,951   | \$ 82,343   | \$ 896,109                     | \$ 13,127,403              |
| Executive Chairman of the Company <sup>(3)</sup>  | 2016       | \$ 1,000,000   | \$ 2,223,000                 | \$—   | \$ 2,264,908  | \$ 896,668                     | \$ 6,384,576               |
|   | 2015       | \$ 995,833     | \$ 2,223,000                 | \$ 208,000  | \$ 2,467,337  | \$ 167,491                     | \$ 6,061,661               |
| Richard J. Bielen<br>President and Chief Executive Officer (principal executive officer) <sup>(4)</sup>               | 2017       | \$ 681,667     | \$ 1,627,380                 | \$ 4,270,394  | \$ 1,224,334  | \$ 198,586                     | \$ 8,002,361               |
|   | 2016       | \$ 591,667     | \$ 2,540,881                 | \$—   | \$ 868,418  | \$ 179,510                     | \$ 4,180,476               |
| Steven G. Walker<br>Executive Vice President and Chief Financial Officer (principal financial officer) <sup>(5)</sup> | 2017       | \$ 410,000     | \$—                          | \$ 1,477,680  | \$ 119,931  | \$ 57,913                      | \$ 2,065,524               |
|   | 2016       | \$ 379,167     | \$ 919,725                   | \$—   | \$ 85,164   | \$ 85,067                      | \$ 1,469,123               |
| Deborah J. Long<br>Executive Vice President, Chief Legal Officer and Secretary  | 2017       | \$ 488,333     | \$ 1,057,059                 | \$ 1,815,482  | \$ 733,306  | \$ 118,780                     | \$ 4,212,960               |
|   | 2016       | \$ 477,500     | \$ 1,525,404                 | \$—   | \$ 633,972  | \$ 136,441                     | \$ 2,773,317               |
| Michael G. Temple<br>Executive Vice President, Finance and Risk   | 2015       | \$ 462,500     | \$ 1,525,404                 | \$ 56,200   | \$ 577,628  | \$ 55,343                      | \$ 2,677,075               |
|   | 2017       | \$ 466,667     | \$ 679,770                   | \$ 1,766,132  | \$ 54,877   | \$ 38,728                      | \$ 3,006,174               |
| Carl S. Thigpen<br>Executive Vice President and Chief Investment Officer  | 2016       | \$ 420,833     | \$ 1,103,870                 | \$—   | \$ 34,542   | \$ 39,116                      | \$ 1,598,361               |
|   | 2015       | \$ 395,833     | \$ 1,103,870                 | \$ 62,100   | \$ 33,628   | \$ 958,945                     | \$ 2,554,376               |
| 2017  | \$ 513,333 | \$ 1,322,799   | \$ 2,463,014                 | \$ 1,142,024  | \$ 107,407  | \$ 5,548,577                   |                            |
|   | 2016       | \$ 502,500     | \$ 2,025,300                 | \$—   | \$ 1,126,676  | \$ 146,125                     | \$ 3,800,601               |
| 2015  | \$ 487,500 | \$ 2,025,300   | \$ 76,400                    | \$ 1,217,685  | \$ 50,018   | \$ 3,856,903                   |                            |

For 2017, these numbers include: (i) the following amounts of retention bonuses under the terms of the named executive officer's Employment Agreement, which will be paid on or prior to March 15, 2018 for 2017 service: Mr. Bielen, \$1,627,380; Ms. Long, \$1,016,403; Mr. Temple, \$679,770; and Mr. Thigpen, \$1,322,799; and (ii) for Ms. Long, a payment of \$40,656, which represents the amount of the supplemental matching contribution that would have been paid by the Company under the DCP in respect of her final retention bonus payment but for her transition to part-time service effective January 1, 2018.

(2) For 2017, these numbers include: (i) the following amounts of cash incentives payable on or prior to March 15, 2018 for 2017 performance under our annual incentive plan: Mr. Johns, \$2,496,000; Mr. Bielen, \$1,728,000; Mr. Walker, \$557,800; Ms. Long, \$611,500; Mr. Temple, \$684,000; and Mr. Thigpen, \$840,500; (ii) the following amounts of Performance Unit Awards earned with respect to the 2015-2017 performance period (granted in 2015), and that are payable in cash on or prior to March 15, 2018: Mr. Johns, \$7,291,811; Mr. Bielen, \$2,142,559; Mr. Walker, \$775,259; Ms. Long, \$994,027; Mr. Temple, \$911,989; and Mr. Thigpen, \$1,367,300; (iii) the following amounts paid with respect to the first installment of the Restricted Unit Awards that vested on December 31, 2017 (granted in 2015) and that will be paid in cash on or prior to March 15, 2018: Mr. Johns: \$820,380; Mr. Bielen, \$240,987; Mr. Walker, \$87,165; Ms. Long, \$111,777; Mr. Temple, \$102,548; and Mr. Thigpen, \$153,821; (iv) the

following amounts of Parent Based Awards that vested on December 31, 2017 (granted in 2015), and that are payable in cash on or prior to March 15, 2018: Mr. Johns, \$540,760; Mr. Bielen, \$158,848; Mr. Walker, \$57,456; Ms. Long, \$73,679; Mr. Temple, \$67,595; and Mr. Thigpen, \$101,393; and (v) for Ms. Long, a payment of \$24,500, which represents the amount of the supplemental matching contribution that would have been paid by the Company under the DCP in respect of her annual incentive award payment for 2017 but for her transition to part-time service effective January 1, 2018.

(3) From January 2017 to June 30, 2017, Mr. Johns served as Chairman and CEO.

(4) From January 2017 to June 30, 2017, Mr. Bielen served as President and Chief Operating Officer.

(5) Mr. Walker was not a named executive officer for 2015.

#### Discussion of Summary Compensation Table

Column (c)-Salary. These amounts include base salary for 2017 that the named executive officer contributed to our 401(k) Plan and to our DCP. The Nonqualified Deferred Compensation Table has more information about 2017 participation in the DCP.

Column (d)-Bonus. For 2017, these amounts include 1) for Mr. Bielen, Ms. Long, Mr. Temple and Mr. Thigpen, retention bonuses payable on or prior to March 15, 2018 under the terms of the Employment Agreements for 2017 service and 2) for Ms. Long, a payment of \$40,656, which represents the amount of the supplemental matching contribution that would have been paid by the Company under the DCP in respect of her final retention bonus payment but for her transition to part-time service effective January 1, 2018. For 2016, these amounts include 1) for all of the named executive officers, annual cash incentives guaranteed under the Employment Agreements payable in 2017 for 2016 performance and 2) for Mr. Bielen, Mr. Walker, Ms. Long, and Mr. Thigpen, retention bonuses payable in 2017 under the terms of the Employment Agreements for 2016 service. For 2015, these amounts include 1) for all of the named executive officers, annual cash incentives guaranteed under the Employment Agreements payable in 2016 for 2015 performance and 2) for Mr. Bielen, Mr. Walker, Ms. Long, and Mr. Thigpen, retention bonuses payable in 2016 under the terms of the Employment Agreements for 2015 service.

Table of Contents

Column (g)-Non-equity incentive plan compensation. For 2017, these amounts reflect 1) the cash incentives payable on or prior to March 15, 2018 for 2017 performance under our annual incentive plan, 2) the Performance Unit Awards earned with respect to the 2015-2017 performance period (granted in 2015), and that are payable on or prior to March 15, 2018, 3) for all of the named executive officers, the first installment of the Restricted Unit Awards that vested on December 31, 2017 (granted in 2015) and that are payable on or before March 15, 2018, 4) the Parent Based Awards that vested on December 31, 2017 (granted in 2015), and that are payable on or prior to March 15, 2018, and 5) for Ms. Long, a payment of \$24,500, which represents the amount of the supplemental matching contribution that would have been paid by the Company under the DCP in respect of her annual incentive award payment for 2017 but for her transition to part-time service effective January 1, 2018. For 2015, these amounts reflect the cash incentives payable in March 2016 for 2015 performance under our annual incentive plan in excess of the amounts guaranteed under the Employment Agreements. These amounts are based on the achievement of the Company's goals as determined by the Compensation Committee and the Board. All amounts reflected include any portion of the incentives that the named executive officer elected to contribute to our 401(k) Plan or to our DCP. The Grants of Plan-Based Awards Table and discussion following the table have more information about the 2017 annual incentive opportunity.

Column (h)-Change in pension value and nonqualified deferred compensation earnings. These amounts represent the increase or decrease in the actuarial present value of the named executive officer's benefits under our tax Qualified Pension Plan and our Nonqualified Excess Pension Plan. Changes in interest rates can significantly affect these numbers from year to year. For 2017, the total change in the present value of pension benefits for each named executive officer was divided between the plans as follows:

| Name    | Qualified Nonqualified |                     |
|---------|------------------------|---------------------|
|         | Pension Plan           | Excess Pension Plan |
| Johns   | \$82,343               | \$—                 |
| Bielen  | \$164,227              | \$1,060,107         |
| Walker  | \$54,042               | \$65,889            |
| Long    | \$168,995              | \$564,311           |
| Temple  | \$17,384               | \$37,493            |
| Thigpen | \$214,888              | \$927,136           |

The Pension Benefits Table has more information about each officer's participation in these plans.

All of the named executive officers have account balances in our DCP. The earnings on a named executive officer's balance reflect the earnings of notional investments selected by that named executive officer. These earnings are the same as for any other investor in these investments, and we do not provide any above-market or preferential earnings rates.

The grants of Performance Unit Awards, Restricted Unit Awards and Parent Based Awards, which are cash-based awards, are not reflected in the Summary Compensation Table. The awards will be reflected in the Summary Compensation Table in the year in which they are earned. The Grants of Plan-Based Awards Table provides information about the Performance Unit Awards, Restricted Unit Awards and Parent Based Awards that were granted in 2017.

Column (i)—All other compensation. For 2017, these amounts include the following:

## All Other Compensation Table

| Name   | 401(k) matching | Nonqualified deferred compensation plan contributions | Financial planning program | Other perquisites |
|--------|-----------------|---|----------------------------|-------------------|
| Johns  | \$10,800        | \$747,745   | \$14,782                   | \$122,782         |
| Bielen | \$10,800        | \$120,994   | \$—                        | \$66,792          |
| Walker | \$10,800        | \$32,358  | \$14,755                   | \$—               |
| Long   | \$10,800        | \$73,195  | \$14,782                   | \$20,003          |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|         |           |           |           |          |
|---------|-----------|-----------|-----------|----------|
| Temple  | \$ 10,800 | \$ 13,400 | \$ 14,528 | \$ —     |
| Thigpen | \$ 10,800 | \$ 95,076 | \$ —      | \$ 1,531 |

401(k) Matching

Our employees can contribute a portion of their salary, overtime and cash incentives to our 401(k) Plan and receive a dollar-for-dollar company matching contribution. The maximum match is 4% of the employee's eligible pay (which is subject to limits imposed by the Internal Revenue Code). The table shows the matching received by the named executive officers.

211

---

Table of Contents

Nonqualified Deferred Compensation Plan Contributions

The table includes, with respect to each of the executives, supplemental matching contributions that we made under our DCP to each named executive officer's account in 2017 with respect to the officer's participation in our DCP during 2016 ("DCP Supplemental Matching Contribution"). The Nonqualified Deferred Compensation Table provides more information about this plan. Additionally, the table includes, with respect to Mr. Johns, a lump sum amount that was determined as if he accrued a benefit in the Nonqualified Excess Pension Plan during 2017 and which is credited to his book-entry retirement pay deferral account (\$618,028). For more information on this retirement pay deferral account, see "Discussion of Nonqualified Deferred Compensation Table - Retirement Pay Deferral Account for John D. Johns" in this Item 11.

Financial Planning Program

These amounts include the amounts we pay for the fees and travel expenses of the third party provider of our financial and tax planning program.

Other Perquisites

These amounts include: 1) the amount we paid for club memberships for Mr. Johns (\$3,704) and Mr. Thigpen (\$600); 2) the amount of expense reimbursement that we paid to Mr. Johns (\$5,766) and Mr. Bielen (\$20,660) under our spousal travel policy; 3) the amount we paid for sporting events to Mr. Johns (\$2,332) and Mr. Bielen (\$3,492); 4) payments to Ms. Long for legal fees (\$19,800); 5) the amount we paid to Mr. Thigpen for a hunting trip (\$400); 6) the amount of gross-up payments we paid for spousal travel for Mr. Johns (\$5,103) and Mr. Bielen (\$18,284); 7) the amount of gross-up payments we paid for sporting events and travel to Mr. Johns (\$2,064) and Mr. Bielen (\$3,090); 8) the amount paid for spousal meals to Mr. Johns (\$441), Mr. Bielen (\$30) and Ms. Long (\$203); 9) the amount paid for gifts to Mr. Johns (\$241) and Mr. Bielen (\$241); and 10) the estimated incremental cost that we incurred in 2017 for Mr. Johns or his guests to use Company aircraft for personal trips (\$103,372) and Mr. Bielen and his guests to use Company aircraft for personal trips (\$20,995). The estimated incremental cost is based on incremental hourly charges and fuel allocable to the personal travel time on the aircraft. From time-to-time, family members of the named executive officers are accommodated as additional passengers on flights on Company aircraft. There is no incremental cost to the Company for this perquisite.

Grants of Plan-Based Awards During 2017

We adopted a long-term incentive program in 2015 that established a formula equity value for the Company under which our named executive officers will receive awards, payable in cash, that will increase or decrease in value as the value determined under this formula changes based on the operation of our business. The 2017 long-term incentive opportunities for the named executive officers are comprised of three separate awards: 1) Performance Unit Awards; 2) Restricted Unit Awards; and 3) Parent Based Awards.

This table has information about: 1) the long-term incentive awards granted in 2017 and 2) the annual incentive awards granted in 2017, which will be payable in March 2018. Because we no longer have publicly traded stock, none of the incentive awards granted in 2017 were equity incentive awards.



Table of Contents

## Grants of Plan-Based Awards Table

| Name<br>(a) | Grant<br>Date<br>(b) | Type of<br>Award        | Number<br>of Units<br>(c)   | Estimated Possible Payouts Under<br>Non-Equity Incentive Plan Awards |                              |                        |
|-------------|----------------------|-------------------------|-----------------------------|--|------------------------------|------------------------|
|             |                      |                         |                             | Threshold<br>(\$)<br>(d)   | Target<br>(\$)<br>(e)        | Maximum<br>(\$)<br>(f) |
| Johns       | 3/15/17              | Annual Incentive        | (1) —                       | \$ 650,000   | \$ 1,300,000 <sup>(1)</sup>  | \$ 2,600,000           |
|             | 3/15/17              | Performance Unit Awards | (2) 29,085 <sup>(2)</sup>   | —  | 2,908,500 <sup>(2)</sup>     | 5,817,000              |
|             | 3/15/17              | Restricted Unit Awards  | (3) 13,090 <sup>(3)</sup>   | —  | 1,309,000 <sup>(3)</sup>     | —                      |
|             | 3/15/17              | Parent Based Awards     | (4) 4,363 <sup>(4)</sup>    | —  | 436,300 <sup>(4)</sup>       | —                      |
| Bielen      | 3/15/17              | Annual Incentive        | (1) —                       | \$ 450,000   | \$ 900,000 <sup>(1)(6)</sup> | \$ 1,800,000           |
|             | 3/15/17              | Performance Unit Awards | (2) 10,400 <sup>(2)</sup>   | —  | 1,040,000 <sup>(2)</sup>     | 2,080,000              |
|             | 7/1/17               | Performance Unit Awards | (2) 2,435 <sup>(2)(5)</sup> | —  | 243,500 <sup>(2)(5)</sup>    | 487,500                |
|             | 3/15/17              | Restricted Unit Awards  | (3) 4,680 <sup>(3)</sup>    | —  | 468,000 <sup>(3)</sup>       | —                      |
|             | 7/1/17               | Restricted Unit Awards  | (3) 1,095 <sup>(3)(5)</sup> | —  | 109,500 <sup>(3)(5)</sup>    | —                      |
|             | 3/15/17              | Parent Based Awards     | (4) 1,560 <sup>(4)</sup>    | —  | 156,000 <sup>(4)</sup>       | —                      |
| Walker      | 7/1/17               | Parent Based Awards     | (4) 365 <sup>(4)(5)</sup>   | —  | 36,500 <sup>(4)(5)</sup>     | —                      |
|             | 3/15/17              | Annual Incentive        | (1) —                       | \$ 145,250   | \$ 290,500 <sup>(1)</sup>    | \$ 581,000             |
|             | 3/15/17              | Performance Unit Awards | (2) 3,500 <sup>(2)</sup>    | —  | 350,000 <sup>(2)</sup>       | 700,000                |
|             | 3/15/17              | Restricted Unit Awards  | (3) 1,575 <sup>(3)</sup>    | —  | 157,500 <sup>(3)</sup>       | —                      |
| Long        | 3/15/17              | Parent Based Awards     | (4) 525 <sup>(4)</sup>      | —  | 52,500 <sup>(4)</sup>        | —                      |
|             | 3/15/17              | Annual Incentive        | (1) —                       | \$ 159,250   | \$ 318,500 <sup>(1)</sup>    | \$ 637,000             |
|             | 3/15/17              | Performance Unit Awards | (2) 3,865 <sup>(2)</sup>    | —  | 386,500 <sup>(2)</sup>       | 773,000                |
|             | 3/15/17              | Restricted Unit Awards  | (3) 1,740 <sup>(3)</sup>    | —  | 174,000 <sup>(3)</sup>       | —                      |
| Temple      | 3/15/17              | Parent Based Awards     | (4) 580 <sup>(4)</sup>      | —  | 58,000 <sup>(4)</sup>        | —                      |
|             | 3/15/17              | Annual Incentive        | (1) —                       | \$ 178,150   | \$ 356,300 <sup>(1)</sup>    | \$ 712,600             |
|             | 3/15/17              | Performance Unit Awards | (2) 4,665 <sup>(2)</sup>    | —  | 466,500 <sup>(2)</sup>       | 933,000                |
|             | 3/15/17              | Restricted Unit Awards  | (3) 2,100 <sup>(3)</sup>    | —  | 210,000 <sup>(3)</sup>       | —                      |
| Thigpen     | 3/15/17              | Parent Based Awards     | (4) 700 <sup>(4)</sup>      | —  | 70,000 <sup>(4)</sup>        | —                      |
|             | 3/15/17              | Annual Incentive        | (1) —                       | \$ 218,900   | \$ 437,800 <sup>(1)</sup>    | \$ 875,600             |
|             | 3/15/17              | Performance Unit Awards | (2) 5,335 <sup>(2)</sup>    | —  | 533,500 <sup>(2)</sup>       | 1,067,000              |
|             | 3/15/17              | Restricted Unit Awards  | (3) 2,400 <sup>(3)</sup>    | —  | 240,000 <sup>(3)</sup>       | —                      |
|             | 3/15/17              | Parent Based Awards     | (4) 800 <sup>(4)</sup>      | —  | 80,000 <sup>(4)</sup>        | —                      |

These numbers reflect the target and maximum payouts to the named executive officers under the annual incentive (1) plan. The level of payout is tied to the Company's after-tax adjusted operating income, value of new business, expense management, and RBC.

These numbers reflect the Performance Unit Awards granted to each named executive officer along with the estimated payouts at the threshold, target, and maximum amounts. The number of Performance Unit Awards determined to be granted reflect a discount to the book value to reflect the risk of forfeiture associated with (2) performance conditions. The level of payout is tied to the Company's ROE and cumulative after-tax adjusted operating income. These values reflect a reasonable estimate based on a value of each unit at \$100 at the date of grant using the grant-date tangible book value of the Company.

(3) These numbers reflect the Restricted Unit Awards and target value of Restricted Unit Awards granted to each named executive officer.

(4) These numbers reflect the Parent Based Awards and target value of the Parent Based Awards granted to each named executive officer.

(5) These numbers reflect an off-cycle award based on Mr. Bielen's promotion to CEO on July 1, 2017.

(6)

Upon Mr. Bielen's promotion to CEO on July 1, 2017, his target was increased to 120% for the entirety of the 2017 plan year.

Discussion of Grants of Plan-Based Awards Table

Column (b) - Grant date.

At its February 21, 2017 meeting, the Board granted long-term incentive awards valued in the amounts reflected in the table with a grant date of March 15, 2017.

213

---

## Table of Contents

Column (c) - Number of units.

These amounts reflect the number of each of the Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards granted to the named executive officers in 2017. The target value of each award is reflected in column (e).

Columns (d), (e), and (f) - Estimated possible payouts under non-equity incentive plan awards.

For a discussion of the performance targets and the estimated possible payouts under non-equity incentive plan awards, see “Annual Cash Incentive Awards” and “Long Term Incentive Awards” in the Compensation Disclosure and Analysis above.

Termination of Employment; Change of Control

Special vesting and payment provisions apply to Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards if the officer's employment ends. See “Potential Payments upon Termination or Change of Control” in this Item 11 for more information.

Outstanding Equity Awards at December 31, 2017

The named executive officers had no outstanding equity awards as of December 31, 2017.

Option Exercises and Stock Vested During 2017

In 2017, none of the named executive officers held any awards that were exercisable for, convertible into or that may be settled for stock of the Company.

### Adoption of Annual Incentive Plan and Long-Term Incentive Plan

On November 6, 2017, the Board adopted the Protective Life Corporation Annual Incentive Plan (“AIP”) and the Protective Life Corporation Long-Term Incentive Plan (“LTIP”). The Company intends to make grants of annual and long-term incentives under the AIP and the LTIP, respectively, to officers and key employees of the Company and its subsidiaries beginning in 2018. A summary of these plans follows.

#### Annual Incentive Plan

Under the AIP, officers and key employees of the Company and its subsidiaries are eligible for annual cash incentive opportunities based upon the achievement of key annual goals that will enhance Company performance and shareowner value. The Compensation Committee will designate the officers and key employees to participate in the AIP (“Participants”).

For each calendar year, the Compensation Committee will recommend for approval by the Board the performance objective or objectives that must be satisfied in order for Participants to be eligible to receive an incentive payment for that year. The performance objectives established under the AIP shall be related to one of the following criteria, which may be determined solely by reference to the performance of the Company or a subsidiary or a division or business unit or based on comparative performance relative to other companies: net income; operating income; book value; embedded value or economic value added; return on equity, assets or invested capital; assets, sales or revenues or growth in assets, sales or revenues; efficiency or expense management; capital adequacy (including risk-based capital); investment returns or asset quality; completion of acquisitions, financings, or similar transactions; customer service metrics; the value of new business or sales; or such other reasonable criteria as the Compensation Committee may recommend and the Board may approve. With respect to any Participant, the Compensation Committee may establish multiple performance objectives.

The AIP provides that the Compensation Committee will establish a target amount for each Participant and that Participants’ targeted amounts may be aggregated to create a pool to be allocated in the discretion of the Compensation Committee. The Compensation Committee may establish the pool in respect of any performance objective based on the extent to which the objective is met or exceeded, or the extent to which objectives are only partially achieved. The Compensation Committee may provide that amounts below or in excess of the aggregate of all Participant targets for such performance objective will be funded for performance in excess of, or at stated levels below, targeted performance. The Compensation Committee may also establish a threshold level of achievement for any performance objective below which no amount shall be funded in respect of such performance objective. Additionally, the Compensation Committee may, in its discretion, allocate the pool among divisions or business units, in which case the

authorized manager of each division or business unit will then (i) make individual determinations regarding the contribution of each Participant in his or her respective division or business unit to the achievement of the overall stated performance objectives, and (ii) recommend, for approval by the Compensation Committee, the amount payable, if any, from such division or business unit allocation to each such Participant.

The Compensation Committee may delegate any and all of its duties and responsibilities (including the selection of Participants) in respect of any Participants (other than the Executive Chairman, President and Chief Executive Officer and all members of the Company's Performance and Accountability Committee) to a committee of officers comprised of the President and Chief Executive Officer and any two or more of certain specified Company officers.

Unless the Compensation Committee otherwise determines to pay the Participant a greater amount, if a Participant's employment terminates due to death, disability or normal or early retirement under the terms of the Qualified Pension Plan, the Participant shall receive an annual incentive payment equal to the amount the Participant would have received if the Participant had remained employed through the end of the year, pro-rated based on the number of days that elapsed during the year in which the termination occurs. Except as provided in the prior sentence, unless the Compensation Committee shall determine to authorize a payment, no amount shall be payable to a Participant as an annual incentive award unless the Participant is still an employee of

Table of Contents

the Company or one of its subsidiaries on the date payment is made or such earlier date as the Compensation Committee may specify.

The AIP is effective with respect to the calendar year beginning January 1, 2018, and will continue in effect until otherwise amended or terminated by the Board.

Long Term Incentive Plan

Under the LTIP, employees of the Company and its subsidiaries are eligible to receive three types of incentive awards (collectively, "Awards"):

1. "Performance Unit," an Award which becomes vested and non-forfeitable upon the attainment, in whole or in part, of performance objectives, determined by the Compensation Committee, during an award period, and which is payable in cash based amounts set by the Compensation Committee.

2. "Restricted Unit," an Award which becomes vested and non-forfeitable, in whole or in part, upon the satisfaction of such conditions as shall be determined by the Compensation Committee, and which is payable in cash based on the Company's "Tangible Book Value Per Unit," as defined in the LTIP.

3. "Parent-Based Award," a cash-denominated Award based on the value of the common stock of the Company's sole stockholder, Dai-ichi Life or its successor over the life of the Award.

Under the LTIP, the Compensation Committee shall select the eligible participants ("LTIP Participants"), the number of Awards each LTIP Participant will be granted, and the performance criteria (if any) for each Award. In the case of Performance Units, the performance objectives shall be related to at least one of the following criteria, which may be determined solely by reference to the performance of the Company or a division or subsidiary or based on comparative performance relative to other companies: (i) pre-tax and/or after-tax adjusted operating income, operating earnings, net income, operating income, book value, embedded value or economic value added of the Company or a subsidiary, division or business unit (including measures on a per share basis) or the accumulated earnings of any of the foregoing, (ii) return on equity, assets or invested capital, (iii) assets, sales or revenues, or growth in assets, sales or revenues, of the Company or a subsidiary, division or business unit, (iv) efficiency or expense management (such as unit cost), (v) risk management or third-party ratings, (vi) capital adequacy (including risk-based capital), (vii) investment returns or asset quality, (viii) premium income or earned premium, (ix) value of new business or sales, (x) negotiation or completion of acquisitions, financings or similar transactions, (xi) customer service metrics, and (xii) such other reasonable criteria as the Compensation Committee may determine. The Compensation Committee may change the performance objectives applicable with respect to any Performance Units to reflect such factors, including changes in a LTIP Participant's duties or responsibilities or changes in business objectives, as the Compensation Committee shall deem necessary or appropriate.

The Compensation Committee may delegate any and all of its authority (including the selection of LTIP Participants) with respect to any LTIP Participants (other than the Executive Chairman, President and Chief Executive Officer and Performance and Accountability Committee members) to a committee comprised of the President and Chief Executive Officer and any two or more of certain officers listed in the LTIP.

The LTIP provides for special payouts of Awards upon certain change of control transactions of the Company as defined in the LTIP. In addition, in the case of Parent-Based Units, the payouts will occur upon a change of control of Dai-ichi Life.

The LTIP provides that upon a termination of a LTIP Participant's employment due to death, disability, or normal retirement, all Restricted Units and Parent-Based Awards will become fully vested and, unless the Compensation Committee determines to provide for treatment that is more favorable to a Participant, all Performance Units will vest pro rata based on the LTIP Participant's period of employment during the award period relative to the total length of the award period. The LTIP has special vesting provisions for the Awards upon a termination of employment due to

early retirement and special vesting and payment provisions for termination after a major divestiture or reduction in force by the Company. In the case of a termination “for cause” (as defined in the LTIP), all vested and unvested Awards are forfeited. Otherwise, unvested amounts generally are forfeited upon termination of employment.

215

---

Table of Contents

## Post-Employment Benefits

This table contains information about benefits payable to the named executive officers upon their retirement.

## Pension Benefits Table

| Name<br>(a) | Plan Name<br>(b) | Number of years credited service<br>(#)<br>(c) <sup>(1)</sup> | Present value of accumulated benefit<br>(\$)<br>(d) <sup>(2)</sup> | Payments during the last fiscal year<br>(\$)<br>(e) |
|-------------|------------------|---|--|---|
| Johns       | Pension          | 24  | \$ 1,230,743   | \$ —  |
|             | Excess Pension   |   | —  | —   |
|             | Total            |   | \$ 1,230,743   | \$ —  |
| Bielen      | Pension          | 27  | \$ 1,014,041   | \$ —  |
|             | Excess Pension   | 27  | 5,809,431  | —   |
|             | Total            |   | \$ 6,823,472   | \$ —  |
| Walker      | Pension          | 16  | \$ 375,925   | \$ —  |
|             | Excess Pension   | 16  | 439,443  | —   |
|             | Total            |   | \$ 815,368   | \$ —  |
| Long        | Pension          | 24  | \$ 1,216,748   | \$ —  |
|             | Excess Pension   | 24  | 3,778,715  | —   |
|             | Total            |   | \$ 4,995,463   | \$ —  |
| Temple      | Pension          | 5   | \$ 57,178  | \$ —  |
|             | Excess Pension   | 5   | 111,998  | —   |
|             | Total            |   | \$ 169,176   | \$ —  |
| Thigpen     | Pension          | 34  | \$ 1,535,826   | \$ —  |
|             | Excess Pension   | 34  | 6,471,106  | —   |
|             | Total            |   | \$ 8,006,932   | \$ —  |

(1) The number of years of service that are used to calculate the named executive officer's benefit under each plan, as of December 31, 2017.

(2) The actuarial present value of the named executive officer's benefit under each plan as of December 31, 2017. The valuation method and material assumptions that we used to calculate these amounts are set forth in Note 16, Employee Benefit Plans, of the Notes to our Consolidated Financial Statements in this Annual Report on Form 10-K.

## Discussion of Pension Benefits Table

We have “defined benefit” pension plans, as further described below, to help provide our eligible employees with retirement security.

## Qualified Pension Plan

Almost all of our full-time employees participate in our Qualified Pension Plan. The Qualified Pension Plan provides different benefit formulas for three different groups: 1) the “grandfathered group” (any employee employed on December 31, 2007 whose age plus years of vesting service total 55 or more as of that date); 2) the “non-grandfathered group” (any employee employed on December 31, 2007 whose age plus years of vesting service was less than 55 as of that date); and 3) the “post-2007 group” (any employee first hired after December 31, 2007 or any former employee who is rehired after that date).

Mr. Johns, Mr. Bielen, Ms. Long, and Mr. Thigpen are in the grandfathered group; and Mr. Walker is in the non-grandfathered group.

For employees in the grandfathered group and non-grandfathered group, the monthly life annuity benefit payable under the Qualified Pension Plan at normal retirement age (usually age 65) for service before 2008 equals:

• 1.1% of the employee's final average pay times years of service through 2007 (up to 35 years), plus

0.5% of the employee's final average pay over the employee's Social Security covered pay times years of service through 2007 (up to 35 years), plus  
0.55% of the employee's final average pay times years of service through 2007 (in excess of 35 years).

216

---



Table of Contents

For service after 2007, employees in the grandfathered group continue to earn a monthly life annuity benefit payable at normal retirement age (usually age 65), calculated as follows:

- 1.0% of the employee's final average pay times years of service after 2007 (up to 35 years minus service before 2008), plus
- 0.45% of the employee's final average pay over the employee's Social Security covered pay times years of service after 2007 (up to 35 years minus service before 2008), plus
- 0.50% of the employee's final average pay times the lesser of years of service after 2007 and total years of service minus 35 years.

The total benefit payable to employees in the grandfathered group will not be less than the benefit the employee would have received had he been a non-grandfathered employee.

For service after 2007, employees in the non-grandfathered group and post-2007 group earn a hypothetical account balance that is credited with pay credits and interest credits. Interest is credited to a participant's account effective as of December 31 of each year, based on the value of the participant's account on January 1 of that year. The interest rate is based on the 30-year Treasuries' constant maturities rate published by the IRS. The rate for a calendar year is the rate published for October of the previous year. Pay credits for a year are based on a percentage of eligible pay for that year, as follows:

| Credited Service | % of<br>Pay<br>Credit |
|------------------|-----------------------|
| 1 - 4 years      | 4 %                   |
| 5 - 8 years      | 5 %                   |
| 9 - 12 years     | 6 %                   |
| 13 - 16 years    | 7 %                   |
| 17 or more years | 8 %                   |

Final average pay for grandfathered employees is the average of the employee's eligible pay for the 60 consecutive months that produces the highest average. (However, if the employee's average eligible pay for any 36 consecutive months as of December 31, 2007 is greater than the 60-consecutive month average, the 36-month number will be used.) For non-grandfathered employees, final average pay is the average of the employee's eligible pay for the 36 consecutive months before January 1, 2008 that produces the highest average.

Eligible pay includes components of pay such as base salary, overtime and annual incentive awards. Pay does not include payment of certain commissions, performance shares, gains on SAR exercises, vesting of restricted stock units, severance pay, or other extraordinary items.

Social Security covered pay is one-twelfth of the average of the Social Security wage bases for the 35-year period ending when the employee reaches Social Security retirement age. For non-grandfathered participants, Social Security covered pay is determined as of December 31, 2007. The wage base is the maximum amount of pay for a year for which Social Security taxes are paid. Social Security retirement age is between age 65 and 67, depending on the employee's date of birth.

Unless special IRS rules apply, benefits are not paid before employment ends. An employee may elect to receive:

- a life annuity (monthly payments for the employee's life only), or
- a 50%, 75% or 100% joint and survivor annuity (the employee receives a smaller benefit for life, and the employee's designated survivor receives a benefit of 50%, 75% or 100% of the reduced amount for life), or
- a five, ten, or 15 year period certain and life annuity benefit (the employee receives a smaller benefit for life and, if the employee dies before the selected period, the employee's designated survivor receives the reduced amount until the end of the period), or
- a lump sum benefit.

If an employee chooses one of these benefit options, the benefit is adjusted using the interest rate assumptions and mortality tables specified in the Qualified Pension Plan, so it has the same actuarial value as the benefit determined by the Qualified Pension Plan formulas.

An employee whose employment ends before age 65 may begin benefit payments after termination of employment. The benefit for service before 2008 is reduced for commencement before age 65, so the benefit remains the actuarial equivalent of a benefit beginning at age 65.

If an employee retires on or after age 55 with at least 10 years of vesting service, the employee may take an "early retirement" benefit with respect to benefits earned through 2007, beginning immediately after employment ends. Mr. Johns, Mr. Bielen, Mr. Walker, Ms. Long, and Mr. Thigpen are eligible for early retirement. The early retirement benefit for pre-2008 service is based on the Qualified Pension Plan formula. The benefit is reduced below the level of the age 65 benefit; however, the reduction for an early retirement benefit is not as great as the reduction for early commencement of a vested benefit. (For example, the early

Table of Contents

retirement reduction at age 55 is 50%; the actuarial reduction (using the Qualified Pension Plan interest rates and mortality tables) is 62%. At age 62, the early retirement reduction is 20%, and the actuarial reduction is 27%.

Nonqualified Excess Pension Plan

Benefits under our Qualified Pension Plan are limited by the Internal Revenue Code. We believe we should pay our employees the total pension benefit they have earned, without imposing these Code limits. Therefore, like many large companies, we have a Nonqualified Excess Pension Plan that makes up the difference between: 1) the benefit determined under the Qualified Pension Plan formula, without applying these limits; and 2) the benefit actually payable under the Qualified Pension Plan, taking these limits into account.

Pursuant to the Nonqualified Excess Pension Plan's change of control provision, an employee will receive a lump sum payment of his or her pre-2005 excess pension benefit in January immediately following the employee's date of termination. Prior to the Merger in 2015, benefits under the Nonqualified Excess Pension Plan with respect to service before 2005 were paid at the same time and in the same form as the related benefits under our Qualified Pension Plan. For an employee's post-2004 benefit, an employee will receive payment pursuant to the employee's original payment election (lump sum or annuity) three or six months after termination, as applicable based on whether the employee is a "specified employee" under Section 409A of the Internal Revenue Code. For any distributions to an employee employed on the date of the Merger in 2015, the more favorable lump sum factors will be used to calculate the benefit. These more favorable lump sum factors include the use of (a) the mortality table used for determining lump sum payment amounts under the Qualified Pension Plan as of the date on which the calculation is being made, and (b) an interest rate equal to the lesser of (i) the sum of 0.75% and the yield on U.S. 10-year treasury notes at constant maturity as most recently published by the Federal Reserve Bank of New York, and (ii) the interest rate used for determining lump sum payment amounts under the Qualified Pension Plan as of the date on which the calculation is being made. Payment is made from our general assets (and is therefore subject to the claims of our creditors), and not from the assets of the Qualified Pension Plan. Because she experienced a separation of service under Section 409A of the Internal Revenue Code as of January 1, 2018, Ms. Long is not entitled to defer or accrue any additional benefit under the Nonqualified Excess Pension Plan in 2018.

Nonqualified Deferred Compensation Arrangements

This table has information about the named executive officers' participation in nonqualified deferred compensation arrangements in 2017.

Nonqualified Deferred Compensation Table

| Name<br>(a) | Executive<br>contributions<br>in last FY<br>(\$)<br>(b) <sup>(1)</sup> | Registrant<br>contributions<br>in last FY<br>(\$)<br>(c) <sup>(2)</sup> | Aggregate<br>earnings<br>in last FY<br>(\$)<br>(d) | Aggregate<br>withdrawals/<br>distributions<br>(\$)<br>(e) | Aggregate<br>balance at<br>last FYE<br>(\$)<br>(f) <sup>(3)</sup> |
|-------------|--|---|--|---|---|
| Johns       | \$ 128,920   | \$ 747,745  | \$1,163,662  | \$ 129,406  | \$41,152,239  |
| Bielen      | \$ 243,237   | \$ 120,994  | \$512,206  | \$ —  | \$16,367,979  |
| Walker      | \$ 45,000  | \$ 32,358   | \$196,551  | \$ 442,604  | \$2,110,106   |
| Long        | \$ 369,270   | \$ 73,195   | \$55,830   | \$ 99,463   | \$918,157   |
| Temple      | \$ 69,360  | \$ 13,400   | \$1,071  | \$ —  | \$120,104   |
| Thigpen     | \$ 868,882   | \$ 95,076   | \$42,201   | \$ 70,463   | \$1,588,663   |

(1) These amounts include:

a. the following amounts that are also included in column (c) (Salary) of the Summary Compensation Table as compensation earned and deferred by the officer in 2017 under the DCP: Johns, \$40,000; Bielen, \$24,667; Long, \$293,000; Temple, \$42,000; and Thigpen, \$20,533.

b. the following amounts that are also included in column (g) (Non-equity incentive plan compensation) of the Summary Compensation Table for 2017 as compensation earned under the annual incentive plan with respect to 2017 performance and deferred by the officer in 2018 under the DCP: Bielen, \$51,840; Walker, \$15,000; Temple, \$27,360; and Thigpen, \$714,425.

the following amounts that are also included in column (b) (Bonus) of the Summary Compensation Table as c. retention bonuses payable for 2017 service under the Employment Agreements and deferred by the officer in 2018 under the DCP: Bielen, \$65,095 and Thigpen, \$52,912.

the following amounts that are also included in column (b) (Bonus) and column (g) (Non-equity incentive plan compensation) of the Summary Compensation Table for 2016 as retention bonuses payable for 2016 service and compensation earned under the 2016 annual incentive plan with respect to 2016 performance and, in each case, d. deferred by the officer in 2017 under the DCP: Johns, \$88,920; Bielen, \$101,635; Walker, \$30,000; Long, \$76,270; and Thigpen, \$81,012. We now report in the Nonqualified Deferred Compensation Table for a particular fiscal year the amount of executive contributions that are earned by the officer during such fiscal year even if those amounts are not deferred and credited to the officer's deferral account until the following fiscal year.

None of the officers elected to defer any portion of their long-term incentive awards that were earned in 2017 and reported in the Summary Compensation Table for 2017.

Table of Contents

For Mr. Bielen, Mr. Walker, Ms. Long, Mr. Temple, and Mr. Thigpen, these amounts are the DCP Supplemental Matching Contributions allocated to the officer's account in 2017 with respect to the officer's participation during 2016 in our DCP, the terms of which provide that the officer will not receive the matching contribution unless the officer is employed on the date of the allocation, which is when the Company incurs the expense. For Mr. Johns, this amount includes 1) the DCP Supplemental Matching Contribution allocated to his account in 2017 with respect (2) to his participation in our DCP during 2016 (\$129,717) and 2) the lump sum amount that was determined as if he accrued a benefit in the Nonqualified Excess Pension Plan and which is credited to his book-entry retirement pay deferral account in 2017 (\$618,028). For Mr. Johns, Mr. Bielen, Mr. Walker, Ms. Long, Mr. Temple, and Mr. Thigpen, these DCP Supplemental Matching Contributions and, for Mr. Johns, the amount of compensation credited to his retirement pay deferral account, are reported in the Summary Compensation Table as compensation for 2017.

These amounts reflect the following amounts that have been reported as compensation to the officer in previous (3) proxy statements (with respect to periods prior to the Merger) and Annual Reports on Forms 10-K (for periods after the Merger): Johns, \$39,241,318; Bielen, \$15,491,542; Walker, \$2,278,800; Long, \$519,324; Temple, \$36,273; and Thigpen, \$652,967.

## Discussion of Nonqualified Deferred Compensation Table

## Deferrals by Our Officers

In general, the named executive officers and other key officers can elect to participate in our unfunded, unsecured DCP. An officer who defers compensation under the DCP does not pay income taxes on the compensation at that time. Instead, the officer pays income taxes on the compensation (and any earnings on the compensation) only when the officer receives the compensation and earnings from the DCP. Because she experienced a separation of service under Section 409A of the Internal Revenue Code as of January 1, 2018, Ms. Long is not entitled to defer or accrue any additional benefit under the DCP in 2018.

Eligible officers may defer: 1) up to 75% of their base salary; 2) up to 85% of any annual incentive award; and/or 3) up to 94% of the amounts payable when Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards are earned. Officers were entitled to defer up to 85% of their retention bonus installments payable under their Employment Agreements.

An election to defer base salary for a calendar year must be made by December 31 of the previous year. Generally, an election to defer any annual incentive payout for a calendar year must be made by June 30 of that year. Generally, an election to defer earned performance units must be made by June 30 of the last year in the award's performance period. An election to defer earned Restricted Unit Awards or Parent Based Awards must be made within 30 days after the date of the award. Deferred compensation accrues earnings based on the participant's election among notional investment choices available under the DCP. For 2017, the investment returns for each of the notional investment choices were:

| Investment Choice                                 | Return |
|---|--------|
| Columbia Mid Cap Index Fund R5                    | 16.00% |
| DFA Emerging Markets I                            | 36.57% |
| DFA US Small Cap                                  | 11.52% |
| Dodge & Cox International Stock                   | 23.94% |
| Dodge and Cox Stock                               | 18.33% |
| Fidelity 500 Index Fund                           | 21.72% |
| Wells Fargo Government Money Market Institutional | 0.73 % |
| JP Morgan Mid-Cap Growth R5                       | 29.68% |
| Metropolitan West Low Duration Bond I             | 1.35 % |
| T Rowe Price Growth Stock                         | 33.63% |
| Pimco Real Return Institutional                   | 3.93 % |
| Templeton Foreign A                               | 10.34% |
| Vanguard Total Bond Market Index - Admiral        | 3.56 % |
| Protective Life LIBOR Fund                        | 1.83 % |

An officer may elect to receive payments in a lump sum or in up to ten annual installments, which election can be changed under certain circumstances. An officer may elect to receive a deferred amount (and earnings) upon termination of employment and if such election is made, the officer may not change this election. An officer may instead elect to receive a deferred amount (and earnings) on a fixed date (which must be a February 15, and must begin no later than the officer's 70th birthday), which election can be changed under certain circumstances. An officer may also request a distribution if the officer has an extreme and unexpected financial hardship, as determined under IRS rules.

#### Supplemental Matching

We make supplemental matching contributions to the account of eligible officers under the DCP. These contributions provide matching that we would otherwise contribute to our 401(k) Plan, but which we cannot contribute because of Internal Revenue Code limits on 401(k) plan matching. For a calendar year, the supplemental match that an officer receives is:

219

---

## Table of Contents

the lesser of

4% of eligible compensation payable during the year, whether received in cash or deferred, and  
the total amount the officer deferred during the year under the 401(k) Plan and deferrals of base salary and cash  
bonuses under the DCP; minus  
the actual matching contribution the officer received under the 401(k) Plan for that year, applying the Internal  
Revenue Code limits.

An officer's supplemental matching contributions may be allocated in one percent increments among the same  
notional investment funds available for deferrals under the DCP. Supplemental matching is paid only after termination  
of employment. The officer can elect payment in a lump sum or in up to ten annual installments, and such election  
cannot be changed.

### Other Provisions

Notional investment choices under the DCP must be in one percent increments. An officer may transfer money  
between the notional investment choices on any business day. We do not provide any above-market or preferential  
earnings rates and do not guarantee that an officer's notional investments will make money.

Upon an officer's death or disability, the officer's plan balance is paid in a lump sum. Account balances are paid in  
cash.

### Retirement Pay Deferral Account for John D. Johns

In 2016, the Board of Directors approved the conversion of the accrued benefit payable under the Nonqualified Excess  
Pension Plan as of March 31, 2016 to Mr. Johns into a lump sum amount. The lump sum amount is allocated to a book  
entry that will be treated as though it were a pay deferral account under the Company's DCP.

Mr. Johns will continue to accrue benefits as though he were accruing benefits under the Nonqualified Excess Pension  
Plan with respect to this continued service as an employee of Company after March 31, 2016. At the end of each  
calendar year (or the date Mr. Johns' employment terminates, if earlier), the additional benefit accrued during such  
year (or portion thereof) will be converted into its then present value, using the mortality tables and applicable interest  
rate on such date and credited to Mr. Johns' retirement pay deferral account. Treating the accrued benefit as a pay  
deferral account as though it were under the DCP will allow the amount of such benefit to be treated in the same  
manner as if it were payable currently to Mr. Johns and then deferred under the DCP. This will allow the accrued  
benefit to be deemed invested, at Mr. Johns' election, among the various notional investment opportunities available to  
participants (including Mr. Johns) for their deferred compensation under the DCP until it is payable to Mr. Johns.

### Potential Payments upon Termination or Change of Control

The information below describes and quantifies the compensation that would have accrued to the named executive  
officers upon a termination of the executives' employment or a change-in-control of Company on December 31, 2017  
under (i) the annual incentive plan awards and the long-term incentive program, (ii) the now-expired Employment  
Agreements, and (iii) the terms of Mr. Johns' Letter Agreement and Ms. Long's Transition Letter Agreement. However,  
the actual benefit to a named executive officer can only be determined at the time of the change-in-control event or  
such executive's separation from the Company. Additionally, the benefits described below are in addition to benefits  
available generally to salaried employees upon a termination of employment, such as distributions under the 401(k)  
Plan and the Company's disability benefits.

As described in the Compensation Discussion and Analysis, the employment periods under the Employment  
Agreements with our named executive officers have all expired, all retention payments set forth thereunder have been  
paid, and none of our named executive officers are entitled to any further payments under those agreements. With the  
exception of Mr. Johns and Ms. Long, none of named executive officers are party to any written employment  
arrangements that provide for payments in the event of a change in control or termination of employment.

### Transition Letter Agreement with Deborah J. Long

In December 2016, Deborah J. Long, our Executive Vice President, Chief Legal Officer and Corporate Secretary,  
announced that she will retire on July 31, 2018 (the "Retirement Date"). Under the Transition Letter Agreement entered  
into with the Company on December 30, 2016, Ms. Long remained in her current position through December 31,  
2017. In 2018 until her Retirement Date, she is working on a part-time basis, providing support with respect to

government affairs and facilitating the transition of her duties to her successors.

During 2017, Ms. Long continued to be compensated in accordance with the Company's practices for its named executive officers. She received at least her current base salary, and was eligible for an annual incentive opportunity based on the provisions of the annual incentive plan. Ms. Long also received a 2017 long-term incentive award opportunity of \$580,000, allocated among Restricted Unit Awards, Performance Unit Awards, and Parent-Based Awards on the same basis as applies to the Company's named executive officers. For her services in 2018, Ms. Long will receive her base salary at the rate in effect at the end of 2017. Based on her continued employment, she also received the remaining two installments (paid in February 2017 and February 2018, respectively) of the retention award payable pursuant to her Employment Agreement.

If the Company terminates Ms. Long's employment without cause after the second anniversary of the Merger and prior to her Retirement Date, her agreement provides that she will be entitled to the same compensation and benefits that she would have received had she remained employed through her Retirement Date. In the event Ms. Long's employment terminates after such second anniversary and prior to the Retirement Date due to her death or disability, she will be entitled to receive at least the



Table of Contents

benefits generally afforded under the Company's applicable plans and policies and her existing Employment Agreement. The Company has also agreed that the aggregate present value of the pension benefits Ms. Long will receive under the Qualified Pension Plan and Nonqualified Excess Pension Plan at her retirement at the Retirement Date will not be less than \$5,100,000.

Letter Agreement with John D. Johns

On November 28, 2017, Mr. Johns entered into the Letter Agreement with the Company dated November 6, 2017 that establishes his duties, commitments and compensation with respect to his role as Executive Chairman. Upon a termination of Mr. Johns' service as Executive Chairman, the only compensation payable to Mr. Johns are (i) accrued but unpaid compensation under the Letter Agreement for any reason; (ii) any vested amounts or benefits owing to him under the Company's otherwise applicable compensation programs or employee benefit plans and programs, including any compensation previously deferred by Mr. Johns (together with any accrued earnings thereon) and not yet paid by the Company; and (iii) any other amounts or benefits payable due to Mr. Johns' retirement, termination, death or disability under the Company's plans, policies, programs or arrangements.

Annual Incentive Payments

Except as provided in the following sentence, unless the Compensation Committee determines to authorize a payment, no amount will be payable to the named executive officers as an annual incentive award unless the named executive officer is still an employee of the Company or one of its subsidiaries on the date payment is made or such earlier date as the Compensation Committee may specify. Unless the Compensation Committee shall otherwise determine to pay the named executive officer a greater amount, if a named executive officer's employment terminates due to death, disability (as determined in accordance with generally applicable Company policies) or normal or early retirement under the terms of any retirement plan maintained by the Company or a subsidiary, such named executive officer shall receive an annual incentive payment equal to the amount the named executive officer would have received if the named executive officer had remained employed through the end of the year, multiplied by a fraction, the numerator of which is the number of days that elapsed during the year in which the termination occurs before and including the date of the named executive officer's termination of employment and the denominator of which is 365.

Long-Term Incentive Awards

The named executive officers receive annually three types of long-term incentive awards: Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards. These awards are described in more detail at Compensation Discussion and Analysis - Long-Term Incentive Awards and Grants of Plan-Based Awards. Upon a termination of employment, the awards provide for differing vesting and payment terms depending upon the type of termination.

In the case of a change in control of the Company,

A named executive officer will be deemed to have earned the greater of (i) 100% of the performance units and (ii) the percentage of such performance units that would derive from applying the schedules at Compensation Discussion and Analysis - Long-Term Incentive Awards through the date of the change in control event, and will be settled in cash based upon the per-unit tangible book value of the Company as of the date of such change in control event;

- The restricted units will immediately vest in full and be settled in cash, based upon the per-unit tangible book value of the Company, within 60 days following the date of the change in control event; and

The Parent Based Awards will vest immediately and be settled in cash based on the percentage change in the parent stock value, using the average closing stock prices during the calendar month preceding the grant date of the award and during the 30 days ended on the date of the change in control event.

In the case of an early retirement of the named executive officer under the terms of the Company's Qualified Pension Plan,

A pro-rated portion of the performance units will be settled in cash based on a fraction, the numerator of which is the number of days the officer was employed during the award period, and the denominator of which is the total number of days in the award period;

A pro-rated portion of the restricted units will immediately vest based on the product of the number of unvested restricted units that would become vested at the applicable date times a fraction, the numerator of which is the number of complete and partial calendar months between January 1, 2017 and the executive's retirement date, and the denominator of which is (i) 36 in the case of the units that are scheduled to vest at December 31, 2019, or (ii) 48 in the case of the units that are scheduled to vest at December 31, 2020; and

A pro-rated portion of the Parent Based Awards will immediately vest based on a fraction, the numerator of which is the number of complete and partial calendar months between January 1, 2016 and the officer's retirement date, and the denominator of which is 36.

In the case of the death, disability, or retirement of the named executive officer on or after normal retirement age under the terms of the Qualified Pension Plan,

## Table of Contents

A pro-rated portion of the performance units will be settled in cash based on a fraction, the numerator of which is the number of days the officer was employed during the award period, and the denominator of which is the total number of days in the award period;

•The restricted units will vest in full; and

•The Parent Based Awards will vest in full.

In the case of a special termination of the named executive officer, which consists of a termination of employment due to (i) a divestiture of a business segment or a significant portion of the assets of the Company or (ii) a significant reduction by the Company of its work force, the Compensation Committee determines to what extent, and on what terms, the Performance Unit Awards, Restricted Unit Awards, and Parent Based Awards will be paid.

Termination of a named executive officer's employment for "cause", or any other termination not specified above, will result in a forfeiture of each type of award. "Cause" means any named executive officer's conviction or plea of nolo contendere to a felony, an act or acts of extreme dishonesty or gross misconduct, or violation of the Company's Code of Business Conduct.

Unless otherwise noted above, any Restricted Unit Awards or Parent Based Awards that become vested will be payable in accordance with the normal vesting schedule as if the named executive officer had remained employed through the last vesting date, and any Performance Unit Awards that are earned will be payable as if the named executive officer had remained employed for the duration of the award period.

In November 2017, the Compensation Committee approved that, upon Ms. Long's retirement as contemplated in the Transition Letter Agreement, all of Ms. Long's outstanding Restricted Unit Awards, Parent Based Awards and Performance Unit Awards will fully vest on the date of her retirement and will be payable at the same time and in the same manner as they would had Ms. Long remained employed through each of the applicable award vesting dates (in the case of the Restricted Unit Awards and Parent Based Awards) or through the end of the applicable award period (in the case of the Performance Unit Awards). Additionally, the Compensation Committee approved on such date that, upon Mr. Johns' retirement from the Company, all of Mr. Johns' outstanding Performance Unit Awards will fully vest on the date of his retirement and will be payable at the same time and in the same manner as they would had Mr. Johns remained employed through the end of each applicable award period.

### Nonqualified Deferred Compensation

Each named executive officer is currently fully vested in the amounts reported in the "Aggregate Balance at FYE" column of the Nonqualified Deferred Compensation Table, and therefore these amounts would be payable to named executive officers upon termination of employment for any reason.

### Pension Benefits

All of the Company's eligible employees participate in the Qualified Pension Plan. Benefits under the Qualified Pension Plan are fully vested after three years of service. Upon termination of employment for any reason, employees are entitled to receive their vested benefits. Each named executive officer would be entitled to receive the amounts designated as pension benefits represented in the "Present Value of Accumulated Benefit" column of the Pension Benefits Table. The Pension Benefits Table also shows the amounts payable to each named executive officer upon separation from service under Section 409A of the Internal Revenue Code under the Nonqualified Excess Pension Plan.

### Termination Payments

The following tables and footnotes describe the potential payments to the named executive officers upon termination of employment as of December 31, 2017.

The tables do not include:

- compensation or benefits previously earned by the named executive officers or incentive awards that were already fully vested;

- the value of pension benefits that are disclosed in the 2017 Pension Benefits Table, except for any pension enhancement triggered by the event, if applicable;

- the amounts payable under the DCP that are disclosed in the 2017 Nonqualified Deferred Compensation Table; or

- the value of any benefits (such as retiree health coverage, life insurance and disability coverage) provided on the same basis to substantially all other employees.

222

---

Table of Contents

The table set forth below shows the cash payments and other benefits that would have been payable to each of the named executive officers had a change of control of the Company occurred on December 31, 2017.

| Name    | Performance Units | Restricted Units | Parent-Based Awards | Total        |
|---------|-------------------|------------------|---------------------|--------------|
| Johns   | \$20,163,147      | \$4,817,135      | \$1,754,047         | \$26,734,329 |
| Bielen  | \$7,200,954       | \$1,743,557      | \$630,567           | \$9,575,078  |
| Walker  | \$2,266,756       | \$543,707        | \$197,618           | \$3,008,081  |
| Long    | \$2,702,470       | \$645,158        | \$234,679           | \$3,582,307  |
| Temple  | \$2,844,025       | \$684,797        | \$248,656           | \$3,777,478  |
| Thigpen | \$3,727,943       | \$890,159        | \$323,914           | \$4,942,016  |

The table set forth below shows the cash payments and other benefits that would have been payable to each of the named executive officers had his or her employment been terminated due to death, disability or normal retirement (on or after normal retirement age) on December 31, 2017.

| Name    | Employment Agreement <sup>(1)</sup> | Performance Units | Restricted Units | Parent-Based Awards | Annual Incentive Payments | Total        |
|---------|-------------------------------------|-------------------|------------------|---------------------|---------------------------|--------------|
| Johns   | \$ —                                | \$14,817,301      | \$5,125,651      | \$1,754,047         | \$2,496,000               | \$24,192,999 |
| Bielen  | \$ —                                | \$5,029,348       | \$1,864,588      | \$630,567           | \$1,728,000               | \$9,252,503  |
| Walker  | \$ —                                | \$1,640,762       | \$579,424        | \$197,618           | \$557,800                 | \$2,975,604  |
| Long    | \$5,100,000                         | \$1,992,680       | \$686,255        | \$234,679           | \$611,500                 | \$8,625,114  |
| Temple  | \$ —                                | \$2,026,531       | \$730,916        | \$248,656           | \$684,000                 | \$3,690,103  |
| Thigpen | \$ —                                | \$2,747,462       | \$946,895        | \$323,914           | \$840,500                 | \$4,858,771  |

(1) Pursuant to her Transition Letter Agreement, Ms. Long will receive a guaranteed minimum pension payout.

The table set forth below shows the cash payments and other benefits that would have been payable to each of the named executive officers had his or her employment been terminated due to early retirement on December 31, 2017.

| Name    | Performance Units | Restricted Units | Parent-Based Awards | Annual Incentive Payments | Total        |
|---------|-------------------|------------------|---------------------|---------------------------|--------------|
| Johns   | \$14,817,301      | \$2,529,977      | \$1,191,169         | \$2,496,000               | \$21,034,447 |
| Bielen  | \$5,029,348       | \$1,007,879      | \$403,418           | \$1,728,000               | \$8,168,645  |
| Walker  | \$1,640,762       | \$328,871        | \$131,832           | \$557,800                 | \$2,659,265  |
| Long    | \$1,992,680       | \$399,363        | \$159,948           | \$611,500                 | \$3,163,491  |
| Temple  | \$2,026,531       | \$406,134        | \$162,880           | \$684,000                 | \$3,279,545  |
| Thigpen | \$2,747,462       | \$550,830        | \$220,688           | \$840,500                 | \$4,359,480  |

Table of Contents

The table set forth below shows the cash payments and other benefits that would have been payable to each of the named executive officers had his or her employment been terminated (other than for “cause” or for one of the reasons specified in the tables above) on December 31, 2017.

| Name    | Retention Payments <sup>(1)</sup> | Employment Agreement <sup>(2)</sup> | Restricted Units | Parent-Based Awards | Total        |
|---------|-----------------------------------|-------------------------------------|------------------|---------------------|--------------|
| Johns   | \$ —                              | \$ —                                | \$3,410,338      | \$ 1,278,699        | \$4,689,037  |
| Bielen  | \$ 1,627,380                      | \$ —                                | \$ 1,107,832     | \$ 420,838          | \$3,156,050  |
| Walker  | \$ —                              | \$ —                                | \$ 373,036       | \$ 140,419          | \$513,455    |
| Long    | \$ 1,016,403                      | \$ 6,600,861                        | \$ 458,246       | \$ 171,488          | \$8,246,998  |
| Temple  | \$ 679,770                        | \$ —                                | \$ 455,732       | \$ 172,391          | \$ 1,307,893 |
| Thigpen | \$ 1,322,799                      | \$ —                                | \$ 632,399       | \$ 236,754          | \$2,191,952  |

(1) Represents the final installment of the retention bonus provided for under the Employment Agreements. Such amounts have been fully paid as of February 2018.

(2) This column includes the following items payable under Ms. Long's Termination Letter Agreement in the event of termination without cause: guaranteed minimum pension benefit of \$5,100,000; guaranteed amount under the long-term incentive arrangements of \$580,000; salary payable through July 31, 2018 of \$284,861; and annual incentive award payout for 2017 of \$636,000 (based on actual performance for 2017).

#### Compensation Policies and Practices as Related to Risk Management

The Compensation Committee meets at least once a year with the Company's Chief Risk Officer to review incentive compensation arrangements in order to identify any features that might encourage unnecessary or excessive risk taking. In conducting this review, we considered numerous factors pertaining to each such program, including the following: the purpose of the program; the design of the plan, including risk adjustments; the number of participants, as well as key employees or employee groups; the total amount that could be paid under the program; the ability of the participants to take actions that could influence the calculation of the compensation payable; the scope of the risks that could be created by actions taken; alignment with the Company's risk appetite; and the manner in which our risk management policies and practices serve to reduce these risks. Based on this review, we have concluded that none of our programs create risks that are reasonably likely to have a material adverse effect on the Company.

#### Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Mr. Bielen, our CEO and President.

During 2017, we had two CEOs: Mr. Johns from January 1 through June 30, 2017, and Mr. Bielen from July 1 through December 31, 2017. For purposes of this disclosure we considered the compensation of Mr. Bielen, as reported in the Summary Compensation Table included elsewhere in this Annual Report on Form 10-K, for the portion of 2017 in which he served as CEO, and annualized certain components of his compensation as described further in item 5 below.

For 2017:

the median of the annual total compensation of all employees of the Company (other than our CEO) was \$63,724; and the annualized total compensation of our CEO was \$8,198,261.

Based on this information, for 2017 our estimate of the ratio of the total compensation of Mr. Bielen, our current CEO and President, to the median of the annual total compensation of all employees was 129 to 1.

To identify the median of the annual total compensation of all our employees, as well as to determine the annual total compensation of our median employee and our CEO, the Company took the following steps:

1. We identified our employee population, consisting of full-time, part-time, and temporary employees, as of December 29, 2017.
2. To identify the “median employee” from our employee population, we compared the amount of Box 5 earnings (Box 5 is Medicare taxable wages and includes all forms of compensation) of our employees as reflected in our payroll

records as reported to the Internal Revenue Service on Form W-2 for 2017.

3. We identified our median using this compensation measure, which was consistently applied to all our employees included in the calculation.

4. Once we identified our median employee, we combined all of the elements of such employee's compensation for 2017 in accordance with the requirements of Item 402(c)(2)(x) of Regulation S-K, resulting in annual total compensation of \$63,724.

224

---

Table of Contents

5. With respect to the annual total compensation of our CEO, we included and adjusted the amounts reported in the 2017 Summary Compensation Table included in this Annual Report on Form 10-K as follows:

• We annualized the amount of salary paid to Mr. Bielen during the months he served as CEO in 2017.

• We included the full amount of his 2017 annual bonus and non-equity incentive plan compensation, as reported in the Summary Compensation Table for 2017. (Mr. Bielen did not receive any equity awards during 2017.)

• For other annual compensation as reported in the Summary Compensation Table for 2017, we included all reported elements and annualized the items which represented only a partial year.

• We included the 2017 increase in value of pension benefits, but adjusted the benefit to reflect a full year of pension value increase when calculated at his new higher salary which he was paid upon becoming CEO.

Given the different methodologies that various public companies will use to determine an estimate of their pay ratio, the estimated ratio reported above should not be used as a basis for comparison between companies.

**Director Compensation**

This table contains information about the 2017 compensation of our non-employee directors.

**Director Compensation Table**

| Name<br>(a)            | Fees<br>earned<br>or paid<br>in cash<br>(\$)<br>(b) | All other<br>compensation<br>(\$)<br>(c) | Total<br>(\$)<br>(d) |
|------------------------|---|--|----------------------|
| Shinichi Aizawa        | \$—   | \$ 39,502                                | \$39,502             |
| Tomohiko Asano         | \$—   | \$ —                                     | \$—                  |
| Vanessa Leonard        | \$110,000   | \$ 23,236                                | \$133,236            |
| John J. McMahon, Jr.   | \$106,000   | \$ —                                     | \$106,000            |
| Ungyong Shu            | \$100,000   | \$ 10,286                                | \$110,286            |
| Jesse J. Spikes        | \$100,000   | \$ 14,393                                | \$114,393            |
| William A. Terry       | \$100,000   | \$ 10,497                                | \$110,497            |
| Shigeo Tsuyuki         | \$—   | \$ —                                     | \$—                  |
| W. Michael Warren, Jr. | \$103,000   | \$ 19,405                                | \$122,405            |

**Discussion of Director Compensation Table****Column (b) - Fees earned or paid in cash**

The 2017 cash compensation components were -

- Board membership - \$25,000 per quarter
- Additional retainer for Audit Committee Chairperson - \$2,500 per quarter
- Additional retainer for Compensation and Management Succession Committee Chairperson - \$1,500 per quarter
- Additional retainer for Corporate Governance and Nominating Committee Chairperson - \$750 per quarter

Cash retainers are paid in February, May, August, and November.

**Column (c)—All Other Compensation**

If a director's spouse or appropriate guest travels with the director on Company business, we pay for or reimburse the director for the associated travel expenses if the spouse's or guest's presence on the trip is deemed necessary or appropriate for the purpose of the trip. In some circumstances, family members or guests of the directors are accommodated as additional passengers on flights on Company aircraft, and there is no incremental cost to the Company for this perquisite. When payment or reimbursement of these expenses results in taxable income to the director, the Company provides the director a payment to cover the taxes that the director is expected to incur with respect to the reimbursement (and the related payment). In some situations, these tax reimbursement payments are paid in the year after the spouse's or guest's trip. The amount in this column reflects:

• reimbursement of associated travel expenses for the director's spouse or guest to each of Mr. Aizawa (\$20,445); Ms. Leonard (\$12,996); Mr. Shu (\$9,599); Mr. Spikes (\$7,495); Mr. Terry (\$5,375); and Mr. Warren (\$10,774).



hunting and golf trips with Company executives to each of Mr. Spikes (\$400) and Mr. Terry (\$400).

225

---

Table of Contents

tax reimbursements to the director as a result of payment or reimbursement for spousal travel expenses incurred in 2017, tax reimbursements to the director for gifts given in 2017 and tax reimbursements related to non-business travel with Company executives to each of Mr. Aizawa (\$18,416); Ms. Leonard (\$9,759); Mr. Shu (\$206); Mr. Spikes (\$6,017); Mr. Terry (\$4,241); and Mr. Warren (\$8,150).

- gifts given to the director and the director's spouse or guest collectively valued at \$481 to each of Ms. Leonard, Mr. Shu, Mr. Spikes, Mr. Terry, and Mr. Warren and valued at \$641 to Mr. Aizawa.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

On February 1, 2015, the Company consummated an Agreement and Plan of Merger, pursuant to which the Company became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a kabushiki kaisha organized under the laws of Japan (now known as Dai-ichi Life Holdings, Inc., "Dai-ichi Life"), and our stock ceased to be publicly traded. By reason of this transaction, our executive officers and directors no longer hold shares of common stock of the Company. Dai-ichi Life now owns 100% of the outstanding common stock of the Company.

Item 13. Certain Relationships and Related Transactions

Review and Approval of Related Party Transactions

We review all relationships and transactions in which we and "related parties" (our directors, director nominees, executive officers, and their immediate family members) participate to determine if any related party has a direct or indirect material interest. Our General Counsel's Office is primarily responsible for developing and implementing processes to obtain the necessary information and for determining, based on the facts and circumstances, whether a direct or indirect material interest exists.

If the General Counsel's Office determines that a transaction may require disclosure under SEC rules, the General Counsel's Office will notify:

- the Corporate Governance and Nominating Committee, if the transaction involves one of our directors or director nominees; otherwise
- the Audit Committee.

The relevant Board committee will approve or ratify the transaction only if it determines that the transaction is in our best interests. In considering the transaction, the committee will consider all relevant factors, including (as applicable):

- our business rationale for entering into the transaction;
- the alternatives to entering into the transactions;
- whether the terms of the transaction are comparable to those that could be obtained in arms-length dealings with an unrelated third party;
- the potential for the transaction to lead to an actual or apparent conflict of interest, and any safeguards imposed to prevent actual or apparent conflicts; and
- the overall fairness of the transaction to us.

Based on the information available to the Company's General Counsel's Office and to the Board, except as described below, there have been no transactions between the Company and any related party since January 1, 2017, nor are any currently proposed, for which disclosure is required under the SEC rules.

Related Party Transactions Entered into by the Company

Dai-ichi Life is the sole shareholder of the Company and provides certain services to the Company pursuant to a Global Services Agreement dated September 8, 2016. The services include planning, monitoring and advising with respect to the following matters regarding the Dai-ichi Life group as a whole: Development and administration of the management plan; development and administration of the capital management strategy; organization and company rules; budget control and settlement of accounts; public relations; human resources systems; IT strategy; risk management; compliance management, management of internal transactions and conflict of interest, and information management; internal audit, internal control, and legal risk control; sharing information on life insurance business; and provide advisory services to help increase the Company's profits. During the fiscal year ended December 31, 2017 the Company paid a fee to Dai-ichi Life of \$10.9 million for the services provided to the Company.

Director Independence

None of the Company's securities are listed on, and the Company is not subject to the listing standards or rules of, any national securities exchange or automated inter-dealer quotation system of a national securities association. However, for purposes of disclosing the independence of our directors under applicable SEC rules, we have chosen to apply the independence standards of the New York Stock Exchange ("NYSE"). The Corporate Governance and Nominating Committee and the Board evaluated the independence of our directors under such standards after a review and discussion of information regarding each director's relationship with us and our senior management and their affiliates. After such review and discussion, the Board affirmatively determined that the following non-employee directors are independent under NYSE independence standards: Ms. Leonard, Mr. McMahon, Mr. Shu, Mr. Spikes, Mr. Terry and Mr. Warren. The Board also determined that all members of the Audit Committee,

Table of Contents

the Compensation and Management Succession Committee, and the Corporate Governance and Nominating Committee are independent under NYSE independence standards relating to membership on such committees.

## Item 14. Principal Accountant Fees and Services

The following table shows the aggregate fees billed by PricewaterhouseCoopers LLP for 2017 and 2016 with respect to various services provided to the Company and its subsidiaries:

|                    | For The Year<br>Ended<br>December 31,<br>2017 2016<br>(Dollars In<br>Millions) |        |
|--------------------|--|--------|
| Audit fees         | \$ 7.5   | \$ 6.5 |
| Audit related fees | 0.6  | 0.5    |
| Tax fees           | 0.7  | 0.6    |
| All other fees     | —  | —      |
|                    | \$ 8.8   | \$ 7.6 |

Audit Fees were for professional services rendered for the audits of our consolidated financial statements, including integrated audits of our consolidated financial statements and the effectiveness of internal controls over financial reporting, audits (GAAP and statutory basis) of certain of our subsidiaries, issuance of comfort letters and consents, assistance with review of documents filed with the SEC and other regulatory authorities, and expenses related to the above services.

Audit-Related Fees were for assurance and related services related to employee benefit plan audits, due diligence and accounting consultations in connection with acquisitions, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees were for services related to tax compliance, including the preparation and review of tax returns and claims for refund and tax planning and tax advice, including assistance with tax audits and appeals, consultations on tax regulations and legislative changes, advice related to acquisitions, tax services for employee benefit plans, and requests for rulings or technical advice from tax authorities.

All Other Fees include fees that are appropriately not included in the Audit, Audit-Related, and Tax categories.

On February 21, 2018, the Audit Committee approved the engagement of PricewaterhouseCoopers LLP to render audit and non-audit services for the Company and its subsidiaries for the period ending February 2019, including the audit of the the Company's consolidated financial statements for the year ending December 31, 2018. The Audit Committee's policy is to pre-approve, generally for a twelve-month period, the audit, audit-related, tax and other services provided by the independent accountants to the Company and its subsidiaries. Under the pre-approval process, the Audit Committee reviews and approves specific services and categories of services and the maximum aggregate fee for each service or service category. Performance of any additional services or categories of services, or of services that would result in fees in excess of the established maximum, requires the separate pre-approval of the Audit Committee or one of its members who has been delegated pre-approval authority. The Audit Committee or its Chairperson pre-approved all Audit, Audit-Related, Tax and Other services performed for the Company by PricewaterhouseCoopers LLP with respect to fiscal year 2017.

In evaluating the selection of PricewaterhouseCoopers LLP as principal independent accountants for the Company and its subsidiaries, the Audit Committee considered whether the provision of the non-audit services described above is compatible with maintaining the independent accountants' independence. The Audit Committee determined that such services have not affected PricewaterhouseCoopers LLP's independence. The Audit Committee also reviewed the non-audit services performed in 2017 and determined that those services were consistent with our policy. In addition, the Audit Committee considered the non-audit professional services that PricewaterhouseCoopers LLP will likely be asked to provide for us during 2018, and the effect which performing such services might have on audit independence.



Table of Contents

## PART IV

## Item 15. Exhibits, Financial Statement Schedules

The following documents are filed as part of this report:

1. Financial Statements (See Item 8, Financial Statements and Supplementary Data)
2. Financial Statement Schedules:

The following schedules are located in this report on the pages indicated. All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

|   | Page |
|---|------|
| <u>Schedule II—Condensed Financial Information of Registrant For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Period of February 1, 2015 - December 31, 2015 (Successor Company), For The Period of January 1, 2015 - January 31, 2015 (Predecessor Company), and As of December 31, 2017 and 2016 (Successor Company)</u> | 229  |
| <u>Schedule III—Supplementary Insurance Information For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For the Period of February 1, 2015 - December 31, 2015 (Successor Company), and For The Period of January 1, 2015 - January 31, 2015 (Predecessor Company)</u>  | 238  |
| <u>Schedule IV—Reinsurance For The Year Ended December 31, 2017 (Successor Company), For The Year Ended December 31, 2016 (Successor Company), For The Period of February 1, 2015 - December 31, 2015 (Successor Company), and For The Period of January 1, 2015 - January 31, 2015 (Predecessor Company)</u>   | 240  |
| <u>Schedule V—Valuation and Qualifying Accounts As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company)</u>   | 241  |

The Report of Independent Registered Public Accounting Firm which covers the financial statement schedules appears on page 193 of this report.

3. Exhibits:

For a list of exhibits, refer to the "Exhibit Index" filed as part of this report beginning on page 242 below, and incorporated herein by this reference.

The exhibits to this report are included to provide you with information regarding the terms thereof and are not intended to provide any other factual or disclosure information about the Company or the other parties thereto or referenced therein. Such documents may contain representations and warranties by the parties to such documents that have been made solely for the benefit of the parties specified therein. These representations and warranties (i) should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate, (ii) may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable document, which disclosures are not necessarily reflected in the documents, (iii) may apply standards of materiality in a way that is different from what may be viewed as material to you, and (iv) were made only as of the date or dates specified in the documents and are subject to more recent developments. Accordingly, the representations and warranties contained in the documents included as exhibits may not describe the actual state of affairs as of the date they were made or at any other time.

Table of Contents

SCHEDULE II—CONDENSED FINANCIAL INFORMATION  
OF REGISTRANT  
STATEMENTS OF INCOME  
PROTECTIVE LIFE CORPORATION  
(Parent Company)

|  | Successor Company                             |  |   | Predecessor<br>Company                          |
|--|---|--|---|---|
|  | For The<br>Year Ended<br>December 31,<br>2017 | For The<br>Year<br>Ended<br>December<br>31, 2016 | February<br>1, 2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January 31,<br>2015 |
|  | (Dollars In Thousands)                        |  |   | (Dollars In<br>Thousands)                       |
| Revenues   |   |  |   |   |
| Dividends from subsidiaries*   | \$261,090                                     | \$541,762  | \$32,365  | \$ 16   |
| Service fees from subsidiaries*  | 276,325                                       | 250,668  | 220,105   | 19,530  |
| Net investment income  | 9,457   | 8,607  | 49,925  | 4,809   |
| Realized investment gains (losses)                                     | (45,091 )                                     | (29,289 )  | 3,817   | (15,863 )                                       |
| Other income   | 2,049   | 9,828  | 44  | —   |
| Total revenues   | 503,830                                       | 781,576  | 306,256   | 8,492   |
| Expenses   |   |  |   |   |
| Operating and administrative   | 172,871                                       | 143,941  | 121,433   | 8,549   |
| Interest—subordinated debt   | 25,411  | 19,408   | 17,191  | 2,823   |
| Interest—other   | 35,852  | 40,729   | 40,596  | 6,113   |
| Total expenses   | 234,134                                       | 204,078  | 179,220   | 17,485  |
| Income (loss) before income tax and other items below                  | 269,696                                       | 577,498  | 127,036   | (8,993 )  |
| Income tax (benefit) expense   |   |  |   |   |
| Current  | (9,441 )                                      | 334  | (58,547 )   | 6,376   |
| Deferred   | 46,020  | 20,715   | 99,146  | (11,123 )                                       |
| Total income tax expense (benefit)                                     | 36,579  | 21,049   | 40,599  | (4,747 )  |
| Income (loss) before equity in undistributed income from subsidiaries* | 233,117                                       | 556,449  | 86,437  | (4,246 )  |
| Equity in undistributed income of subsidiaries                         | 873,415                                       | (163,420 )                                       | 181,862   | 5,755   |
| Net income   | \$1,106,532                                   | \$393,029  | \$268,299   | \$ 1,509  |

\* Eliminated in Consolidation

See Notes to Consolidated Financial Statements

229

Table of Contents

SCHEDULE II—CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 PROTECTIVE LIFE CORPORATION  
 (Parent Company)

|   | Successor Company                                |  |   | Predecessor<br>Company                          |
|---|--|--|---|---|
|   | For The<br>Year<br>Ended<br>December 31,<br>2017 | For The<br>Year<br>Ended<br>December<br>31, 2016 | February 1,<br>2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January 31,<br>2015 |
|   | (Dollars In Thousands)                           |  |   | (Dollars In<br>Thousands)                       |
| Net income                              | \$1,106,532                                      | \$393,029  | \$268,299   | \$1,509   |
| Total other comprehensive income (loss) | \$692,994  | \$586,611  | \$(1,241,134)                                     | \$465,968                                       |
| Total comprehensive income (loss)       | \$1,799,526                                      | \$979,640  | \$(972,835)                                       | \$467,477                                       |

\* Eliminated in Consolidation

See Notes to Consolidated Financial Statements  
 230

---



Table of Contents

SCHEDULE II—CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
 BALANCE SHEETS  
 PROTECTIVE LIFE CORPORATION  
 (Parent Company)

|  | Successor Company<br>As of December 31, |             |
|--|---|-------------|
|  | 2017                                    | 2016        |
|  | (Dollars In Thousands)                  |             |
| Assets   |   |             |
| Fixed maturities   | \$ 140,102                              | \$ 112,498  |
| Equity securities  | 38,861                                  | 38,472      |
| Other long-term investments  | 10                                      | 10          |
| Short-term investments   | 79,818                                  | —           |
| Investments in subsidiaries (equity method)*   | 8,563,201                               | 7,019,618   |
| Total investments  | 8,821,992                               | 7,170,598   |
| Cash   | 3,760                                   | 78,936      |
| Receivables from subsidiaries*   | 38,394                                  | 9,600       |
| Property and equipment, net  | 1,692                                   | 2,331       |
| Income tax receivable  | 513                                     | 11,061      |
| Deferred income tax  | 103,716                                 | 142,531     |
| Other assets   | 38,487                                  | 29,851      |
| Total assets   | \$9,008,554                             | \$7,444,908 |
| Liabilities  |   |             |
| Accrued expenses and other liabilities   | \$442,696                               | \$368,900   |
| Debt   | 943,370                                 | 1,163,285   |
| Subordinated debt securities   | 495,289                                 | 441,202     |
| Total liabilities  | 1,881,355                               | 1,973,387   |
| Commitments and contingencies—Note 3   |   |             |
| Shareowner's equity  |   |             |
| Common stock   | —                                       | —           |
| Additional paid-in-capital   | 5,554,059                               | 5,554,059   |
| Treasury stock   | —                                       | —           |
| Retained earnings, including undistributed income of subsidiaries: (Successor 2017 - \$891,860; 2016 - \$18,442)   | 1,560,444                               | 571,985     |
| Accumulated other comprehensive income (loss):   |   |             |
| Net unrealized gains on investments, all from subsidiaries, net of income tax: (Successor 2017 - \$6,883; 2016 - \$(349,541))  | 25,896                                  | (649,147 )  |
| Net unrealized losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2017 - \$(6); 2016 - \$(3,864)) | (22 )                                   | (7,175 )    |
| Accumulated gain (loss)—derivatives, net of income tax: (Successor 2017 - \$198; 2016 - \$391)   | 747                                     | 727         |
| Postretirement benefits liability adjustment, net of income tax: (Successor 2017 - \$(3,469); 2016 - \$578)  | (13,925 )                               | 1,072       |
| Total shareowner's equity  | 7,127,199                               | 5,471,521   |
| Total liabilities and shareowner's equity  | \$9,008,554                             | \$7,444,908 |

\* Eliminated in Consolidation

See Notes to Consolidated Financial Statements



Table of Contents

SCHEDULE II—CONDENSED FINANCIAL INFORMATION  
OF REGISTRANT  
STATEMENTS OF CASH FLOWS  
PROTECTIVE LIFE CORPORATION  
(Parent Company)

|   | Successor Company                             |  |   | Predecessor<br>Company                          |
|---|---|--|---|---|
|   | For The<br>Year Ended<br>December 31,<br>2017 | For The<br>Year<br>Ended<br>December<br>31, 2016 | February<br>1, 2015<br>to<br>December<br>31, 2015 | January 1,<br>2015<br>to<br>January 31,<br>2015 |
|   | (Dollars In Thousands)                        |  |   | (Dollars In<br>Thousands)                       |
| Cash flows from operating activities  |   |  |   |   |
| Net income  | \$1,106,532                                   | \$393,029  | \$268,299   | \$1,509   |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |  |   |   |
| Realized investment (gains) losses  | 45,091  | 29,289   | (3,817 )  | 15,863  |
| Equity in undistributed net income of subsidiaries*                               | (873,415 )                                    | 163,420  | (181,862 )  | (5,755 )  |
| Depreciation expense  | 739   | 506  | 363   | 23  |
| Receivables from subsidiaries*  | (28,794 )                                     | 15,181   | (13,759 )   | (4,076 )  |
| Income tax receivable   | 10,548  | 2,109  | (13,170 )   | —   |
| Deferred income taxes   | 46,020  | 20,715   | 99,146  | (11,123 )                                       |
| Accrued income taxes  | —   | —  | (23,246 )   | 5,875   |
| Accrued expenses and other liabilities  | (52,846 )                                     | (33,639 )  | (192,234 )  | 18,329  |
| Other, net  | 4,226   | (16,426 )  | 5,419   | (2,334 )  |
| Net cash provided by (used in) operating activities                               | 258,101                                       | 574,184  | (54,861 )   | 18,311  |
| Cash flows from investing activities  |   |  |   |   |
| Maturities and principal reductions of investments, available-for-sale            | —   | —  | —   | —   |
| Sale of investments, available-for-sale   | —   | —  | —   | —   |
| Cost of investments acquired, available-for-sale                                  | (26,423 )                                     | (59,025 )  | —   | —   |
| Return of and/or (additional) capital investments in subsidiaries                 | 38,410  | (45,762 )  | 110,793   | —   |
| Change in other long-term investments   | —   | (10 )  | —   | —   |
| Change in short-term investments  | (79,818 )                                     | —  | —   | —   |
| Purchase of property and equipment  | —   | (1,649 )   | —   | —   |
| Sales of property and equipment   | (100 )  | —  | —   | —   |
| Net cash (used in) provided by investing activities                               | (67,931 )                                     | (106,446 )                                       | 110,793   | —   |
| Cash flows from financing activities  |   |  |   |   |
| Borrowings under line of credit arrangements and debt                             | 1,035,000                                     | 265,000  | 330,000   | —   |
| Principal payments on line of credit arrangements and debt                        | (1,156,498 )                                  | (633,074 )                                       | (338,093 )  | (60,000 )                                       |
| Dividends to shareowner   | (143,848 )                                    | (89,343 )  | —   | —   |
| Net cash used in financing activities   | (265,346 )                                    | (457,417 )                                       | (8,093 )  | (60,000 )                                       |
| Change in cash  | (75,176 )                                     | 10,321   | 47,839  | (41,689 )                                       |
| Cash at beginning of year   | 78,936  | 68,615   | 20,776  | 62,465  |
| Cash at end of year   | \$3,760                                       | \$78,936   | \$68,615  | \$20,776  |

\*Eliminated in Consolidation

See Notes to Consolidated Financial Statements



Table of Contents

SCHEDULE II—CONDENSED FINANCIAL INFORMATION  
OF REGISTRANT  
PROTECTIVE LIFE CORPORATION

(Parent Company)

NOTES TO CONDENSED FINANCIAL INFORMATION

The Company publishes consolidated financial statements that are its primary financial statements. Therefore, this parent company condensed financial information is not intended to be the primary financial statements of the Company, and should be read in conjunction with the consolidated financial statements and notes, including the discussion of significant accounting policies, thereto of Protective Life Corporation and subsidiaries.

1. BASIS OF PRESENTATION

Nature of Operations

On February 1, 2015, Protective Life Corporation (the "Company") became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a kabushiki kaisha organized under the laws of Japan (now known as Dai-ichi Life Holdings, Inc., "Dai-ichi Life"), when Dai-ichi Life purchased all outstanding shares of the Company's stock. 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 is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, credit life and disability insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company ("PLICO") is the Company's largest operating subsidiary.

The accompanying condensed financial statements of the Company should be read in conjunction with the consolidated financial statements and notes thereto of Protective Life Corporation and subsidiaries included in this Annual Report on Form 10-K filed with the United States Securities and Exchange Commission.

2. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

|   | Successor Company      |           |             |             |
|---|------------------------|-----------|-------------|-------------|
|   | As of December 31,     |           |             |             |
|   | 2017                   |           | 2016        |             |
|   | Outstanding            | Carrying  | Outstanding | Carrying    |
|   | Principal              | Amounts   | Principal   | Amounts     |
|   | (Dollars In Thousands) |           |             |             |
| Debt (year of issue):   |                        |           |             |             |
| Revolving Line Of Credit                                      | \$—                    | \$—       | \$170,000   | \$170,000   |
| 6.40% Senior Notes (2007), due 2018                           | 150,000                | 150,518   | 150,000     | 156,663     |
| 7.375% Senior Notes (2009), due 2019                          | 400,000                | 435,806   | 400,000     | 454,688     |
| 8.45% Senior Notes (2009), due 2039                           | 232,928                | 357,046   | 246,926     | 381,934     |
|   | \$782,928              | \$943,370 | \$966,926   | \$1,163,285 |
| Subordinated debt securities (year of issue):                 |                        |           |             |             |
| 6.25% Subordinated Debentures (2012), due 2042, callable 2017 | \$—                    | \$—       | \$287,500   | \$290,002   |
| 6.00% Subordinated Debentures (2012), due 2042, callable 2017 | —                      | —         | 150,000     | 151,200     |
| 5.35% Subordinated Debentures (2017), due 2052                | 500,000                | 495,289   | —           | —           |
|   | \$500,000              | \$495,289 | \$437,500   | \$441,202   |

The Company's future maturities of debt, excluding notes payable to banks and subordinated debt securities, are \$150.5 million in 2018, \$435.8 million in 2019, and \$357.0 million thereafter.

During the year ended December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company repurchased and subsequently extinguished \$21.6 million and \$82.7 million (par value - \$14.0 million and \$53.1 million) of the Company's 8.45% Senior Notes due 2039, respectively. These repurchases resulted in a \$2.0

million and \$9.8 million pre-tax gains for the Company, respectively. The gain is recorded in other income in the consolidated condensed statements of income.

233

---

Table of Contents

During 2017, the Company issued \$500.0 million of its Subordinated Debentures due 2052. These Subordinated Debentures are carried on the Company's balance sheet net of the associated deferred issuance expenses of \$4.8 million. The Company used the net proceeds from the offering to call and redeem, at par, the entire \$150.0 million of its 6.00% Subordinated Debentures due 2042 and \$287.5 million of its 6.25% Subordinated Debentures due 2042. On August 10, 2017, the Company called for redemption \$287.5 million of its 6.25% Subordinated Debentures due in 2042 and \$150.0 million of its 6.00% Subordinated Debentures due in 2042.

The Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.25 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of our Senior Debt. The Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The annual facility fee rate is 0.125% of the aggregate principal amount. The Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date of the Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of December 31, 2017 (Successor Company). The Company did not have an outstanding balance on the Credit Facility as of December 31, 2017 (Successor Company).

**Interest Expense**

Interest expense on debt and subordinated debt securities totaled \$61.3 million, \$60.1 million, \$57.8 million, and \$8.9 million for the year ended December 31, 2017 (Successor Company), for the year ended December 31, 2016, the periods of February 1, 2015 to December 31, 2015 (Successor Company), and January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

**3. COMMITMENTS AND CONTINGENCIES**

The Company leases a building contiguous to its home office. The lease was renewed in December 2013 and was extended to December 2018. At the end of the lease term, the Company may purchase the building for approximately \$75 million. Monthly rental payments are based on the current LIBOR rate plus a spread. The following is a schedule by year of future minimum rental payments required under this lease:

Year Amount

(Dollars In

Thousands)

2018\$ 77,219

**Golden Gate Captive Insurance Company**

On January 15, 2016, Golden Gate Captive Insurance Company ("Golden Gate"), a Vermont special purpose financial insurance company and a wholly owned subsidiary of Protective Life Insurance Company ("PLICO"), and Steel City, LLC ("Steel City"), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance \$2.188 billion of "XXX" reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life ("WCL"), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of \$2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of \$2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the "Risk-Takers") provide credit enhancement to the Steel City Notes for the 18-year term in exchange for credit enhancement fees. The transaction is "non-recourse" to PLICO, WCL and the Company, meaning that none of these companies, other than Golden Gate, are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. As of December 31, 2017 (Successor Company), the aggregate principal balance of the Steel City Notes was \$2.014 billion. In connection with this transaction, the Company has entered into certain support agreements under which it guarantees or otherwise

supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. The support agreements provide that amounts would become payable by the Company if Golden Gate's annual general corporate expenses were higher than modeled amounts, certain reinsurance rates applicable to the subject business increase beyond modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into a separate agreement to guarantee payment of certain fee amounts in connection with the credit enhancement of the Steel City Notes. As of December 31, 2017 (Successor Company), no payments have been made under these agreements. In connection with the transaction outlined above, Golden Gate had a \$2.014 billion outstanding non-recourse funding obligation as of December 31, 2017 (Successor Company). This non-recourse funding obligation matures in 2039 and accrues interest at a fixed annual rate of 4.75%.

Prior to this transaction, Golden Gate had three series of non-recourse funding obligations with a total outstanding balance of \$800 million. The Company held the entire outstanding balance of non-recourse funding obligations. Series A1 non-recourse funding obligations had a balance of \$400 million and accrued interest at 7.375%, the Series A2 non-recourse funding obligations had a balance of \$100 million and accrued interest at 8.00%, and the Series A3 non-recourse funding obligations had a balance of \$300 million and accrued interest at 8.45%. As a result of the transaction described above, the \$800 million of Golden Gate



Table of Contents

Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes.

## Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company ("Golden Gate II"), a South Carolina special purpose financial captive insurance company wholly owned by PLICO, had \$575 million of outstanding non-recourse funding obligations as of December 31, 2017 (Successor Company). These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of December 31, 2017 (Successor Company), securities related to \$58.6 million of the outstanding balance of the non-recourse funding obligations were held by external parties, and securities related to \$516.4 million of the non-recourse funding obligations were held by the Company and our affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. As of December 31, 2017 (Successor Company), no payments have been made under these agreements, however, certain support agreement obligations to Golden Gate II of approximately \$2.8 million have been collateralized by the Company. Re-evaluation and, if necessary, adjustments of any support agreement collateralization amounts occur annually during the first quarter pursuant to the terms of the support agreements. During the year ended December 31, 2017 (Successor Company), the Company and its affiliates did not repurchase from unrelated third parties any of its outstanding non-recourse funding obligations, at a discount. PLC purchased \$26.4 million of non-recourse funding obligations from certain subsidiaries during the period ended December 31, 2017 that have been eliminated in consolidation. During the year ended December 31, 2016 (Successor Company), the Company and its affiliates repurchased \$86.3 million of its outstanding non-recourse funding obligations, at a discount. These repurchases did not result in a material gain or loss for the Company. The balance of the Company's fixed maturity investments are the result of market transactions in which the Company purchased securities issued by the special purpose trusts that are collateralized by non-recourse funding obligations of Golden Gate II.

## Golden Gate III Vermont Captive Insurance Company

On April 23, 2010, Golden Gate III Vermont Captive Insurance Company ("Golden Gate III"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, entered into a Reimbursement Agreement (the "Reimbursement Agreement") with UBS AG, Stamford Branch ("UBS"), as issuing lender. Under the Reimbursement Agreement, UBS issued a letter of credit (the "LOC") to a trust for the benefit of WCL. The Reimbursement Agreement has undergone three separate amendments and restatements. The Reimbursement Agreement's current effective date is June 25, 2014. The LOC balance reached its scheduled peak amount of \$935 million in 2015. As of December 31, 2017 (Successor Company), the LOC balance was \$885 million. The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is "non-recourse" to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately \$70 million and will be paid in two installments with the last payment occurring in 2021. These contributions may be subject to potential offset against dividend payments as permitted under the terms of the Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Reimbursement Agreement. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

## Golden Gate IV Vermont Captive Insurance Company

Golden Gate IV Vermont Captive Insurance Company ("Golden Gate IV"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of \$270 million to a trust for the benefit of WCL. In accordance with the terms of the terms of the Reimbursement Agreement, the LOC balance reached its scheduled peak amount of \$790 million in 2016. As of December 31, 2017 (Successor Company), the LOC balance was \$785 million. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is "non-recourse" to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

Table of Contents

## Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V Vermont Captive Insurance Company ("Golden Gate V"), a Vermont special purpose financial insurance company, and Red Mountain, LLC ("Red Mountain"), both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to \$945 million of "AXXX" reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, WCL. Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of \$275 million, increasing to a maximum of \$945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America ("Hannover Re"), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is "non-recourse" to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of December 31, 2017 (Successor Company), the principal balance of the Red Mountain note was \$620 million. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately \$121.8 million and will be paid in annual installments through 2031. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of December 31, 2017 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a \$620 million outstanding non-recourse funding obligation as of December 31, 2017 (Successor Company). This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of \$945 million, and accrues interest at a fixed annual rate of 6.25%.

The Company is party to an intercompany capital support agreement with Shades Creek Captive Insurance Company ("Shades Creek"), a direct wholly owned insurance subsidiary. The agreement provides through a guarantee that the Company will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek's regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. Under this support agreement, PLICO issued a \$55 million Letter of Credit. As of December 31, 2015 (Successor Company), the \$55.0 million Letter of Credit executed by PLICO was no longer issued and outstanding. Also in accordance with this agreement, \$120 million of additional capital was provided to Shades Creek by the Company through cash capital contributions during the period February 1, 2015 to December 31, 2015 (Successor Company). As of December 31, 2017 (Successor Company), Shades Creek maintained capital levels in excess of the required minimum thresholds. The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

**4. SHAREOWNER'S EQUITY**

On February 1, 2015, Dai-ichi Life acquired 100% of the Company's outstanding shares of common stock through the Merger of DL Investment (Delaware), Inc., a wholly owned subsidiaries of Dai-ichi Life, with and into the Company, with the Company continuing as the surviving entity.

**5. SUPPLEMENTAL CASH FLOW INFORMATION**

|  | Successor Company |         | Predecessor Company |
|--|-------------------|---------|---------------------|
|  | For The           | For The | February            |
|  | Year              | Year    | 1, 2015             |
|  |                   |         | January 1, 2015     |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|  | Ended<br>December<br>2017 | Ended<br>December<br>31, 2016 | to<br>December<br>31, 2015 | to<br>January 31,<br>2015 |
|--|---------------------------|-------------------------------|----------------------------|---------------------------|
|  | (Dollars In Thousands)    |                               |                            | (Dollars In<br>Thousands) |
| Cash paid (received) during the year for:  |                           |                               |                            |                           |
| Interest paid on debt  | \$78,944                  | \$95,095                      | \$75,322                   | \$ 5,411                  |
| Income taxes (reduced by amounts received from affiliates under a tax sharing agreement) | (23,110 )                 | (2,596 )                      | (15,669 )                  | (10 )                     |
| Noncash investing and financing activities:  |                           |                               |                            |                           |
| Stock-based compensation   | —                         | —                             | —                          | 1,550                     |

6. DERIVATIVE FINANCIAL INSTRUMENTS

In connection with the issuance of non-recourse funding obligations by Golden Gate II, the Company has entered into certain support agreements with Golden Gate II obligating it to provide support payments to Golden Gate II under certain adverse

Table of Contents

interest rate conditions and to the extent of any reduction in the reinsurance premiums received by Golden Gate II due to an increase in the premium rates charged to PLICO under its third party yearly renewable term reinsurance agreements. Each of these agreements expires on July 10, 2052.

In connection with the Golden Gate V financing transaction, the Company entered into separate Portfolio Maintenance Agreements with Golden Gate V and WCL. The agreements obligate the Company to reimburse Golden Gate V and West Coast Life for other-than-temporary impairment losses on certain asset portfolios above a specified amount. Each of these agreements expires on October 10, 2032.

In connection with the Golden Gate financing transaction, the Company entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate. The agreements obligate the Company to reimburse Golden Gate for other-than-temporary impairment losses on certain asset portfolios above a specified amount and to the extent of any reduction in the reinsurance premiums received by Golden Gate due to an increase in the premium rates charged to PLICO under its third party yearly renewable term reinsurance agreements. Each of these agreements expires on January 15, 2034.

As of December 31, 2017 (Successor Company) and December 31, 2016 (Successor Company), the Company included in its balance sheets a combined liability for these agreements of \$91.6 million and \$48.9 million, respectively. During the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016, the period of February 1, 2015 to December 31, 2015 (Successor Company), and January 1, 2015 to January 31, 2015 (Predecessor Company), the Company included in its statements of income unrealized losses of \$42.7 million, \$29.3 million, unrealized gains of \$3.8 million, and unrealized losses of \$15.9 million, respectively.

Table of ContentsSCHEDULE III SUPPLEMENTARY INSURANCE INFORMATION  
PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES

| Segment  | Deferred Policy Acquisition Costs and Value of Businesses Acquired | Future Policy Benefits and Claims | Unearned Premiums | Stable Value Products, Annuity Contracts and Other Policyholders' Funds | Net Premiums and Policy Fees | Net Investment Income <sup>(1)</sup> | Benefits and Settlement Expenses | Amortization of Deferred Policy Acquisition Costs and Value of Businesses Acquired | Other Operating Expenses <sup>(1)</sup> |
|--|--|-----------------------------------|-------------------|---|------------------------------|--------------------------------------|----------------------------------|--|---|
| (Dollars In Thousands)                                   |  |                                   |                   |   |                              |                                      |                                  |  |   |
| Successor Company For The Year Ended December 31, 2017:  |  |                                   |                   |   |                              |                                      |                                  |  |   |
| Life Marketing Acquisitions                              | \$1,320,776  | \$15,438,739                      | \$107             | \$424,204   | \$1,011,911                  | \$553,999                            | \$1,319,138                      | \$120,753  | \$178,792                               |
| Life Marketing Annuities                                 | 74,862   | 14,323,713                        | 2,423             | 4,377,020   | 785,188                      | 752,520                              | 1,204,084                        | (6,939 )   | 110,607                                 |
| Life Marketing Stable Value Products                     | 772,633  | 1,080,629                         | —                 | 7,308,354   | 152,701                      | 321,844                              | 216,629                          | (54,471 )  | 149,181                                 |
| Life Marketing Asset Protection                          | 6,864  | —                                 | —                 | 4,698,371   | —                            | 186,576                              | 74,578                           | 2,354  | 4,407                                   |
| Life Marketing Corporate and Other                       | 24,442   | 55,847                            | 872,600           | —   | 154,166                      | 27,325                               | 126,459                          | 16,524   | 160,235                                 |
| Life Marketing Total                                     | —  | 58,664                            | 275               | 78,810  | 12,718                       | 209,324                              | 16,382                           | —  | 345,022                                 |
| For The Year Ended December 31, 2016:                    |  |                                   |                   |   |                              |                                      |                                  |  |   |
| Life Marketing Acquisitions                              | \$2,199,577  | \$30,957,592                      | \$875,405         | \$16,886,759  | \$2,116,684                  | \$2,051,588                          | \$2,957,270                      | \$78,221   | \$948,244                               |
| Life Marketing Annuities                                 | \$1,218,944  | \$14,595,370                      | \$119             | \$426,422   | \$972,247                    | \$525,495                            | \$1,267,844                      | \$130,708  | \$177,498                               |
| Life Marketing Stable Value Products                     | 106,532  | 14,693,744                        | 2,734             | 4,247,081   | 832,083                      | 764,571                              | 1,232,141                        | 8,178  | 118,056                                 |
| Life Marketing Asset Protection                          | 655,618  | 1,097,973                         | —                 | 7,059,060   | 146,458                      | 322,608                              | 214,100                          | (11,031 )  | 140,409                                 |
| Life Marketing Corporate and Other                       | 5,455  | —                                 | —                 | 3,501,636   | —                            | 107,010                              | 41,736                           | 1,176  | 3,033                                   |
| Life Marketing Total                                     | 33,280   | 60,790                            | 844,919           | —   | 128,687                      | 22,082                               | 106,668                          | 20,033   | 125,957                                 |
| For The Year Ended February 1, 2015 to December 31, 2015 |  |                                   |                   |   |                              |                                      |                                  |  |   |
| Life Marketing Acquisitions                              | \$2,019,829  | \$30,511,085                      | \$848,495         | \$15,309,500  | \$2,093,215                  | \$1,942,456                          | \$2,880,435                      | \$149,064  | \$860,451                               |
| Life Marketing Annuities                                 | \$1,119,515  | \$13,869,102                      | \$135             | \$371,618   | \$882,171                    | \$446,439                            | \$1,109,840                      | \$107,811  | \$165,317                               |

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

|                       |             |              |           |              |             |             |             |           |           |
|-----------------------|-------------|--------------|-----------|--------------|-------------|-------------|-------------|-----------|-----------|
| Life                  |             |              |           |              |             |             |             |           |           |
| Marketing             |             |              |           |              |             |             |             |           |           |
| Acquisitions          | (178,662 )  | 14,508,877   | 3,082     | 4,254,579    | 690,741     | 639,422     | 1,067,482   | 2,035     | 89,960    |
| Annuities             | 578,742     | 1,196,131    | —         | 7,090,171    | 138,146     | 297,114     | 226,824     | (41,071 ) | 125,946   |
| Stable Value Products | 2,357       | —            | —         | 2,131,822    | —           | 78,459      | 19,348      | 43        | 2,620     |
| Asset Protection      | 36,856      | 61,291       | 719,516   | —            | 128,338     | 17,459      | 101,881     | 25,211    | 113,974   |
| Corporate and Other   | —           | 68,496       | 803       | 73,066       | 13,676      | 154,055     | 14,568      | 27        | 179,011   |
| Total                 | \$1,558,808 | \$29,703,897 | \$723,536 | \$13,921,256 | \$1,853,072 | \$1,632,948 | \$2,539,943 | \$94,056  | \$676,828 |

(1) Allocations of Net Investment Income and Other Operating Expenses are based on a number of assumptions and estimates and results would change if different methods were applied.

(2) Excludes Life Insurance

Table of Contents

SCHEDULE III SUPPLEMENTARY INSURANCE INFORMATION  
 PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES  
 (continued)

| Segment  | Net<br>Premiums and<br>Policy Fees | Net<br>Investment<br>Income <sup>(1)</sup> | Benefits<br>and<br>Settlement<br>Expenses | Amortization<br>of Deferred<br>Policy<br>Acquisitions<br>Costs and<br>Value of<br>Businesses<br>Acquired | Other<br>Operating<br>Expenses <sup>(1)</sup> | Premiums<br>Written <sup>(2)</sup> |
|--|------------------------------------|--|---|--|---|------------------------------------|
| (Dollars In Thousands)                                     |                                    |  |   |  |   |                                    |
| Predecessor Company<br>January 1, 2015 to January 31, 2015 |                                    |  |   |  |   |                                    |
| Life Marketing   | \$84,926                           | \$ 47,460                                  | \$ 123,179                                | \$ 4,813   | \$ 18,705                                     | \$ 12                              |
| Acquisitions   | 62,343                             | 71,088                                     | 101,926                                   | 5,033  | 9,041   | 2,133                              |
| Annuities  | 12,473                             | 37,189                                     | 30,613                                    | (7,706 )   | 9,926   | —                                  |
| Stable Value Products                                      | —                                  | 6,888                                      | 2,255                                     | 25   | 79  | —                                  |
| Asset Protection   | 10,825                             | 1,878                                      | 7,592                                     | 1,820  | 10,121  | 10,172                             |
| Corporate and Other  | 1,343                              | 10,677                                     | 1,722                                     | 87   | 20,496  | 1,346                              |
| Total  | \$171,910                          | \$ 175,180                                 | \$ 267,287                                | \$ 4,072   | \$ 68,368                                     | \$ 13,663                          |

(1) Allocations of Net Investment Income and Other Operating Expenses are based on a number of assumptions and estimates and results would change if different methods were applied.

(2) Excludes Life Insurance



Table of Contents

SCHEDULE IV—REINSURANCE  
 PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES  
 Successor Company

|  | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies | Net<br>Amount | Percentage<br>of<br>Amount<br>Assumed<br>to<br>Net |   |
|--|-----------------|--------------------------------|---------------------------------------|---------------|--|---|
| (Dollars In Thousands)                 |                 |                                |                                       |               |  |   |
| For The Year Ended December 31, 2017:  |                 |                                |                                       |               |  |   |
| Life insurance in-force                | \$751,512,468   | \$(328,377,398)                | \$110,205,190                         | \$533,340,260 | 21.0   | % |
| Premiums and policy fees:              |                 |                                |                                       |               |  |   |
| Life insurance                         | 2,655,846       | (1,151,175)                    | ) 435,113                             | 1,939,784     | (1) 22.5   | % |
| Accident/health insurance              | 51,991          | (33,051)                       | ) 14,945                              | 33,885        | 44.1   |   |
| Property and liability insurance       | 309,848         | (176,509)                      | ) 9,676                               | 143,015       | 6.8  |   |
| Total                                  | \$3,017,685     | \$(1,360,735)                  | ) \$459,734                           | \$2,116,684   |  |   |
| For The Year Ended December 31, 2016:  |                 |                                |                                       |               |  |   |
| Life insurance in-force                | \$739,248,680   | \$(348,994,650)                | \$116,265,430                         | \$506,519,460 | 23.0   | % |
| Premiums and policy fees:              |                 |                                |                                       |               |  |   |
| Life insurance                         | 2,610,682       | (1,126,915)                    | ) 454,999                             | 1,938,766     | (1) 23.5   | % |
| Accident/health insurance              | 58,076          | (36,935)                       | ) 17,439                              | 38,580        | 45.2   |   |
| Property and liability insurance       | 261,009         | (150,866)                      | ) 5,726                               | 115,869       | 4.9  |   |
| Total                                  | \$2,929,767     | \$(1,314,716)                  | ) \$478,164                           | \$2,093,215   |  |   |
| February 1, 2015 to December 31, 2015: |                 |                                |                                       |               |  |   |
| Life insurance in-force                | \$727,705,256   | \$(368,142,294)                | \$39,546,742                          | \$399,109,704 | 9.9  | % |
| Premiums and policy fees:              |                 |                                |                                       |               |  |   |
| Life insurance                         | 2,360,643       | (983,143)                      | ) 308,280                             | 1,685,780     | (1) 18.3   | % |
| Accident/health insurance              | 70,243          | (36,871)                       | ) 18,252                              | 51,624        | 35.4   |   |
| Property and liability insurance       | 243,728         | (134,964)                      | ) 6,904                               | 115,668       | 6.0  |   |
| Total                                  | \$2,674,614     | \$(1,154,978)                  | ) \$333,436                           | \$1,853,072   |  |   |

## Predecessor Company

|  | Gross<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from<br>Other<br>Companies | Net<br>Amount | Percentage<br>of<br>Amount<br>Assumed<br>to<br>Net |   |
|--|-----------------|--------------------------------|---------------------------------------|---------------|--|---|
| (Dollars In Thousands)                             |                 |                                |                                       |               |  |   |
| January 1, 2015 to January 31, 2015 <sup>(2)</sup> |                 |                                |                                       |               |  |   |
| Life insurance in-force                            | \$—             | \$—                            | \$—                                   | \$—           | —  | % |
| Premiums and policy fees:                          |                 |                                |                                       |               |  |   |
| Life insurance                                     | 204,185         | (74,539)                       | ) 28,601                              | 158,247       | (1) 18.1   | % |
| Accident/health insurance                          | 6,846           | (4,621)                        | ) 1,809                               | 4,034         | 44.8   |   |
| Property and liability insurance                   | 19,759          | (10,796)                       | ) 666                                 | 9,629         | 6.9  |   |
| Total  | \$230,790       | \$(89,956)                     | ) \$31,076                            | \$171,910     |  |   |

(1)

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Includes annuity policy fees of \$173.5 million, \$160.4 million \$152.8 million, and \$13.9 million for the year ended December 31, 2017 (Successor Company), the year ended December 31, 2016 (Successor Company), the period of February 1, 2015 to December 31, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

- (2) January 31, 2015 (Predecessor Company) balance sheet information is not presented in our consolidated financial statements, therefore January 31, 2015 Life Insurance In-Force has been omitted from this schedule.

Table of Contents

## SCHEDULE V—VALUATION AND QUALIFYING ACCOUNTS

## PROTECTIVE LIFE CORPORATION AND SUBSIDIARIES

Successor Company

| Description                                       | Additions                                  |                                  |                                 | Deductions | Balance<br>at end<br>of<br>period |
|---|--|----------------------------------|---------------------------------|------------|-----------------------------------|
|   | Balance<br>at<br>beginning<br>of<br>period | Charged<br>to<br>and<br>expenses | Charges<br>to other<br>accounts |            |                                   |
| As of December 31, 2017                           |  |                                  |                                 |            |                                   |
| Allowance for losses on commercial mortgage loans | \$ 724                                     | \$(7,439)                        | \$ —                            | \$ 6,715   | \$ —                              |
| As of December 31, 2016                           |  |                                  |                                 |            |                                   |
| Allowance for losses on commercial mortgage loans | \$ —                                       | \$(4,682)                        | \$ —                            | \$ 5,406   | \$ 724                            |

Table of Contents

EXHIBIT INDEX

Exhibit  
Number

- \*2(a) Master Agreement, dated as of April 10, 2013, by and among AXA Equitable Financial Services, LLC, AXA Financial, Inc. and Protective Life Insurance Company, filed as Exhibit 2(b) to the Company's Quarterly Report on Form 10-Q filed August 2, 2013 (No. 001-11339).
- \*2(b) Agreement and Plan of Merger, dated as of June 3, 2014, by and among The Dai-ichi Life Insurance Company, Limited, DL Investment (Delaware), Inc. and Protective Life Corporation, filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed February 3, 2015 (No. 001-11339).
- \*2(c) Master Transaction Agreement, dated as of January 18, 2018, by and among Protective Life Insurance Company, Protective Life Corporation, The Lincoln National Life Insurance Company, Lincoln National Corporation, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Liberty Mutual Group, Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 22, 2018 (No. 001-11339).
- \*3(a) Certificate of Incorporation of the Company, effective as of February 1, 2015, filed as Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed February 26, 2015 (No. 001-11339).
- \*3(b) Amended and Restated Bylaws of the Company effective as of January 4, 2016, filed as Exhibit 3(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed February 25, 2016 (No. 001-11339).
- \*4(a) Reference is made to Exhibit 3(a) above (No. 001-11339).
- \*4(b) Reference is made to Exhibit 3(b) above (No. 001-11339).
- 4(c)(1) Senior Indenture, dated as of June 1, 1994, between the Company and The Bank of New York, as Trustee, filed herewith.
- \*4(c)(2) Supplemental Indenture No. 11, dated as of December 11, 2007, between the Company and The Bank of New York Trust Company, N.A., as Trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed December 7, 2007 (No. 001-11339).
- \*4(c)(3) Supplemental Indenture No. 12, dated as of October 9, 2009, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed October 9, 2009 (No. 001-11339).
- \*4(c)(4) Supplemental Indenture No. 13, dated as of October 9, 2009, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed October 9, 2009 (No. 001-11339).
- 4(d)(1) Subordinated Indenture, dated as of June 1, 1994, between the Company and AmSouth Bank, as Trustee, filed herewith.
- \*4(d)(2) Supplemental Indenture No. 11, dated as of August 10, 2017, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, filed as Exhibit 4.2 to the Company's Current Report on

Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Form 8-K filed August 10, 2017 (No. 001-11339).

The Company's Excess Benefit Plan, Amended and Restated as of December 31, 2008 and Reflecting the \*10(a)(1)† Terms of the December 31, 2010 Amendment, filed as Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed February 28, 2013 (No. 001-11339).

\*10(a)(2)† Amendment to the Company's Excess Benefit Plan, dated as of April 17, 2014, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed May 8, 2014 (No. 001-11339).

\*10(a)(3)† 2016 Amendment to the Company's Excess Benefit Plan, dated as of December 19, 2016, filed as Exhibit 10(a)(3) to the Company's Annual Report on Form 10-K filed February 24, 2017 (No. 001-11339).

Excess Benefit Plan Settlement Agreement, dated as of September 30, 2016, between the Company and \*10(a)(4)† John D. Johns, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed November 7, 2016 (No. 001-11339).

Table of Contents

Exhibit  
Number

- \*10(b)(1)† Protective Life Corporation Annual Incentive Plan, effective January 1, 2018, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 13, 2017 (No. 001-11339).
- \*10(b)(2)† Protective Life Corporation 2017 Annual Incentive Plan, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed August 3, 2017 (No. 001-11339).
- \*10(b)(3)† Protective Life Corporation 2016 Annual Incentive Plan, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 (No. 001-11339).
- \*10(b)(4)† Protective Life Corporation 2015 Annual Incentive Plan, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).
- \*10(c)(1)† Protective Life Corporation Long-Term Incentive Plan, effective January 1, 2018, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed November 13, 2017 (No. 001-11339).
- \*10(d)(1)† 2017 Parent-Based Award Provisions of the Company, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed August 3, 2017 (No. 001-11339).
- \*10(d)(2)† 2016 Parent-Based Award Provisions of the Company, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 (No. 001-11339).
- \*10(d)(3)† 2015 Parent Stock-Based Award Provisions of the Company, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).
- \*10(e)(1)† 2017 Performance Units Provisions (for key officers) of the Company, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 3, 2017 (No. 001-11339).
- \*10(e)(2)† 2016 Performance Units Provisions (for key officers) of the Company, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 (No. 001-11339).
- \*10(e)(3)† 2015 Performance Units Provisions (for key officers) of the Company, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).
- \*10(f)(1)† 2017 Performance Units Provisions of the Company, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed August 3, 2017 (No. 001-11339).
- \*10(f)(2)† 2016 Performance Units Provisions of the Company, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 (No. 001-11339).
- \*10(f)(3)† 2015 Performance Units Provisions of the Company, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).
- \*10(g)(1)† 2017 Restricted Units Provisions of the Company, filed as Exhibit 10(e) to the Company's Quarterly Report on Form 10-Q filed August 3, 2017 (No. 001-11339).
- \*10(g)(2)† 2016 Restricted Units Provisions of the Company, filed as Exhibit 10(e) to the Company's Quarterly Report on Form 10-Q filed May 6, 2016 (No. 001-11339).

\*10(g)(3)† Amended 2015 Restricted Units Provisions of the Company, filed as Exhibit 10(e) to the Company's Quarterly Report on Form 10-Q filed August 7, 2015 (No. 001-11339).

10(h)† Form of the Company's Indemnity Agreement for Officers, filed herewith.

\*10(i)† Form of the Company's Director Indemnity Agreement, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 5, 2010 (No. 001-11339).

\*10(j)(1)† Employment Agreement, dated as of June 3, 2014, between the Company and John D. Johns, filed as Exhibit 10(b) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).

\*10(j)(2)† Letter Agreement, dated as of November 6, 2017 and entered into on November 28, 2017, between the Company and John D. Johns, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 4, 2017 (No. 001-11339).

\*10(j)(3)† Confidentiality and Non-Competition Agreement, dated as of November 28, 2017, between the Company and John D. Johns, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed December 4, 2017 (No. 001-11339).

Table of Contents

Exhibit  
Number

\*10(k)† Transition Letter Agreement, dated as of December 30, 2016, between the Company and Deborah J. Long, filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K filed February 24, 2017 (No. 001-11339).

\*10(l)(1)† Form of Employment Agreement between the Company and Executive Vice President, filed as Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).

\*10(l)(2)† Form of Employment Agreement between the Company and Senior Vice President, filed as Exhibit 10(d) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).

\*10(m)† The Company's Deferred Compensation Plan for Officers, as Amended and Restated as of August 1, 2016, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed August 5, 2016 (No.001-11339).

\*10(n) Amended and Restated Credit Agreement, dated as of February 2, 2015, among Protective Life Corporation and Protective Life Insurance Company, as borrowers, the several lenders from time to time a party thereto, Regions Bank, as Administrative Agent, and Wells Fargo Bank, National Association, as Syndication Agent, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 3, 2015 (No. 001-11339).

\*10(o) Second Amended and Restated Lease Agreement, dated as of December 19, 2013, between Protective Life Insurance Company and Wachovia Development Corporation, filed as Exhibit 10(j) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (No. 001-11339).

\*10(p) Second Amended and Restated Investment and Participation Agreement, dated as of December 19, 2013, between Protective Life Insurance Company and Wachovia Development Corporation, filed as Exhibit 10(k) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (No. 001-11339).

\*10(q) Second Amended and Restated Guaranty, dated as of December 19, 2013 by the Company in favor of Wachovia Development Corporation, filed as Exhibit 10(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 2013 filed February 28, 2014 (No. 001-11339).

\*10(r) Amendment and Clarification of the Tax Allocation Agreement, dated as of January 1, 1988, by and among Protective Life Corporation and its subsidiaries, filed as Exhibit 10(h) to Protective Life Insurance Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed March 31, 2005 (No. 001-31901).

\*10(s) Third Amended and Restated Reimbursement Agreement, dated as of June 25, 2014 between Golden Gate III Vermont Captive Insurance Company and UBS AG, Stamford Branch, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q filed August 8, 2014 (No. 001-11339).±

\*10(t) Second Amended and Restated Guarantee Agreement, dated as of August 7, 2013, between the Company and UBS AG, Stamford Branch, filed as Exhibit 10(q) to the Company's Quarterly Report on Form 10-Q filed November 4, 2013 (No. 001-11339).

\*10(u)



Edgar Filing: PROTECTIVE LIFE CORP - Form 10-K

Stock Purchase Agreement, dated as of October 22, 2010, by and among RBC Insurance Holdings (USA) Inc., Athene Holding Ltd., Protective Life Insurance Company and RBC USA Holdco Corporation (solely for purposes of Sections 5.14-5.17 and Articles 7, 8 and 10), filed as Exhibit 10.01 to the Company's Current Report on Form 8-K filed October 28, 2010 (No. 001-11339).

\*10(v) Reimbursement Agreement, dated as of December 10, 2010, between Golden Gate IV Vermont Captive Insurance Company and UBS AG, Stamford Branch, filed as Exhibit 10(u) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed February 28, 2011 (No. 001-11339).±

\*10(w) Letter of Guaranty, dated as of December 10, 2010, between Protective Life Corporation and UBS AG, Stamford Branch, filed as Exhibit 10(v) to the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed February 28, 2011 (No. 001-11339).

\*10(x) Coinsurance Agreement, dated as of September 30, 2015, by and between Liberty Life Insurance Company and Protective Life Insurance Company, filed as Exhibit 10 to the Company's Current Report on Form 8-K/A filed August 5, 2011 (No. 001-11339).

Table of Contents

Exhibit  
Number

|               |  |
|---------------|--|
| <u>*10(y)</u> | Master Agreement, dated as of September 30, 2015, by and among Protective Life Insurance Company and Genworth Life and Annuity Insurance Company, filed as Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed November 6, 2015 (No. 001-11339).   |
| <u>12</u>     | Computation of Ratios of Consolidated Earnings to Fixed Charges.   |
| <u>14(a)</u>  | Code of Business Conduct for Protective Life Corporation and all of its subsidiaries, revised June 12, 2017, filed herewith.   |
| <u>14(b)</u>  | Supplemental Policy on Conflict of Interest for the Company and all of its subsidiaries, revised June 12, 2017, filed herewith.  |
| <u>21</u>     | Principal Subsidiaries of the Registrant.  |
| <u>24</u>     | Powers of Attorney.  |
| <u>31(a)</u>  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <u>31(b)</u>  | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| <u>32(a)</u>  | Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| <u>32(b)</u>  | Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101           | Financial statements from the annual report on Form 10-K of Protective Life Corporation for the year ended December 31, 2017, filed on March 1, 2018, formatted in XBRL: (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii), the Consolidated Balance Sheets, (iv) Consolidated Statements of Shareowner's Equity, (v) the Consolidated Statement of Cash Flows, and (vi) the Notes to Consolidated Financial Statements. |

\* Incorporated by  
Reference

Management contract or compensatory plan or arrangement

Certain portions of this Exhibit have been omitted pursuant to a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

The Company hereby agrees to furnish a copy of any instrument that defines the rights of holders of long-term debt to the Securities and Exchange Commission, upon request.

Table of Contents

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## PROTECTIVE LIFE CORPORATION

By: /s/ PAUL R. WELLS

Paul R. Wells

Senior Vice President, Chief Accounting Officer  
and Controller

March 2, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

| Signature                                   | Capacity in Which Signed   | Date             |
|---|--|------------------|
| /s/ JOHN D. JOHNS<br>JOHN D. JOHNS          | Executive Chairman of the Board and Director   | March 2,<br>2018 |
| /s/ RICHARD J. BIELEN<br>RICHARD J. BIELEN  | President, Chief Executive Officer (Principal Executive Officer) and Director                        | March 2,<br>2018 |
| /s/ STEVEN G.<br>WALKER<br>STEVEN G. WALKER | Executive Vice President and Chief Financial Officer (Principal Financial Officer)                   | March 2,<br>2018 |
| /s/ PAUL R. WELLS<br>PAUL R. WELLS          | Senior Vice President, Chief Accounting Officer and Controller (Chief Accounting Officer/Controller) | March 2,<br>2018 |
| *<br>SHINICHI AIZAWA                        | Director   | March 2,<br>2018 |
| *<br>TOMOHIKO ASANO                         | Director   | March 2,<br>2018 |
| *<br>VANESSA LEONARD                        | Director   | March 2,<br>2018 |
| *<br>JOHN J. MCMAHON,<br>JR.                | Director   | March 2,<br>2018 |
| *<br>UNGYONG SHU                            | Director   | March 2,<br>2018 |
| *<br>JESSE J. SPIKES                        | Director   | March 2,<br>2018 |
| *<br>WILLIAM A. TERRY                       | Director   | March 2,<br>2018 |
| *<br>                                       | Director   |                  |

W. MICHAEL  
WARREN, JR.

March 2,  
2018

\*Richard J. Bielen, by signing his name hereto, does sign this document on behalf of each of the persons indicated above pursuant to powers of attorney duly executed by such persons and filed with the Securities and Exchange Commission.

By: /s/ RICHARD J. BIELEN  
RICHARD J. BIELEN  
Attorney-in-fact

246