PROTECTIVE LIFE CORP
Form 10-Q
May 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from to

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**95-2492236**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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 x No o

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, or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated Filer o
Non-accelerated filer o	Smaller Reporting Company o

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of April 24, 2013: 78,449,177

Table of Contents

PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED MARCH 31, 2013

TABLE OF CONTENTS

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands, Except Per Share Amounts)	
Revenues		
Premiums and policy fees	$ 726,847	$ 696,305
Reinsurance ceded	(335,350)	(304,558)
Net of reinsurance ceded	391,497	391,747
Net investment income	457,634	462,121
Realized investment gains (losses):		
Derivative financial instruments	7,385	(29,909)
All other investments	(4,145)	35,726
Other-than-temporary impairment losses	(1,340)	(34,420)
Portion recognized in other comprehensive income (before taxes)	(3,244)	15,656
Net impairment losses recognized in earnings	(4,584)	(18,764)
Other income	85,027	111,260
Total revenues	932,814	952,181
Benefits and expenses		
Benefits and settlement expenses, net of reinsurance ceded: (2013 - $307,306; 2012 - $281,807)	581,880	589,629
Amortization of deferred policy acquisition costs and value of business acquired	52,239	56,836
Other operating expenses, net of reinsurance ceded: (2013 - $40,989; 2012 - $46,631)	181,068	155,137
Total benefits and expenses	815,187	801,602
Income before income tax	117,627	150,579
Income tax expense	39,336	51,558
Net income	78,291	99,021
Less: Net income (loss) attributable to noncontrolling interests		
Net income available to PLC s common shareowners(1)	$ 78,291	$ 99,021
Net income available to PLC s common shareowners - basic	$ 0.99	$ 1.20
Net income available to PLC s common shareowners - diluted	$ 0.97	$ 1.18
Cash dividends paid per share	$ 0.18	$ 0.16
Average shares outstanding - basic	79,139,392	82,330,330
Average shares outstanding - diluted	80,706,744	83,921,135

(1)Protective Life Corporation (PLC)

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Net income	$ 78,291	$ 99,021
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of income tax: (2013 - $(76,295); 2012 - $5,308)	(141,691)	9,856
Reclassification adjustment for investment amounts included in net income, net of income tax: (2013 - $(2,704); 2012 - $(449))	(5,022)	(833)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2013 - $4,219; 2012 - $1,571)	7,837	2,917
Change in accumulated (loss) gain - derivatives, net of income tax: (2013 - $1,543; 2012 - $2,872)	2,866	5,333
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2013 - $174; 2012 - $235)	323	438
Change in postretirement benefits liability adjustment, net of income tax: (2013 - $(922); 2012 - $(728))	(1,712)	(1,352)
Total other comprehensive income (loss)	(137,399)	16,359
Comprehensive income (loss)	(59,108)	115,380
Comprehensive income attributable to noncontrolling interests		
Total comprehensive income attributable to Protective Life Corporation	$ (59,108)	$ 115,380

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of March 31, 2013	As of December 31, 2012
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2013 - $27,220,069; 2012 - $26,681,324)	$ 30,065,491	$ 29,787,959
Fixed maturities, at amortized cost (fair value: 2013 - $334,579; 2012 - $319,163)	315,000	300,000
Equity securities, at fair value (cost: 2013 - $406,937; 2012 - $409,376)	415,176	411,786
Mortgage loans (2013 and 2012 includes: $728,671 and $765,520 related to securitizations)	4,835,917	4,950,201
Investment real estate, net of accumulated depreciation (2013 - $1,087; 2012 - $1,017)	18,952	19,816
Policy loans	862,202	865,391
Other long-term investments	348,394	361,837
Short-term investments	161,506	217,812
Total investments	37,022,638	36,914,802
Cash	275,103	368,801
Accrued investment income	361,463	357,368
Accounts and premiums receivable, net of allowance for uncollectible amounts (2013 - $4,347; 2012 - $4,290)	104,539	85,500
Reinsurance receivables	5,842,124	5,805,401
Deferred policy acquisition costs and value of business acquired	3,262,029	3,239,519
Goodwill	107,786	108,561
Property and equipment, net of accumulated depreciation (2013 - $107,459; 2012 - $105,789)	48,590	47,607
Other assets	272,760	262,052
Income tax receivable		30,827
Assets related to separate accounts		
Variable annuity	10,670,833	9,601,417
Variable universal life	605,622	562,817
Total assets	$ 58,573,487	$ 57,384,672

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(continued)

(Unaudited)

	As of	
	March 31, 2013	December 31, 2012
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$ 21,793,320	$ 21,626,386
Unearned premiums	1,426,496	1,396,026
Total policy liabilities and accruals	23,219,816	23,022,412
Stable value product account balances	2,544,609	2,510,559
Annuity account balances	10,524,393	10,658,463
Other policyholders funds	569,533	566,985
Other liabilities	1,375,962	1,434,604
Income tax payable	4,782	
Deferred income taxes	1,690,052	1,736,389
Non-recourse funding obligations	596,000	586,000
Repurchase program borrowings	300,000	150,000
Debt	1,390,000	1,400,000
Subordinated debt securities	540,593	540,593
Liabilities related to separate accounts		
Variable annuity	10,670,833	9,601,417
Variable universal life	605,622	562,817
Total liabilities	54,032,195	52,770,239
Commitments and contingencies - Note 7		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2013 and 2012 - 160,000,000 shares issued: 2013 and 2012 - 88,776,960	44,388	44,388
Additional paid-in-capital	599,514	606,369
Treasury stock, at cost (2013 - 10,327,889; 2012 - 10,639,467)	(203,698)	(209,840)
Retained earnings	2,501,765	2,437,544
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2013 - $899,657; 2012 - $978,656)	1,670,791	1,817,504
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2013 - $2,072; 2012 - $(2,147))	3,849	(3,988)
Accumulated loss - derivatives, net of income tax: (2013 - $(166); 2012 - $(1,883))	(307)	(3,496)
Postretirement benefits liability adjustment, net of income tax: (2013 - $(40,390); 2012 - $(39,468))	(75,010)	(73,298)
Total Protective Life Corporation s shareowners equity	4,541,292	4,615,183
Noncontrolling interest		(750)
Total equity	4,541,292	4,614,433
Total liabilities and shareowners equity	$ 58,573,487	$ 57,384,672

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Protective Life Corporation s shareowners equity	Non controlling Interest	Total Equity
				(Dollars In Thousands)				
Balance, December 31, 2012	$ 44,388	$ 606,369	$ (209,840)	$ 2,437,544	$ 1,736,722	$ 4,615,183	$ (750)	$ 4,614,433
Net income for three months ended March 31, 2013				78,291		78,291		78,291
Other comprehensive income					(137,399)	(137,399)		(137,399)
Comprehensive income for the three months ended March 31, 2013						(59,108)		(59,108)
Cash dividends ($0.18 per share)				(14,070)		(14,070)		(14,070)
Noncontrolling interests		(750)				(750)	750	
Stock-based compensation		(6,105)	6,142			37		37
Balance, March 31, 2013	$ 44,388	$ 599,514	$ (203,698)	$ 2,501,765	$ 1,599,323	$ 4,541,292	$	$ 4,541,292

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 78,291	$ 99,021
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Realized investment losses (gains)	1,344	12,947
Amortization of deferred policy acquisition costs and value of business acquired	52,239	56,836
Capitalization of deferred policy acquisition costs	(63,154)	(63,971)
Depreciation expense	2,205	2,326
Deferred income tax	38,963	(23,126)
Accrued income tax	35,609	73,508
Interest credited to universal life and investment products	223,468	243,608
Policy fees assessed on universal life and investment products	(222,969)	(188,790)
Change in reinsurance receivables	(36,723)	(29,191)
Change in accrued investment income and other receivables	(6,367)	(9,776)
Change in policy liabilities and other policyholders funds of traditional life and health products	34,278	(11,714)
Trading securities:		
Maturities and principal reductions of investments	54,121	98,457
Sale of investments	40,031	273,030
Cost of investments acquired	(65,419)	(371,030)
Other net change in trading securities	(11,225)	17,623
Change in other liabilities	(55,658)	(117,178)
Other income - gains on repurchase of non-recourse funding obligations	(1,250)	(35,456)
Other, net	(708)	4,899
Net cash provided by operating activities	97,076	32,023
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	229,316	314,920
Sale of investments, available-for-sale	652,347	719,031
Cost of investments acquired, available-for-sale	(1,436,523)	(1,198,459)
Change in investments, held-to-maturity	(15,000)	
Mortgage loans:		
New lendings	(42,919)	(81,226)
Repayments	156,924	117,107
Change in investment real estate, net	924	(1,754)
Change in policy loans, net	3,189	1,969
Change in other long-term investments, net	(43,089)	(83,836)
Change in short-term investments, net	60,888	(30,950)
Net unsettled security transactions	48,166	93,942
Purchase of property and equipment	(6,140)	(1,824)
Sales of property and equipment	57	
Payments for business acquisitions		
Net cash used in investing activities	(391,860)	(151,080)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	40,000	25,000
Principal payments on line of credit arrangement and debt	(50,000)	(65,000)
Issuance (repayment) of non-recourse funding obligations	10,000	(110,800)

Repurchase program borrowings		150,000		221,569
Dividends to shareowners		(14,070)		(13,073)
Repurchase of common stock				(25,977)
Investment product deposits and change in universal life deposits		798,912		894,572
Investment product withdrawals		(733,756)		(895,493)
Other financing activities, net				(3,686)
Net cash provided by financing activities		201,086		27,112
Change in cash		(93,698)		(91,945)
Cash at beginning of period		368,801		267,298
Cash at end of period	$	275,103	$	175,353

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

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

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

Reclassifications and Accounting Changes

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

Entities Included

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

During the three months ended March 31, 2013, the Company sold its ownership interest in an immaterial limited partnership which previously resulted in a non-controlling interest in income and equity of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. There were no significant changes to the Company s accounting policies during the three months ended March 31, 2013.

Accounting Pronouncements Recently Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity s rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly

Table of Contents

larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. In January 2013, the FASB issued ASU No. 2013-01, which clarifies that application of ASU No. 2011-11 is limited to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions. Both Updates were effective January 1, 2013. Neither Update had an impact on the Company s results of operations or financial position.

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

ASU No. 2013-02 Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this Update supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASU No. 2011-05, Comprehensive Income Presentation of Comprehensive Income, and ASU No. 2011-12, Comprehensive Income Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, for all entities. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. The Update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company has added the Accumulated Other Comprehensive Income footnote to disclose the required information beginning in the first quarter of 2013. This update was effective January 1, 2013. This update did not have an impact on the Company s results of operations or financial position.

3. INVESTMENT OPERATIONS

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

	For The Three Months Ended March 31,	
	2013	2012
	(Dollars In Thousands)	
Fixed maturities	$ 12,309	$ 20,046
Equity securities	1	
Impairments on fixed maturity securities	(3,587)	(18,740)
Impairments on equity securities	(997)	(24)
Modco trading portfolio	(15,328)	18,099
Other investments	(1,127)	(2,419)
Total realized gains (losses) - investments	$ (8,729)	$ 16,962

For the three months ended March 31, 2013, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $12.9 million and gross realized losses were $4.9 million, including $4.4 million of impairment losses.

Table of Contents

For the three months ended March 31, 2012, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.2 million and gross realized losses were $21.8 million, including $18.7 million of impairment losses.

For the three months ended March 31, 2013, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $388.6 million. The gain realized on the sale of these securities was $12.9 million. For the three months ended March 31, 2012, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $499.4 million. The gain realized on the sale of these securities was $23.2 million.

For the three months ended March 31, 2013, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $4.0 million. The loss realized on the sale of these securities was $0.6 million.

For the three months ended March 31, 2012, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $17.2 million. The loss realized on the sale of these securities was $3.1 million.

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
		(Dollars In Thousands)			
2013					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,670,034	$ 88,814	$ (40,939)	$ 1,717,909	$ 6,353
Commercial mortgage-backed securities	853,334	64,906	(2,085)	916,155	
Other asset-backed securities	1,013,575	17,325	(84,339)	946,561	(189)
U.S. government-related securities	1,142,772	66,003	(1,723)	1,207,052	
Other government-related securities	82,172	6,323	(18)	88,477	
States, municipals, and political subdivisions	1,179,373	254,478	(269)	1,433,582	
Corporate bonds	18,310,621	2,540,833	(63,887)	20,787,567	
	24,251,881	3,038,682	(193,260)	27,097,303	6,164
Equity securities	384,499	15,003	(6,763)	392,739	(243)
Short-term investments	50,896			50,896	
	$ 24,687,276	$ 3,053,685	$ (200,023)	$ 27,540,938	$ 5,921
2012					
Fixed maturities:					

Bonds										
Residential mortgage-backed securities	$	1,766,440	$	92,265	$	(19,375)	$	1,839,330	$	(406)
Commercial mortgage-backed securities		797,844		72,577		(598)		869,823		
Other asset-backed securities		1,023,649		12,788		(61,424)		975,013		(241)
U.S. government-related securities		1,099,001		71,537		(595)		1,169,943		
Other government-related securities		93,565		7,258		(45)		100,778		
States, municipals, and political subdivisions		1,188,077		255,900		(264)		1,443,713		
Corporate bonds		17,705,440		2,725,057		(48,446)		20,382,051		(5,487)
		23,674,016		3,237,382		(130,747)		26,780,651		(6,134)
Equity securities		389,821		12,443		(10,033)		392,231		
Short-term investments		98,877						98,877		
	$	24,162,714	$	3,249,825	$	(140,780)	$	27,271,759	$	(6,134)

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

Table of Contents

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
		(Dollars In Thousands)			
2013					
Fixed maturities:					
Other	$ 315,000	$ 19,579	$	$ 334,579	$
	$ 315,000	$ 19,579	$	$ 334,579	$
2012					
Fixed maturities:					
Other	$ 300,000	$ 19,163	$	$ 319,163	$
	$ 300,000	$ 19,163	$	$ 319,163	$

As of March 31, 2013 and December 31, 2012, the Company had an additional $3.0 billion and $3.0 billion of fixed maturities, $22.4 million and $19.6 million of equity securities, and $110.6 million and $118.9 million of short-term investments classified as trading securities, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of March 31, 2013, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Due in one year or less	$ 462,459	$ 469,358	$	$
Due after one year through five years	4,482,491	4,937,108		
Due after five years through ten years	6,611,666	7,246,081		
Due after ten years	12,695,265	14,444,756	315,000	334,579
	$ 24,251,881	$ 27,097,303	$ 315,000	$ 334,579

During the three months ended March 31, 2013, the Company recorded pre-tax other-than-temporary impairments of investments of $1.3 million, of which $0.3 million related to debt securities and $1.0 million related to equity securities. Credit impairments recorded in earnings during the period were $4.6 million. During the period, $3.3 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses. For the three months ended March 31, 2013, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

During the three months ended March 31, 2012, the Company recorded pre-tax other-than-temporary impairments of investments of $34.4 million, almost all of which were related to debt securities. Of the $34.4 million of impairments for the three months ended March 31, 2012, $18.8 million was recorded in earnings and $15.6 million was recorded in other comprehensive income (loss). There was an immaterial amount of impairments related to equity securities. During the three months ended March 31, 2012, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell.

Table of Contents

The following chart is a rollforward of available-for-sale credit losses on debt securities held by the Company for which a portion of an other-than-temporary impairment was recognized in other comprehensive income (loss):

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Beginning balance	$ 122,121	$ 69,719
Additions for newly impaired securities	997	15,854
Additions for previously impaired securities	1,486	2,779
Reductions for previously impaired securities due to a change in expected cash flows		
Reductions for previously impaired securities that were sold in the current period		
Ending balance	$ 124,604	$ 88,352

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 March 31, 2013:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
			(Dollars In Thousands)			
Residential mortgage-backed securities	$ 130,062	$ (27,206)	$ 99,623	$ (13,733)	$ 229,685	$ (40,939)
Commercial mortgage-backed securities	112,880	(2,085)			112,880	(2,085)
Other asset-backed securities	74,375	(9,968)	602,783	(74,371)	677,158	(84,339)
U.S. government-related securities	206,309	(1,723)			206,309	(1,723)
Other government-related securities	20,003	(2)	3,617	(16)	23,620	(18)
States, municipalities, and political subdivisions	11,521	(269)			11,521	(269)
Corporate bonds	1,387,207	(43,754)	285,094	(20,133)	1,672,301	(63,887)
Equities	55,317	(243)	29,192	(6,520)	84,509	(6,763)
	$ 1,997,674	$ (85,250)	$ 1,020,309	$ (114,773)	$ 3,017,983	$ (200,023)

RMBS have a gross unrealized loss greater than twelve months of $13.7 million as of March 31, 2013. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $74.4 million as of March 31, 2013. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company s auction rate securities (ARS) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The corporate bonds category has gross unrealized losses greater than twelve months of $20.1 million as of March 31, 2013. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

The equities category has a gross unrealized loss greater than twelve months of $6.5 million as of March 31, 2013. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

Table of Contents

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

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

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

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

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

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

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

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

As of March 31, 2013, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.6 billion and had an amortized cost of $1.6 billion. In addition, included in the Company s trading portfolio, the Company held $367.5 million of securities which were rated below investment grade. Approximately $422.0 million of the below investment grade securities were not publicly traded.

Table of Contents

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

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Fixed maturities	$ (169,788)	$ 19,446
Equity securities	3,790	5,106

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 Variable Interest Entity (VIE). If the entity is determined to be a VIE, the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC (Red Mountain), that was determined to be a VIE as of March 31, 2013. The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (Golden Gate V) and the Company in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued the note to Golden Gate V. Credit enhancement on the Red Mountain Note is provided by an unrelated third party. For details of this transaction, see Note 6, *Debt and Other Obligations*. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company s risk of loss related to the VIE is limited to its investment of $10,000. Additionally, the holding company (PLC) has guaranteed the VIE s payment obligation for the credit enhancement fee to the unrelated third party provider.

4. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of March 31, 2013, the Company s mortgage loan holdings were approximately $4.8 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are based, in the Company s view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

The Company s commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal amount of the loan based on the loan s contractual interest rate. Amortization of premiums and discounts is recorded using the

Table of Contents

effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately $143.0 million would become due for the remainder of 2013, $1.3 billion in 2014 through 2018, $588.2 million in 2019 through 2023, and $178.3 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 March 31, 2013 and December 31, 2012, approximately $736.9 million and $817.3 million, respectively, of the Company s mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income.

As of March 31, 2013, approximately $21.2 million, or 0.06%, 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. 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 March 31, 2013, $14.3 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. The Company did not foreclose any nonperforming loans during the three months ended March 31, 2013.

As of March 31, 2013, $6.9 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the three months ended March 31, 2013. The Company did not foreclose on any nonperforming loans during the three months ended March 31, 2013.

As of March 31, 2013 and December 31, 2012, the Company had an allowance for mortgage loan credit losses of $4.0 million and $2.9 million, respectively. Due to the Company s loss experience and nature of the loan portfolio, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the 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.

16

Table of Contents

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

	As of			
	March 31, 2013		December 31, 2012	
	(Dollars In Thousands)			
Beginning balance	$	2,875	$	6,475
Charge offs				(9,840)
Recoveries				(628)
Provision		1,170		6,868
Ending balance	$	4,045	$	2,875

It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of March 31, 2013.

	30-59 Days Delinquent		60-89 Days Delinquent		Greater than 90 Days Delinquent		Total Delinquent	
	(Dollars In Thousands)							
Commercial mortgage loans	$	16,220	$	1,774	$	19,473	$	37,467
Number of delinquent commercial mortgage loans		5		1		7		13

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

	Recorded Investment		Unpaid Principal Balance		Related Allowance		Average Recorded Investment		Interest Income Recognized		Cash Basis Interest Income	
	(Dollars In Thousands)											
2013												
Commercial mortgage loans:												
With no related allowance recorded	$	16,368	$	18,716	$		$	2,046	$	176	$	87
With an allowance recorded		13,927		13,927		4,045		3,482		154		154
2012												
Commercial mortgage loans:												
With no related allowance recorded	$	14,619	$	16,942	$		$	2,088	$	53	$	100
With an allowance recorded		13,927		13,927		2,875		3,482		154		154

5. GOODWILL

During the three months ended March 31, 2013, the Company decreased its goodwill balance by approximately $0.8 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2013 on the portion of tax goodwill in excess of GAAP basis goodwill. As of March 31, 2013, the Company had an aggregate goodwill balance of $107.8 million.

Table of Contents

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

6. DEBT AND OTHER OBLIGATIONS

The Company has access to a Credit Facility that provides the ability to borrow on an unsecured basis up to an aggregate principal amount of $750 million. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $1.0 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company s senior unsecured long-term debt (Senior Debt), or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent s prime rate, (y) 0.50% above the Federal Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company s Senior Debt. The Credit Facility also provides for a facility fee at a rate that varies with the ratings of the Company s Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The maturity date on the Credit Facility is July 17, 2017. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of March 31, 2013. There was an outstanding balance of $40.0 million at an interest rate of LIBOR plus 1.20% under the Credit Facility as of March 31, 2013.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by Protective Life Insurance Company (PLICO), had $575 million of outstanding non-recourse funding obligations as of March 31, 2013. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of March 31, 2013, securities related to $281.0 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $294.0 million of the non-recourse funding obligations were held by our affiliates.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V and Red Mountain, indirect wholly owned subsidiaries of the Company, entered into a 20-year transaction to finance up to $945 million of 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

Table of Contents

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 March 31, 2013, the principal balance of the Red Mountain note was $315 million. In connection with the transaction, we have entered into certain support agreements under which we guarantee or otherwise support certain obligations of Golden Gate V or Red Mountain.

In connection with the transaction outlined above, Golden Gate V had a $315 million outstanding non-recourse funding obligation as of March 31, 2013. This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of $945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of March 31, 2013, on a consolidated basis, are shown in the following table:

Issuer		**Balance**	**Maturity Year**	**Year-to-Date Weighted-Avg Interest Rate**
		(Dollars In Thousands)		
Golden Gate II Captive Insurance Company	$	281,000	2052	1.03%
Golden Gate V Vermont Captive Insurance Company		315,000	2037	6.25%
Total	$	596,000		

During the three months ended March 31, 2013, the Company repurchased $5.0 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $1.3 million pre-tax gain for the Company. For the year ended December 31, 2012, the Company repurchased $121.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $38.4 million pre-tax gain for the Company. These gains are recorded in other income in the consolidated statements of income.

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are for a term less than ninety days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. 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 March 31, 2013, the fair value of securities pledged under the repurchase program was $337.7 million and the repurchase obligation of $300.0 million was included in the Company s consolidated condensed balance sheets (at an average borrowing rate of 12 basis points). During the three months ended March 31, 2013, the maximum balance outstanding at any one point in time related to these programs was $472.3 million. The average daily balance was $372.7 million (at an average borrowing rate of 14 basis points) during the three months ended March 31, 2013. As of December 31, 2012, the Company had a $150.0 million outstanding balance related to such borrowings. During

2012, the maximum balance outstanding at any one point in time related to these programs was $425.0 million. The average daily balance was $266.3 million (at an average borrowing rate of 14 basis points) during the year ended December 31, 2012.

Table of Contents

7. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

The Company has received notice from two third party auditors that certain of the Company s insurance subsidiaries, as well as certain other insurance companies for which the Company has co-insured blocks of life insurance and annuity policies, will be audited for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that

Table of Contents

should be escheated to the state. The Company has recorded a reserve with respect to life insurance policies issued by the Company s subsidiaries and certain co-insured blocks of life insurance policies issued by other companies in connection with these pending audits. The Company does not consider the amount of this reserve to be material to the Company s financial condition or results of operations. With respect to one block of life insurance policies that is co-insured by a subsidiary of the Company, the Company is presently unable to estimate the reasonably possible loss or range of loss due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies, the distinct characteristics of this co-insured block of policies which differentiate it from the blocks of life insurance policies for which the Company has recorded a reserve, and the early stages of the audits being conducted. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with this block of co-insured policies probable or reasonably estimable.

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

8. STOCK-BASED COMPENSATION

During the three months ended March 31, 2013, 298,500 performance shares with an estimated fair value of $9.3 million were awarded. The criteria for payment of the 2013 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 10.0%, no award is earned. If the Company s ROE is at or above 11.5%, the award maximum is earned. Awards are paid in shares of the Company s common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 141,000 restricted stock units for the three months ended March 31, 2013. These awards had a total fair value at grant date of $4.4 million. Approximately half of these restricted stock units vest in 2016, and the remainder vest in 2017. These awards have been recorded as equity-classified awards for the period ended March 31, 2013.

Table of Contents

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

	Weighted-Average Base Price per share		No. of SARs
Balance at December 31, 2012	$	22.15	1,641,167
SARs granted			
SARs exercised / forfeited		22.83	69,899
Balance at March 31, 2013	$	22.12	1,571,268

The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR. There were no SARs issued for the three months ended March 31, 2013.

9. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended March 31,			
	2013		2012	
	(Dollars In Thousands)			
Service cost benefits earned during the period	$	2,708	$	2,561
Interest cost on projected benefit obligation		2,553		2,604
Expected return on plan assets		(2,759)		(2,673)
Amortization of prior service cost/(credit)		(95)		(95)
Amortization of actuarial losses		2,729		2,175
Total benefit cost	$	5,136	$	4,572

During the three months ended March 31, 2013, the Company did not make any contributions to its defined benefit pension plan. During April of 2013, the Company contributed $2.3 million to the defined benefit pension plan for the 2013 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In July of 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), which includes pension funding stabilization provisions, was signed into law. These provisions establish an interest rate corridor which is designed to stabilize the segment rates used to determine funding requirements from the effects of interest rate volatility. The funding stabilization provisions of MAP-21 will reduce the Company s minimum required defined benefit plan contributions for the 2012 and 2013 plan year. The Company is evaluating the impact this change will have on funding requirements in future years. Since the funding stabilization provisions of MAP-21 do not apply for Pension Benefit Guaranty Corporation (PBGC) reporting purposes, the Company may also make additional contributions in future periods to maintain an 80% funded status for PBGC reporting purposes.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the three months ended March 31, 2013, was immaterial to the Company s financial statements.

Table of Contents

10. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (AOCI) and the reclassifications amounts out of AOCI for the period ended March 31, 2013.

Changes in Accumulated Other Comprehensive Income by Component

	Unrealized Gains and Losses on Investments	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income
		(Dollars In Thousands, Net of Tax)		
Beginning Balance	$ 1,813,516	$ (3,496)	$ (73,298)	$ 1,736,722
Other comprehensive income before reclassifications	(141,691)	2,866	(1,712)	(140,537)
Other comprehensive income relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	7,837			7,837
Amounts reclassified from accumulated other comprehensive income(1)	(5,022)	323		(4,699)
Net current-period other comprehensive income	(138,876)	3,189	(1,712)	(137,399)
Ending Balance	$ 1,674,640	$ (307)	$ (75,010)	$ 1,599,323

(1) See Reclassification table below for details.

Reclassifications Out of Accumulated Other Comprehensive Income

	Amount Reclassified from Accumulated Other Comprehensive Income (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income Components		
Gains and losses on derivative instruments		
Net settlement (expense)/benefit	$ (497)	Benefits and settlement expenses, net of reinsurance ceded
	(497)	Total before tax

		174	Tax (expense) or benefit
	$	(323)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	12,310	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(4,584)	Net impairment losses recognized in earnings
		7,726	Total before tax
		(2,704)	Tax (expense) or benefit
	$	5,022	Net of tax

Table of Contents

11. EARNINGS PER SHARE

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

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

	For The Three Months Ended March 31,	
	2013	2012
	(Dollars In Thousands, Except Per Share Amounts)	
Calculation of basic earnings per share:		
Net income available to PLC s common shareowners	$ 78,291	$ 99,021
Average shares issued and outstanding	78,206,920	81,449,315
Issuable under various deferred compensation plans	932,472	881,015
Weighted shares outstanding - basic	79,139,392	82,330,330
Per share:		
Net income available to PLC s common shareowners - basic	$ 0.99	$ 1.20
Calculation of diluted earnings per share:		
Net income available to PLC s common shareowners	$ 78,291	$ 99,021
Weighted shares outstanding - basic	79,139,392	82,330,330
Stock appreciation rights (SARs)(1)	440,164	457,514
Issuable under various other stock-based compensation plans	812,749	435,381
Restricted stock units	314,439	697,910
Weighted shares outstanding - diluted	80,706,744	83,921,135
Per share:		
Net income available to PLC s common shareowners - diluted	$ 0.97	$ 1.18

(1)Excludes 670,320 and 689,545 SARs as of March 31, 2013 and 2012, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding, for applicable periods.

12. INCOME TAXES

There have been no material changes to the balance of unrecognized tax benefits, where such benefits impacted earnings, for the three months ended March 31, 2013.

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

Table of Contents

The Company does not expect to have any material adjustments, within the next twelve months, to its balance of unrecognized income tax benefits. This viewpoint could change, however, if the Company receives an earlier than expected Appeals settlement on the aforementioned issues.

The Company used its estimate of its annual 2013 and 2012 income in computing its effective income tax rates for the three months ended March 31, 2013 and 2012. The effective tax rates for the three months ended March 31, 2013 and 2012 were 33.4% and 34.2%, respectively.

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

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of March 31, 2013.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

- **Level 2:** Quoted prices in markets that are not active or significant inputs that are observable either directly or indirectly. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets

b) Quoted prices for identical or similar assets or liabilities in non-active markets

c) Inputs other than quoted market prices that are observable

d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

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

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 March 31, 2013:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 1,717,905	$ 4	$ 1,717,909
Commercial mortgage-backed securities		916,155		916,155
Other asset-backed securities		385,893	560,668	946,561
U.S. government-related securities	988,675	218,377		1,207,052
State, municipalities, and political subdivisions		1,429,247	4,335	1,433,582
Other government-related securities		68,474	20,003	88,477
Corporate bonds	206	20,662,806	124,555	20,787,567
Total fixed maturity securities - available-for-sale	988,881	25,398,857	709,565	27,097,303
Fixed maturity securities - trading				
Residential mortgage-backed securities		354,522		354,522
Commercial mortgage-backed securities		176,986		176,986
Other asset-backed securities		91,039	71,383	162,422
U.S. government-related securities	295,008	1,728		296,736
State, municipalities, and political subdivisions		283,842		283,842
Other government-related securities		63,728		63,728
Corporate bonds		1,624,840	5,112	1,629,952
Total fixed maturity securities - trading	295,008	2,596,685	76,495	2,968,188
Total fixed maturity securities	1,283,889	27,995,542	786,060	30,065,491
Equity securities	308,656	37,102	69,418	415,176
Other long-term investments(1)	39,960	42,518	57,117	139,595
Short-term investments	158,030	3,476		161,506
Total investments	1,790,535	28,078,638	912,595	30,781,768
Cash	275,103			275,103
Other assets	8,443			8,443
Assets related to separate accounts				
Variable annuity	10,670,833			10,670,833
Variable universal life	605,622			605,622
Total assets measured at fair value on a recurring basis	$ 13,350,536	$ 28,078,638	$ 912,595	$ 42,341,769
Liabilities:				
Annuity account balances(2)	$	$	$ 123,681	$ 123,681
Other liabilities (1)	2,380	47,367	539,814	589,561
Total liabilities measured at fair value on a recurring basis	$ 2,380	$ 47,367	$ 663,495	$ 713,242

(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, 2012:

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

(1)Includes certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

Determination of fair values

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

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the three months ended March 31, 2013.

The Company has analyzed the third party pricing services valuation methodologies and related inputs and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the Fair Value Measurements and Disclosures Topic of the ASC. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3. Most prices provided by third party pricing services are classified into Level 2 because the significant inputs used in pricing the securities are market observable and the observable inputs are corroborated by the Company. Since the matrix pricing of certain 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 March 31, 2013, the Company held $3.6 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.

As of March 31, 2013, the Company held $632.1 million of Level 3 ABS, which included $71.4 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate.

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

As of March 31, 2013, the Company classified approximately $24.4 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of March 31, 2013, the Company classified approximately $154.0 million of bonds and securities as Level 3 valuations. Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of March 31, 2013, the Company held approximately $106.5 million of equity securities classified as Level 2 and Level 3. Of this total, $64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 14, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of March 31, 2013, 97.2% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

Table of Contents

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

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

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

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

The guaranteed minimum withdrawal benefits (GMWB) embedded derivative is carried at fair value in other long-term investments and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments . Refer to Note 14, *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality that is consistent with 57% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company s non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The 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. The fair value of the embedded derivative is the difference between the policy liabilities (net of policy loans) of $2.7 billion and the fair value of the trading securities of $3.1 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity account balances

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

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for March 31, 2013, ranged from a one month rate of 0.33%, a 5 year rate of 1.91%, and a 30 year rate of 4.28%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Table of Contents

Separate Accounts

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

Valuation of Level 3 Financial Instruments

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

	Fair Value As of March 31, 2013 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 560,668	Discounted cash flow	Liquidity premium	1.00% - 1.69% (1.14%)
			Paydown rate	10.08% - 14.64% (12.47%)
Other government-related securities	20,003	Discounted cash flow	Spread over treasury	(0.30)%
Corporate bonds	129,667	Discounted cash flow	Spread over treasury	0.97% - 7.75% (2.67%)
Liabilities:				
Embedded derivatives - GMWB(1)	$ 88,739	Actuarial cash flow model	Mortality	57% of 1994 GMDB table
			Lapse	0% - 24%, depending on product/duration/funded status of guarantee
			Utilization	93% - 100%
			Nonperformance risk	0.13% - 1.29%
Annuity account balances(2)	123,681	Actuarial cash flow model	Asset earned rate	5.81%
			Expenses	$88 - $108 per policy
			Withdrawal rate	2.20%
			Mortality	57% of 1994 GMDB table
			Lapse	2.2% - 45.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on surrender charge period
			Nonperformance risk	0.13% - 1.29%

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

(2)Represents liabilities related to fixed indexed annuities.

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

The Company has considered all reasonably available quantitative inputs as of March 31, 2013, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $72.0 million of financial instruments being classified as Level 3 as of March 31, 2013. Of the $72.0 million, $71.4 million are other asset backed securities and $0.6 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of March 31, 2013, the Company held $73.2 million of financial instruments where book value approximates fair value. Of the $73.2 million, $68.8 million represents equity securities, which are predominantly FHLB stock, and $4.4 million of other fixed maturity securities.

Table of Contents

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

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

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

(2)Represents liabilities related to fixed indexed annuities.

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

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

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

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

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

The GMWB liability is sensitive to changes in the discount rate which includes the Company s nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it is based on market inputs. The Company s nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the liability and conversely, if there is a decrease in

Table of Contents

the assumptions the liability would increase. The liability is also dependent on the assumed policyholder utilization of the GMWB where an increase in assumed utilization would result in an increase in the liability and conversely, if there is a decrease in the assumption, the liability would decrease.

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

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2013, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains Included in Earnings	Total Realized and Unrealized Gains Included in Other Comprehensive Income	Total Realized and Unrealized Losses Included in Earnings	Total Realized and Unrealized Losses Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	$ 4	$	$	$	$	$	$	$	$	$	$	$ 4	$
Commercial mortgage-backed securities													
Other asset-backed securities	596,143		12		(27,548)		(9,009)			1,227	(157)	560,668	
U.S. government-related securities													
States, municipals, and political subdivisions	4,335											4,335	
Other government-related securities	20,011				(3)						(5)	20,003	
Corporate bonds	167,892		930		(2,364)		(42,071)				168	124,555	
Total fixed maturity securities - available-for-sale	788,385		942		(29,915)		(51,080)			1,227	6	709,565	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	70,535	3,408		(259)			(2,823)				522	71,383	3,255
U.S. government-related securities													
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds	115	1					(17)			5,013		5,112	29
Total fixed maturity securities - trading	70,650	3,409		(259)			(2,840)			5,013	522	76,495	3,284

Total fixed maturity securities	859,035	3,409	942	(259)	(29,915)		(53,920)			6,240	528	786,060	3,284
Equity securities	69,418											69,418	
Other long-term investments(1)	31,591	25,535		(9)								57,117	25,526
Short-term investments													
Total investments	960,044	28,944	942	(268)	(29,915)		(53,920)			6,240	528	912,595	28,810
Total assets measured at fair value on a recurring basis	$ 960,044	$ 28,944	$ 942	$ (268)	$ (29,915)	$	$ (53,920)	$	$	$ 6,240	$ 528	$ 912,595	$ 28,810
Liabilities:													
Annuity account balances(2)	$ 129,468	$	$	$ (2,000)	$	$	$	$ 136	$ 7,923	$	$	$ 123,681	$
Other liabilities(1)	611,437	84,546		(12,923)								539,814	71,623
Total liabilities measured at fair value on a recurring basis	$ 740,905	$ 84,546	$	$ (14,923)	$	$	$	$ 136	$ 7,923	$	$	$ 663,495	$ 71,623

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended March 31, 2013, $6.2 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of March 31, 2013.

For the three months ended March 31, 2013, there were no transfers out of Level 3.

For the three months ended March 31, 2013, there were no transfers from Level 2 to Level 1.

For the three months ended March 31, 2013, there were no transfers from Level 1.

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2012, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses									
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	$ 7	$	$	$	$	$	$ (3)	$	$	$	$	$ 4	$
Commercial mortgage-backed securities													
Other asset-backed securities	614,813	294	493		(13,929)		(13,850)				(208)	587,613	
U.S. government-related securities	15,000				(1)		(15,000)				1		
States, municipals, and political subdivisions	69					4,275						4,344	
Other government-related securities					(16)	20,023					(1)	20,006	
Corporate bonds	119,601		183		(1,227)	4	(139)			19,554		137,976	
Total fixed maturity securities - available-for-sale	749,490	294	676		(15,173)	24,302	(28,992)			19,554	(208)	749,943	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities													
U.S. government-related securities	28,343	446		(169)		27,705	(1,808)				444	54,961	277
States, municipals and political subdivisions													

Other government-related securities													
Corporate bonds						1						1	
Total fixed maturity securities - trading	28,343	446		(169)		27,706	(1,808)				444	54,962	277
Total fixed maturity securities	777,833	740	676	(169)	(15,173)	52,008	(30,800)			19,554	236	804,905	277
Equity securities	80,586		635		(1)	4						81,224	
Other long-term investments(1)	12,703	13,073										25,776	13,073
Short-term investments													
Total investments	871,122	13,813	1,311	(169)	(15,174)	52,012	(30,800)			19,554	236	911,905	13,350
Total assets measured at fair value on a recurring basis	$ 871,122	$ 13,813	$ 1,311	$ (169)	$ (15,174)	$ 52,012	$ (30,800)	$	$	$ 19,554	$ 236	$ 911,905	$ 13,350
Liabilities:													
Annuity account balances(2)	$ 136,462	$	$	$ (3,074)	$	$	$	$ 325	$ 2,623	$	$	$ 137,238	$
Other liabilities(1)	437,613	56,496		(8,695)								389,812	47,801
Total liabilities measured at fair value on a recurring basis	$ 574,075	$ 56,496	$	$ (11,769)	$	$	$	$ 325	$ 2,623	$	$	$ 527,050	$ 47,801

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended March 31, 2012, $19.6 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of March 31, 2012. All transfers are recognized as of the end of the period.

For the three months ended March 31, 2012, there were no transfers out of Level 3.

For the three months ended March 31, 2012, there were no transfers from Level 2 to Level 1.

For the three months ended March 31, 2012, there were no transfers out of Level 1.

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

Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the

35

Table of Contents

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:

		As of			
		March 31, 2013		December 31, 2012	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$ 4,835,917	$ 5,560,488	$ 4,950,201	$ 5,725,382
Policy loans	3	862,202	862,202	865,391	865,391
Fixed maturities, held-to-maturity(1)	3	315,000	334,579	300,000	319,163
Liabilities:					
Stable value product account balances	3	$ 2,544,609	$ 2,572,367	$ 2,510,559	$ 2,534,094
Annuity account balances	3	10,524,393	10,142,020	10,658,463	10,525,702
Debt:					
Bank borrowings	3	$ 40,000	$ 40,000	$ 50,000	$ 50,000
Senior and Medium-Term Notes	2	1,350,000	1,586,286	1,350,000	1,584,438
Subordinated debt securities	2	540,593	560,833	540,593	556,524
Non-recourse funding obligations(2)	3	596,000	561,299	586,000	481,056

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

(1) Security purchased from unconsolidated subsidiary, Red Mountain LLC.

(2) Of this carrying amount, $315.0 million, fair value of $359.6 million, as of March 31, 2013, and $300 million, fair value of $297.6 million, as of December 31, 2012, relates to non-recourse funding obligations issued by Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

The Company estimates the fair value of mortgage loans using an internally developed model. This model includes inputs derived by the Company based on assumed discount rates relative to the Company s current mortgage loan lending rate and an expected cash flow analysis based on a review of the mortgage loan terms. The model also contains the Company s determined representative risk adjustment assumptions related to credit and liquidity risks.

Policy loans

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

Table of Contents

Fixed maturities, held-to-maturity

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

Stable value product and Annuity account balances

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

Debt

Bank borrowings

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

Non-recourse funding obligations

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

14. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

Derivatives Related to Interest Rate Risk Management

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

Table of Contents

Derivatives Related to Risk Mitigation of Variable Annuity Contracts

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

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

Accounting for Derivative Instruments

The Company records its derivative financial instruments in the consolidated 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

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

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives related to variable annuity contracts

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In

Table of Contents

general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility. The equity futures resulted in net pre-tax losses of $23.2 million and $25.1 million and interest rate futures resulted in net pre-tax losses of $16.5 million and $33.4 million for the three months ended March 31, 2013 and 2012, respectively. Currency futures resulted in a net pre-tax gain of $8.1 million and a net pre-tax loss of $1.0 million, for the three months ended March 31, 2013 and 2012, respectively. Volatility futures resulted in no gains or losses for the three months ended March 31, 2013 and $0.5 million for the three months ended March 31, 2012. No volatility future positions were held during the three months ended March 31, 2013.

- The Company uses equity options and volatility swaps to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. In general, the cost of such benefits varies with the level of equity markets and overall volatility. The equity options resulted in net pre-tax losses of $28.4 million and $23.9 million and the volatility swaps resulted in net pre-tax losses of $10.4 million and $1.9 million for the three months ended March 31, 2013 and 2012, respectively.

- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its variable annuity products. The interest rate swaps resulted in net pre-tax losses of $16.6 million and $2.1 million for the three months ended March 31, 2013 and 2012, respectively. The interest rate swaptions resulted in net pre-tax losses of $4.1 million and $3.5 million for the three months ended March 31, 2013 and 2012, respectively.

- The Company markets certain variable annuity products with a GMWB rider. The GMWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract. The Company recognized pre-tax gains of $80.4 million and $50.2 million for the three months ended March 31, 2013 and 2012, respectively, related to these embedded derivatives.

Other Derivatives

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. The Company recognized pre-tax gains of $1.0 million and $2.0 million on interest rate swaps for the three months ended March 31, 2013 and 2012, respectively.

- The Company purchased interest rate caps during 2011 to mitigate its risk with respect to the Company s LIBOR exposure and the potential impact of European financial market distress. These caps resulted in insignificant losses for the three months ended March 31, 2013 and $2.2 million for the three months ended March 31, 2012.

- The Company uses various swaps and other types of derivatives to manage risk related to other exposures. The Company recognized pre-tax gains of $0.4 million and $0.7 million for the three months ended March 31, 2013 and 2012, respectively.

- The Company is involved in various modified coinsurance and funds withheld arrangements which contain embedded derivatives. Changes in their fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had fair value changes which substantially offset the gains or losses on these embedded derivatives. The Company recognized pre-tax gains of $16.8 million and $10.7 million for the three months ended March 31, 2013 and 2012, respectively.

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:

	As of March 31, 2013		As of December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Inflation	$ 135,531	$ 251	$	$
Derivatives not designated as hedging instruments:				
Interest rate swaps	300,000	5,368	355,000	6,532
Volatility swaps	400	20	500	406
Embedded derivative - Modco reinsurance treaties	30,561	1,321	30,244	1,330
Embedded derivative - GMWB	2,615,909	55,796	1,640,075	30,261
Interest rate futures	473,257	3,201		
Equity futures	55,441	1,040	147,581	595
Currency futures	31,948	531	15,944	784
Interest rate caps	3,000,000		3,000,000	
Equity options	840,276	64,559	573,493	61,833
Interest rate swaptions	400,000	7,268	400,000	11,370
Other	224	240	224	253
	$ 7,883,547	$ 139,595	$ 6,163,061	$ 113,364
Other liabilities				
Cash flow hedges:				
Inflation	$ 47,434	$ 65	$ 182,965	$ 5,027
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,105,000	25,057	400,000	10,025
Volatility swaps	4,075	22,245	2,675	12,198
Embedded derivative - Modco reinsurance treaties	2,636,425	395,123	2,655,134	411,907
Embedded derivative - GMWB	4,746,591	144,691	5,253,961	199,530
Interest rate futures			893,476	13,970
Equity futures	106,724	1,126	152,364	3,316
Currency futures	101,339	1,254	131,979	1,901
	$ 8,747,588	$ 589,561	$ 9,672,554	$ 657,874

Table of Contents

Gain (Loss) on Derivatives in Cash Flow Relationship

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)	Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion) Benefits and settlement expenses	Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
		(Dollars In Thousands)	
For The Three Months Ended March 31, 2013			
Interest rate	$	$	$
Inflation	4,409	(497)	368
Total	$ 4,409	$ (497)	$ 368
For The Three Months Ended March 31, 2012			
Interest rate	$ (73)	$ (854)	$
Inflation	8,277	180	646
Total	$ 8,204	$ (674)	$ 646

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify $0.6 million out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Derivatives related to variable annuity contracts:		
Interest rate futures - VA	$ (16,484)	$ (33,406)
Equity futures - VA	(23,225)	(25,099)
Currency futures - VA	8,083	(984)
Volatility futures - VA		(475)
Volatility swaps - VA	(10,433)	(1,884)
Equity options - VA	(28,406)	(23,872)
Interest rate swaptions - VA	(4,102)	(3,519)
Interest rate swaps - VA	(16,556)	(2,128)
Embedded derivative - GMWB	80,375	50,167
Total derivatives related to variable annuity contracts	(10,748)	(41,200)
Embedded derivative - Modco reinsurance treaties	16,775	10,706
Interest rate swaps	1,003	2,037
Interest rate caps		(2,164)
Other derivatives	355	712
Total realized gains (losses) - derivatives	$ 7,385	$ (29,909)

Table of Contents

From time to time, the Company is required to post and obligated to return collateral related to derivative transactions. As of March 31, 2013, the Company had posted cash and securities (at fair value) as collateral of approximately \$20.1 million and \$54.6 million, respectively. As of March 31, 2013, the Company received \$2.5 million of cash as collateral. The Company does not net the collateral posted or received with the fair value of the derivative financial instruments for reporting purposes.

Realized investment gains (losses) - all other investments

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Modco trading portfolio(1)	$ (15,328)	$ 18,099

---

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

15. OFFSETTING OF ASSETS AND LIABILITIES

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

The tables below present the derivative instruments by assets and liabilities for the Company.

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
			(Dollars In Thousands)			
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	$ 82,238	$	$ 82,238	$ 31,046	$ 2,500	$ 48,692
Embedded derivative - Modco reinsurance treaties	1,321		1,321			1,321
Embedded derivative - GMWB	55,796		55,796			55,796
Total derivatives, subject to a master netting arrangement or similar arrangement	139,355		139,355	31,046	2,500	105,809

Total derivatives, not subject to a master netting arrangement or similar arrangement	240		240			240
Total derivatives	139,595		139,595	31,046	2,500	106,049
Total Assets	$ 139,595	$	$ 139,595	$ 31,046	$ 2,500	$ 106,049

Table of Contents

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts Not Offset in the Statement of Financial Position: Cash Collateral Paid	Net Amount
	(Dollars In Thousands)					
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	$ 49,747	$	$ 49,747	$ 31,046	$ 9,648	$ 9,053
Embedded derivative - Modco reinsurance treaties	395,123		395,123			395,123
Embedded derivative - GMWB	144,691		144,691			144,691
Total derivatives, subject to a master netting arrangement or similar arrangement	589,561		589,561	31,046	9,648	548,867
Total derivatives, not subject to a master netting arrangement or similar arrangement						
Total derivatives	589,561		589,561	31,046	9,648	548,867
Repurchase agreements(1)	300,000		300,000			300,000
Total Liabilities	$ 889,561	$	$ 889,561	$ 31,046	$ 9,648	$ 848,867

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

16. OPERATING SEGMENTS

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

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

- The Acquisitions segment focuses on acquiring, converting, and servicing policies 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 closed blocks of business (no new policies are being marketed). Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

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

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

- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset s actual cash value in the case of a total loss.

Table of Contents

- The Corporate and Other segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity), expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

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

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

There were no significant intersegment transactions during the three months ended March 31, 2013 and 2012.

Table of Contents

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

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
Revenues		
Life Marketing	$ 367,626	$ 343,542
Acquisitions	250,487	299,509
Annuities	164,929	139,424
Stable Value Products	31,920	34,656
Asset Protection	67,571	70,606
Corporate and Other	50,281	64,444
Total revenues	$ 932,814	$ 952,181
Segment Operating Income (Loss)		
Life Marketing	$ 23,707	$ 30,369
Acquisitions	34,377	39,099
Annuities	43,398	35,783
Stable Value Products	17,844	12,646
Asset Protection	6,081	4,966
Corporate and Other	(18,332)	27,880
Total segment operating income	107,075	150,743
Realized investment (losses) gains - investments(1)	(9,756)	22,505
Realized investment (losses) gains - derivatives	20,308	(22,669)
Income tax expense	(39,336)	(51,558)
Net income available to PLC s common shareowners	$ 78,291	$ 99,021
Investment gains (losses)(2)	$ (8,729)	$ 16,962
Less: related amortization of DAC/VOBA	1,027	(5,543)
Realized investment gains (losses) - investments	$ (9,756)	$ 22,505
Derivative gain (losses)(3)	$ 7,385	$ (29,909)
Less: VA GMWB economic cost	(12,923)	(7,240)
Realized investment gains (losses) - derivatives	$ 20,308	$ (22,669)

(1) Includes credit related other-than-temporary impairments of $4.6 million and $18.8 million for the three months ended March 31, 2013 and 2012, respectively.

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

(3) Includes realized gains (losses) on derivatives before settlements on interest rate swaps and the VA GMWB economic cost.

Table of Contents

Operating Segment Assets
As of March 31, 2013
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 12,426,568	$ 11,302,319	$ 18,498,392	$ 2,543,291
Deferred policy acquisition costs and value of business acquired	2,045,332	632,595	522,122	1,318
Goodwill	10,192	34,840		
Total assets	$ 14,482,092	$ 11,969,754	$ 19,020,514	$ 2,544,609

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 801,616	$ 9,613,199	$ 18,287	$ 55,203,672
Deferred policy acquisition costs and value of business acquired	59,687	975		3,262,029
Goodwill	62,671	83		107,786
Total assets	$ 923,974	$ 9,614,257	$ 18,287	$ 58,573,487

Operating Segment Assets
As of December 31, 2012
(Dollars In Thousands)

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

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 789,916	$ 9,584,411	$ 19,662	$ 54,036,592
Deferred policy acquisition costs and value of business acquired	64,416	1,066		3,239,519
Goodwill	62,671	83		108,561
Total assets	$ 917,003	$ 9,585,560	$ 19,662	$ 57,384,672

17. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to March 31, 2013, 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 April 10, 2013, PLICO entered into a Master Agreement (the Master Agreement) with AXA Financial, Inc. (AXA) and AXA Equitable Financial Services, LLC. Pursuant to the Master Agreement, the Company has agreed to acquire the stock of MONY Life Insurance Company (MONY) from AXA and to enter into a reinsurance agreement (the Reinsurance Agreement) pursuant to which it will reinsure on a 100% indemnity reinsurance basis certain business (the MLOA Business) of MONY Life Insurance Company of America (MLOA). The aggregate purchase price for MONY is expected to be approximately $693 million, subject to a monthly reduction of $2.5 million for each month that elapses between July 1, 2013 and the closing date of the acquisition. The purchase price includes approximately $303 million of adjusted statutory capital and surplus and approximately $60 million of deferred tax assets, and will be subject to a customary post-closing adjustment. The ceding commission for the reinsurance of the MLOA Business is expected to be approximately $373 million, subject to a monthly reduction of $1 million for each month that elapses between July 1, 2013 and the closing date of the acquisition, and will be subject to a customary post-closing adjustment. The entry into the Reinsurance Agreement will occur at, and is conditioned on the concurrent consummation of, the closing of the acquisition of the shares of MONY.

Table of Contents

The transaction, which is expected to close in the second half of 2013, is subject to receipt of insurance regulatory approvals and satisfaction of other customary closing conditions. Prior to the closing, AXA will cause MONY to transfer its subsidiaries, MLOA, U.S. Financial Life Insurance Company, MONY International Holdings, LLC and MONY Financial Services, Inc., none of which are being sold to the Company as part of the acquisition, to another subsidiary of AXA, and to effect certain other pre-closing restructuring transactions.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1, *Financial Statements (Unaudited)*, of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2012, included in our Annual Report on Form 10-K.

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

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

FORWARD-LOOKING STATEMENTS CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations including our liquidity and capital resources. Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like believe, expect, estimate, project, budget, forecast, anticipate, plan, will, other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Part I, Item II, *Risks and Uncertainties* and Part II, Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results*, of this report, as well as Part I, Item 1A, *Risk Factors and Cautionary Factors that may Affect Future Results*, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

OVERVIEW

Our business

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

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

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

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

Table of Contents

- ***Acquisitions*** - We focus on acquiring, converting, and servicing policies 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 Acquisition segment are typically closed blocks of business (no new policies are being marketed). Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

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

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

- ***Asset Protection*** - We market extended service contracts and credit life and disability insurance to protect consumers investments in automobiles, watercraft, and recreational vehicles. In addition, the segment markets a guaranteed asset protection (GAP) product. GAP coverage covers the difference between the loan pay-off amount and an asset s actual cash value in the case of a total loss.

- ***Corporate and Other*** - This segment primarily consists of net investment income not assigned to the segments above (including the impact of carrying liquidity) and expenses not attributable to the segments above (including interest on certain corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of non-recourse funding obligations.

EXECUTIVE SUMMARY

Net income available to PLC s common shareowners for the first quarter of 2013 was $78.3 million, or $0.97 per average diluted share. After-tax operating income for the first quarter of 2013 was $71.4 million, or $0.89 per average diluted share.

We reported strong financial results in the first quarter of 2013. We were also pleased to see higher life sales, moderation in variable annuity sales, solid performance in the investment portfolio and continued robust spreads in the stable value segment.

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

RISKS AND UNCERTAINTIES

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

General

- exposure to the risks of natural and man-made catastrophes, pandemics, malicious acts, terrorist acts and climate change, which could adversely affect our operations and results;
- the occurrence of computer viruses, information security breaches, disasters, or other unanticipated events could affect our data processing systems or those of our business partners or service providers and could damage our business and adversely affect our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management s assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- we may not be able to achieve the expected results from our recently announced acquisition;

Table of Contents

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

Financial environment

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

control;

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

Industry

- we are highly regulated, are subject to numerous legal restrictions and regulations and are subject to audits, examinations and actions by regulators and law enforcement agencies;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- publicly held companies in general and the financial services industry in particular are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- use of reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates, or be subject to adverse developments that could affect us;
- our policy claims fluctuate from period to period resulting in earnings volatility;

Table of Contents

Competition

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

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

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

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

CRITICAL ACCOUNTING POLICIES

Our accounting policies require the use of judgments relating to a variety of assumptions and estimates, including, but not limited to expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of securities. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2012.

RESULTS OF OPERATIONS

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

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

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

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

Table of Contents

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

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Segment Operating Income (Loss)			
Life Marketing	$ 23,707	$ 30,369	(21.9)%
Acquisitions	34,377	39,099	(12.1)
Annuities	43,398	35,783	21.3
Stable Value Products	17,844	12,646	41.1
Asset Protection	6,081	4,966	22.5
Corporate and Other	(18,332)	27,880	n/m
Total segment operating income	107,075	150,743	(29.0)
Realized investment gains (losses) - investments(1)	(9,756)	22,505	
Realized investment gains (losses) - derivatives	20,308	(22,669)	
Income tax expense	(39,336)	(51,558)	
Net income available to PLC s common shareowners	$ 78,291	$ 99,021	(20.9)
Investment gains (losses)(2)	$ (8,729)	$ 16,962	
Less: related amortization of DAC/VOBA	1,027	(5,543)	
Realized investment gains (losses) - investments	$ (9,756)	$ 22,505	
Derivative gains (losses) (3)	$ 7,385	$ (29,909)	
Less: VA GMWB economic cost	(12,923)	(7,240)	
Realized investment gains (losses) - derivatives	$ 20,308	$ (22,669)	

(1) Includes credit related other-than-temporary impairments of $4.6 million and $18.8 million for the three months ended March 31, 2013 and 2012, respectively.

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

(3) Includes realized gains (losses) on derivatives before settlements on interest rate swaps and the VA GMWB economic cost.

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Net income available to PLC s common shareowners for the three months ended March 31, 2013, included a $43.7 million, or 29.0%, decrease in segment operating income. The decrease consisted of a $6.7 million decrease in the Life Marketing segment, a $4.7 million decrease in the Acquisitions segment, and a $46.6 million decrease in the Corporate and Other segment. These decreases were partially offset by a $7.6 million increase in the Annuities segment, a $5.2 million increase in the Stable Value Products segment, and a $1.1 million increase in the Asset Protection segment.

We experienced net realized losses of $1.3 million for the three months ended March 31, 2013, as compared to net realized losses of $12.9 million for the three months ended March 31, 2012. The gains realized for the three months ended March 31, 2013, were primarily related to $12.3 million of gains related to investment securities sale activity, $1.4 million of gains related to the net activity of the modified coinsurance portfolio, and a $1.0 million gain on interest rate caps and swaps. Partially offsetting these gains were $4.6 million for other-than-temporary impairment credit-related losses, net losses of $10.7 million of derivatives related to variable annuity contracts, and a $0.8 million loss related to other investment and derivative activity.

- Life Marketing segment operating income was $23.7 million for the three months ended March 31, 2013, representing a decrease of $6.7 million, or 21.9%, from the three months ended March 31, 2012. The decrease was primarily due to higher operating expenses resulting from higher sales. This decrease was partially offset by higher investment income, a favorable change in unlocking, and more favorable universal life claims.

Table of Contents

- Acquisitions segment operating income was $34.4 million for the three months ended March 31, 2013, a decrease of $4.7 million, or 12.1%, as compared to the three months ended March 31, 2012, primarily due to lower spread income and the expected runoff of business.

- Annuities segment operating income was $43.4 million for the three months ended March 31, 2013, as compared to $35.8 million for the three months ended March 31, 2012, an increase of $7.6 million, or 21.3%. This variance included an increase in spreads of $2.6 million and an increase in VA earnings of $8.5 million that was driven by higher policy fees and other income. Partially offsetting these favorable changes were increases in non-deferred expenses and DAC amortization.

- Stable Value Products segment operating income was $17.8 million and increased $5.2 million, or 41.1%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The increase in operating earnings resulted from higher operating spreads and lower expenses offset by a decline in average account values. The operating spread increased 99 basis points to 281 basis points for the three months ended March 31, 2013, as compared to an operating spread of 182 basis points for the three months ended March 31, 2012. The adjusted operating spread, which excludes participating income, increased by 75 basis points for the three months ended March 31, 2013 over the prior year.

- Asset Protection segment operating income was $6.1 million, representing an increase of $1.1 million, or 22.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The increase in income was primarily due to a $2.0 million legal settlement accrual in the first quarter of 2012 partly offset by a $0.7 million decrease in investment income due to lower yields. Credit insurance earnings increased $2.1 million primarily due to the previously mentioned $2.0 million in litigation costs incurred in the first quarter of 2012. Earnings from the GAP product line decreased $0.7 million, or 18.6%, primarily from lower volume and higher losses. Service contract earnings decreased $0.3 million, or 8.8%, primarily due to lower investment income.

- Corporate and Other segment operating loss was $18.3 million for the three months ended March 31, 2013, as compared to operating income of $27.9 million for the three months ended March 31, 2012. The decrease was the result of a $34.2 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. For the three months ended March 31, 2013, $1.3 million of pre-tax gains were generated from the repurchase on non-recourse funding obligations as compared to $35.5 million of pre-tax gains for the three months ended March 31, 2012. In addition, the decrease was the result of an increase in other operating expenses as compared to the three months ended March 31, 2012, primarily due to guaranty fund assessments, acquisition related expenses, and fluctuations in non-acquisition related legal fees.

Table of Contents

Life Marketing

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 418,705	$ 388,117	7.9%
Reinsurance ceded	(207,662)	(192,755)	(7.7)
Net premiums and policy fees	211,043	195,362	8.0
Net investment income	127,248	119,026	6.9
Other income	29,335	29,154	0.6
Total operating revenues	367,626	343,542	7.0
BENEFITS AND EXPENSES			
Benefits and settlement expenses	280,766	254,579	10.3
Amortization of deferred policy acquisition costs	14,022	22,594	(37.9)
Other operating expenses	49,131	36,000	36.5
Total benefits and expenses	343,919	313,173	9.8
INCOME BEFORE INCOME TAX	23,707	30,369	(21.9)
OPERATING INCOME	$ 23,707	$ 30,369	(21.9)

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

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Sales By Product			
Traditional	$ 292	$ 287	1.7%
Universal life	46,995	20,962	n/m
BOLI		1,345	n/m
	$ 47,287	$ 22,594	n/m
Sales By Distribution Channel			
Independent agents	$ 31,537	$ 13,940	n/m
Stockbrokers / banks	15,303	6,976	n/m
BOLI / other	447	1,678	(73.4)
	$ 47,287	$ 22,594	n/m
Average Life Insurance In-force(1)			
Traditional	$ 437,245,336	$ 461,855,587	(5.3)
Universal life	91,692,734	73,904,855	24.1
	$ 528,938,070	$ 535,760,442	(1.3)
Average Account Values			
Universal life	$ 6,726,549	$ 6,330,645	6.3

Variable universal life		411,880		371,893	10.8
	$	7,138,429	$	6,702,538	6.5
Traditional Life Mortality Experience(2)		92%		90%	

(1) Amounts are not adjusted for reinsurance ceded.

(2) Represents the incurred claims as a percentage of original pricing expected.

Table of Contents

Operating expenses detail

Other operating expenses for the segment were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Insurance companies:			
First year commissions	$ 51,974	$ 22,140	n/m%
Renewal commissions	8,615	9,004	(4.3)
First year ceding allowances	(935)	(1,128)	17.1
Renewal ceding allowances	(37,609)	(39,037)	3.7
General & administrative	44,747	34,296	30.5
Taxes, licenses, and fees	10,947	8,359	31.0
Other operating expenses incurred	77,739	33,634	n/m
Less: commissions, allowances & expenses capitalized	(57,318)	(25,288)	n/m
Other insurance company operating expenses	20,421	8,346	n/m
Marketing companies:			
Commissions	21,294	20,784	2.5
Other operating expenses	7,416	6,870	7.9
Other marketing company operating expenses	28,710	27,654	3.8
Other operating expenses	$ 49,131	$ 36,000	36.5

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income

Operating income was $23.7 million for the three months ended March 31, 2013, representing a decrease of $6.7 million, or 21.9%, from the three months ended March 31, 2012. The decrease was primarily due to higher operating expenses resulting from higher sales. This decrease was partially offset by higher investment income, a favorable change in unlocking, and more favorable universal life claims.

Operating revenues

Total revenues for the three months ended March 31, 2013, increased $24.0 million, or 7.0%, as compared to the three months ended March 31, 2012. This increase was driven by higher premiums and policy fees due to increased sales along with higher investment income due to increases in net in force reserves.

Net premiums and policy fees

Net premiums and policy fees increased by $15.7 million, or 8.0%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to an increase in premiums and policy fees associated with increased sales in universal life business, partially offset by decreases in traditional life premiums.

Net investment income

Net investment income in the segment increased $8.2 million, or 6.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Of the increase in net investment income, $5.2 million was the result of a net increase in universal life reserves. Traditional life investment income increased $2.9 million due to lower funding costs and higher reserves.

Table of Contents

Other income

Other income increased $0.2 million, or 0.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to higher revenue in the segment s non-insurance operations.

Benefits and settlement expenses

Benefits and settlement expenses increased by $26.2 million, or 10.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to growth in retained universal life insurance in-force, an increase in reserves resulting from new sales and changes in universal life interest rate assumptions, higher credited interest on universal life products resulting from increases in account values, and higher claims from the continued maturing of the traditional life block. In 2013, universal life and BOLI unlocking was largely driven by investment yield and credited interest on fund value. The impact of these changes increased benefits and settlement expenses $1.9 million. In 2012, universal life and BOLI unlocking increased benefit expenses $6.9 million.

Amortization of DAC

DAC amortization decreased $8.6 million, or 37.9%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to differing impacts of unlocking. In 2013, universal life and BOLI unlocking decreased amortization $3.9 million, as compared to an increase of $2.0 million in 2012.

Other operating expenses

Other operating expenses increased $13.1 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This increase reflects higher new business acquisition costs associated with higher sales, higher marketing company expenses of $1.1 million, a reduction in reinsurance allowances, higher general administrative expenses, and a $1.4 million increase in interest expense associated with reserve financing costs.

Sales

Sales for the segment increased $24.7 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Traditional life sales increased slightly by 1.7%. Universal life sales increased $26.0 million due to the increased focus on sales and more competitive product positioning. BOLI sales decreased by $1.3 million due to less favorable product positioning.

Reinsurance

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

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

Table of Contents

Impact of reinsurance

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

Life Marketing Segment

Line Item Impact of Reinsurance

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (207,662)	$ (192,755)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(208,126)	(205,765)
Amortization of deferred policy acquisition costs	(7,446)	(11,941)
Other operating expenses (1)	(29,191)	(32,659)
Total benefits and expenses	(244,763)	(250,365)
NET IMPACT OF REINSURANCE (2)	$ 37,101	$ 57,610
Allowances received	$ (35,544)	$ (40,165)
Less: Amount deferred	6,353	7,506
Allowances recognized (ceded other operating expenses) (1)	$ (29,191)	$ (32,659)

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

(2) Assumes no investment income on reinsurance. Foregone investment income would substantially reduce the favorable impact of reinsurance. The Company estimates that the impact of foregone investment income would reduce the net impact of reinsurance by 90% to 160%.

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies profitability on the business we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 90% to 160%. The Life Marketing segment s reinsurance programs do not materially impact the other income line of our income statement.

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

Table of Contents

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

The higher ceded premiums for 2013 as compared to 2012 was caused primarily by higher ceded traditional life premiums of $6.5 million and higher universal life premiums of $8.6 million. Ceded traditional premium for the three months ended March 31, 2013, increased from the three months ended March 31, 2012, as a number of policies reached their post level premium period. This was offset by increases in ceded premium reserves included in the benefits and settlement expenses line.

Ceded benefits and settlement expenses were higher for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to higher increases in ceded reserves, largely offset by lower ceded claims. Traditional ceded benefits decreased $4.2 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to a decrease in ceded death benefits largely offset by an increase in ceded reserves. Universal life ceded benefits increased $6.5 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to an increase in ceded reserves primarily due to new business, partly offset by lower ceded claims. Ceded universal life claims were $4.6 million lower for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012.

Ceded amortization of deferred policy acquisitions costs decreased for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the differences in unlocking between the two periods.

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

Table of Contents

Acquisitions

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 208,726	$ 212,158	(1.6)%
Reinsurance ceded	(96,605)	(80,301)	20.3
Net premiums and policy fees	112,121	131,857	(15.0)
Net investment income	134,669	138,121	(2.5)
Other income	1,014	1,579	(35.8)
Total operating revenues	247,804	271,557	(8.7)
Realized gains (losses) - investments	(14,043)	17,312	
Realized gains (losses) - derivatives	16,726	10,640	
Total revenues	250,487	299,509	
BENEFITS AND EXPENSES			
Benefits and settlement expenses	179,449	194,173	(7.6)
Amortization of value of business acquired	18,213	23,175	(21.4)
Other operating expenses	15,765	15,110	4.3
Operating benefits and expenses	213,427	232,458	(8.2)
Amortization of VOBA related to realized gains (losses) - investments	173	(33)	
Total benefits and expenses	213,600	232,425	(8.1)
INCOME BEFORE INCOME TAX	36,887	67,084	(45.0)
Less: realized gains (losses)	2,683	27,952	
Less: related amortization of VOBA	(173)	33	
OPERATING INCOME	$ 34,377	$ 39,099	(12.1)

Table of Contents

The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended March 31, 2013		2012	Change
	(Dollars In Thousands)			
Average Life Insurance In-Force(1)				
Traditional	$ 172,010,502		$ 183,952,120	(6.5)%
Universal life	28,668,022		31,660,021	(9.5)
	$ 200,678,524		$ 215,612,141	(6.9)
Average Account Values				
Universal life	$ 3,357,805		$ 3,471,229	(3.3)
Fixed annuity(2)	3,082,334		3,243,372	(5.0)
Variable annuity	576,020		615,966	(6.5)
	$ 7,016,159		$ 7,330,567	(4.3)
Interest Spread - UL & Fixed Annuities				
Net investment income yield(3)	5.67%		5.84%	
Interest credited to policyholders	3.93		3.94	
Interest spread	1.74%		1.90%	

(1)Amounts are not adjusted for reinsurance ceded.

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

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

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income

Operating income was $34.4 million for the three months ended March 31, 2013, a decrease of $4.7 million, or 12.1%, as compared to the three months ended March 31, 2012, primarily due to lower spread income and the expected runoff of business.

Operating revenues

Net premiums and policy fees decreased $19.7 million, or 15.0%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to the impact of a reinsurance recapture on 2012 results and the expected runoff of business. Net investment income decreased $3.5 million, or 2.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, due to the expected runoff of business and lower yields.

Total benefits and expenses

Total benefits and expenses decreased $18.8 million, or 8.1%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The decrease was due to the impact of a reinsurance recapture on 2012 results and the expected runoff of the in-force business.

Reinsurance

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

Table of Contents

Impact of reinsurance

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

Acquisitions Segment

Line Item Impact of Reinsurance

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (96,605)	$ (80,301)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(85,379)	(58,001)
Amortization of deferred policy acquisition costs	(2,364)	(3,402)
Other operating expenses	(11,738)	(14,206)
Total benefits and expenses	(99,481)	(75,609)
NET IMPACT OF REINSURANCE (1)	$ 2,876	$ (4,692)

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

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

The net impact of reinsurance is more favorable by $7.6 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to higher ceded death claims. In the three months ended March 31, 2012, ceded revenues were reduced by $17.2 million and ceded benefits and expenses were reduced by $15.6 million due to a reinsurance recapture.

Table of Contents

Annuities

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 28,552	$ 21,928	30.2%
Reinsurance ceded		(13)	n/m
Net premiums and policy fees	28,552	21,915	30.3
Net investment income	118,557	125,985	(5.9)
Realized gains (losses) - derivatives	(12,923)	(7,240)	(78.5)
Other income	26,795	17,711	51.3
Total operating revenues	160,981	158,371	1.6
Realized gains (losses) - investments	1,773	15,013	
Realized gains (losses) - derivatives, net of economic cost	2,175	(33,960)	
Total revenues	164,929	139,424	18.3
BENEFITS AND EXPENSES			
Benefits and settlement expenses	80,671	90,290	(10.7)
Amortization of deferred policy acquisition costs and value of business acquired	10,654	9,002	18.4
Other operating expenses	26,258	23,296	12.7
Operating benefits and expenses	117,583	122,588	(4.1)
Amortization related to benefits and settlement expenses	(601)	1,619	
Amortization of DAC related to realized gains (losses) - investments	1,455	(7,129)	
Total benefits and expenses	118,437	117,078	1.2
INCOME BEFORE INCOME TAX	46,492	22,346	n/m
Less: realized gains (losses) - investments	1,773	15,013	
Less: realized gains (losses) - derivatives, net of economic cost	2,175	(33,960)	
Less: amortization related to benefits and settlement expenses	601	(1,619)	
Less: related amortization of DAC	(1,455)	7,129	
OPERATING INCOME	$ 43,398	$ 35,783	21.3

Table of Contents

The following table summarizes key data for the Annuities segment:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Sales			
Fixed annuity	$ 115,353	$ 152,826	(24.5)%
Variable annuity	579,698	567,408	2.2
	$ 695,051	$ 720,234	(3.5)
Average Account Values			
Fixed annuity(1)	$ 8,398,457	$ 8,631,269	(2.7)
Variable annuity	9,600,722	6,632,077	44.8
	$ 17,999,179	$ 15,263,346	17.9
Interest Spread - Fixed Annuities(2)			
Net investment income yield	5.54%	5.78%	
Interest credited to policyholders	3.55	3.97	
Interest spread	1.99%	1.81%	

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

(2) Interest spread on average general account values.

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Derivatives related to variable annuity contracts:			
Interest rate futures - VA	$ (16,484)	$ (33,406)	$ 16,922
Equity futures - VA	(23,225)	(25,099)	1,874
Currency futures - VA	8,083	(984)	9,067
Volatility futures - VA		(475)	475
Volatility swaps - VA	(10,433)	(1,884)	(8,549)
Equity options - VA	(28,406)	(23,872)	(4,534)
Interest rate swaptions - VA	(4,102)	(3,519)	(583)
Interest rate swaps - VA	(16,556)	(2,128)	(14,428)
Embedded derivative - GMWB(1)	80,375	50,167	30,208
Total derivatives related to variable annuity contracts	$ (10,748)	$ (41,200)	$ 30,452
Economic cost(2)	12,923	7,240	5,683
Realized gains (losses) - derivatives, net of economic cost	$ 2,175	$ (33,960)	$ 36,135

(1) Includes impact of nonperformance risk of $(5.4) million and $(41.9) million for the three months ended March 31, 2013 and 2012, respectively.

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

	As of		
	March 31, 2013	December 31, 2012	Change
	(Dollars In Thousands)		
GMDB - Net amount at risk(1)	$ 105,313	$ 129,309	(18.6)%
GMDB Reserves	17,263	19,316	(10.6)
GMWB and GMAB Reserves(1)	88,895	169,269	(47.5)
Account value subject to GMWB rider	8,001,578	7,165,375	11.7
GMWB Benefit Base	7,357,043	6,888,471	6.8
S&P 500® Index	1,569	1,426	10.0

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

Table of Contents

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income

Segment operating income was $43.4 million for the three months ended March 31, 2013, as compared to $35.8 million for the three months ended March 31, 2012, an increase of $7.6 million, or 21.3%. This variance included an increase in spreads of $2.6 million and an increase in VA earnings of $8.5 million that was driven by higher policy fees and other income. Partially offsetting these favorable changes were increases in non-deferred expenses and DAC amortization.

Operating revenues

Segment operating revenues increased $2.6 million, or 1.6%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to increases in policy fees and other income from the VA line of business. Those increases were offset by increased economic cost in the VA line of business and lower investment income. Average fixed account balances decreased 2.7% and average variable account balances grew 44.8% for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012.

Benefits and settlement expenses

Benefits and settlement expenses decreased $9.6 million, or 10.7%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. This decrease was primarily the result of lower credited interest, lower realized losses in the fixed market value adjusted (MVA) annuities line, and a $1.5 million favorable change in fixed indexed annuities (FIA) fair value adjustments. These favorable changes were partially offset by a $4.5 million unfavorable change in the single premium immediate annuity (SPIA) mortality variance.

Amortization of DAC

The increase in DAC amortization for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, was primarily due to growth in the VA line of business.

Other operating expenses

Other operating expenses increased $3.0 million, or 12.7%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The increase is due to higher commissions and maintenance expenses driven by growth of the business.

Sales

Total sales decreased $25.2 million, or 3.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Sales of variable annuities increased $12.3 million, or 2.2% for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Sales of fixed annuities decreased by $37.5 million, or 24.5% for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, driven by a decrease in single premium deferred annuity sales.

Table of Contents

Stable Value Products

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Net investment income	$ 30,074	$ 32,402	(7.2)%
Other income		1	n/m
Total operating revenues	30,074	32,403	(7.2)
Realized gains (losses)	1,846	2,253	(18.1)
Total revenues	31,920	34,656	(7.9)
BENEFITS AND EXPENSES			
Benefits and settlement expenses	11,603	18,957	(38.8)
Amortization of deferred policy acquisition costs	81	196	(58.7)
Other operating expenses	546	604	(9.6)
Total benefits and expenses	12,230	19,757	(38.1)
INCOME BEFORE INCOME TAX	19,690	14,899	32.2
Less: realized gains (losses)	1,846	2,253	
OPERATING INCOME	$ 17,844	$ 12,646	41.1

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

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Sales			
GIC	$ 112,020	$ 26,000	n/m%
GFA - Direct Institutional		150,000	n/m
	$ 112,020	$ 176,000	(36.4)
Average Account Values	$ 2,543,906	$ 2,784,389	(8.6)%
Ending Account Values	$ 2,544,609	$ 2,772,378	(8.2)%
Operating Spread			
Net investment income yield	4.73%	4.65%	
Interest credited	1.82	2.71	
Operating expenses	0.10	0.12	
Operating spread	2.81%	1.82%	
Adjusted operating spread(1)	2.55%	1.80%	

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

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income

Operating income was $17.8 million and increased $5.2 million, or 41.1%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The increase in operating earnings resulted from higher operating spreads and lower expenses offset by a decline in average account values. The operating spread increased 99 basis points to 281 basis points for the three months ended March 31, 2013, as compared to an operating

Table of Contents

spread of 182 basis points for the three months ended March 31, 2012. The adjusted operating spread, which excludes participating income, increased by 75 basis points for the three months ended March 31, 2013 over the prior year.

Sales

Total sales were $112.0 million for the three months ended March 31, 2013.

Table of Contents

Asset Protection

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 66,186	$ 68,936	(4.0)%
Reinsurance ceded	(31,083)	(31,473)	1.2
Net premiums and policy fees	35,103	37,463	(6.3)
Net investment income	5,854	6,542	(10.5)
Other income	26,614	26,601	n/m
Total operating revenues	67,571	70,606	(4.3)
BENEFITS AND EXPENSES			
Benefits and settlement expenses	24,658	24,048	2.5
Amortization of deferred policy acquisition costs	7,462	8,677	(14.0)
Other operating expenses	29,370	32,915	(10.8)
Total benefits and expenses	61,490	65,640	(6.3)
INCOME BEFORE INCOME TAX	6,081	4,966	22.5
Less: noncontrolling interests			n/m
OPERATING INCOME	$ 6,081	$ 4,966	22.5

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

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
Sales			
Credit insurance	$ 7,334	$ 8,802	(16.7)%
Service contracts	82,035	82,800	(0.9)
GAP	14,766	18,295	(19.3)
	$ 104,135	$ 109,897	(5.2)
Loss Ratios(1)			
Credit insurance	38.4%	28.5%	
Service contracts	86.4	87.1	
GAP	39.4	26.7	

(1)Incurred claims as a percentage of earned premiums

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income

Operating income was $6.1 million, representing an increase of $1.1 million, or 22.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The increase in income was primarily due to a $2.0 million legal settlement accrual in the first quarter of 2012 partly offset by a $0.7 million decrease in investment income due to lower yields. Credit insurance earnings increased $2.1 million primarily due to the previously mentioned $2.0 million in litigation costs incurred in the first quarter of 2012. Earnings from the GAP product line decreased $0.7 million, or 18.6%, primarily from lower volume and higher losses. Service contract earnings decreased $0.3 million, or 8.8%, primarily due to lower investment income.

Table of Contents

Net premiums and policy fees

Net premiums and policy fees decreased $2.4 million, or 6.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Credit insurance premiums decreased $1.5 million, or 33.3%, primarily the result of lower sales in prior years and the related impact on earned premiums. GAP premiums decreased $0.9 million, or 8.7%, primarily due to a change in the mix of GAP business. Service contract premiums remained consistent with the prior year.

Other income

Other income remained consistent for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012.

Benefits and settlement expenses

Benefits and settlement expenses increased $0.6 million, or 2.5%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. GAP claims increased $0.9 million, or 34.8%, due to higher loss ratios. The increase was partially offset by decreases in service contract claims of $0.2 million, or 0.9%, and credit insurance claims of $0.1 million, or 10.1%.

Amortization of DAC and Other operating expenses

Amortization of DAC was $1.2 million, or 14.0%, lower for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to lower earned premiums in the credit and GAP product lines. Other operating expenses decreased $3.5 million, or 10.8%, for the three months ended March 31, 2013, primarily due to a $2.0 million legal settlement accrual and higher expenses related to new initiatives in the first quarter of 2012, partly offset by $0.6 million in severance costs in the first quarter of 2013.

Sales

Total segment sales decreased $5.8 million, or 5.2%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. Sales in the GAP product line decreased $3.5 million, or 19.3%, primarily due to lower sales through one large distribution partner and a change in mix of GAP business. Credit insurance sales decreased $1.5 million, or 16.7%, primarily due to an increase in refunds as a result of the 2012 legal settlement. Service contract sales decreased $0.8 million, or 0.9%.

Reinsurance

The majority of the Asset Protection segment s reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, credit property, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies (PARCs). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at levels ranging from 50% to 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Table of Contents

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

Asset Protection Segment

Line Item Impact of Reinsurance

	For The Three Months Ended March 31, 2013	2012
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (31,083)	$ (31,473)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(13,656)	(14,579)
Amortization of deferred policy acquisition costs	(1,654)	(2,025)
Other operating expenses	(1,311)	(1,324)
Total benefits and expenses	(16,621)	(17,928)
NET IMPACT OF REINSURANCE (1)	$ (14,462)	$ (13,545)

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

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Reinsurance premiums ceded decreased $0.4 million, or 1.2%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The decrease was primarily due to a decline in ceded dealer credit insurance premiums due to lower sales in prior years, somewhat offset by increases in service contract and GAP premiums.

Benefits and settlement expenses ceded decreased $0.9 million, or 6.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012. The decrease was primarily due to lower losses in the dealer credit line.

Amortization of DAC ceded decreased $0.4 million, or 18.3%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily as the result of decreases in ceded activity in the dealer credit product line. Other operating expenses remained consistent for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012.

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

Table of Contents

Corporate and Other

Segment results of operations

Segment results were as follows:

	For The Three Months Ended March 31, 2013	2012	Change
	(Dollars In Thousands)		
REVENUES			
Gross premiums and policy fees	$ 4,678	$ 5,166	(9.4)%
Reinsurance ceded		(16)	n/m
Net premiums and policy fees	4,678	5,150	(9.2)
Net investment income	41,232	40,045	3.0
Other income	1,269	36,214	(96.5)
Total operating revenues	47,179	81,409	(42.0)
Realized gains (losses) - investments	2,063	(16,970)	
Realized gains (losses) - derivatives	1,039	5	
Total revenues	50,281	64,444	(22.0)
BENEFITS AND EXPENSES			
Benefits and settlement expenses	5,334	5,963	(10.5)
Amortization of deferred policy acquisition costs	179	354	(49.4)
Other operating expenses	59,998	47,212	27.1
Total benefits and expenses	65,511	53,529	22.4
INCOME (LOSS) BEFORE INCOME TAX	(15,230)	10,915	n/m
Less: realized gains (losses) - investments	2,063	(16,970)	
Less: realized gains (losses) - derivatives	1,039	5	
OPERATING INCOME (LOSS)	$ (18,332)	$ 27,880	n/m

For The Three Months Ended March 31, 2013 as compared to The Three Months Ended March 31, 2012

Segment operating income (loss)

Corporate and Other segment operating loss was $18.3 million for the three months ended March 31, 2013, as compared to operating income of $27.9 million for the three months ended March 31, 2012. The decrease was the result of a $34.2 million unfavorable variance related to gains on the repurchase of non-recourse funding obligations. For the three months ended March 31, 2013, $1.3 million of pre-tax gains were generated from the repurchase on non-recourse funding obligations as compared to $35.5 million of pre-tax gains for the three months ended March 31, 2012. In addition, the decrease was the result of an increase in other operating expenses as compared to the three months ended March 31, 2012, primarily due to guaranty fund assessments, acquisition related expenses, and fluctuations in non-acquisition related legal fees.

Operating revenues

Net investment income for the segment increased $1.2 million, or 3.0%, for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, and net premiums and policy fees decreased $0.5 million, or 9.2%. Other income decreased $34.9 million for the three months ended March 31, 2012 as compared to the three months ended March 31, 2012, primarily due to a $34.2 million unfavorable variance related to gains generated on the repurchase of non-recourse funding obligations.

Total benefits and expenses

Total benefits and expenses increased $12.0 million for the three months ended March 31, 2013, as compared to the three months ended March 31, 2012, primarily due to an increase in other operating expenses. The increase in operating expenses is primarily due to guaranty fund assessments, acquisition related expenses, and fluctuations in non-acquisition related legal fees.

Table of Contents

CONSOLIDATED INVESTMENTS

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

Portfolio Description

As of March 31, 2013, our investment portfolio was approximately $37.0 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure.

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

	As of			
	March 31, 2013		December 31, 2012	
	(Dollars In Thousands)			
Publicly issued bonds (amortized cost: 2013 - $21,577,957; 2012 - $21,244,173)	$ 23,918,990	64.6%	$ 23,823,244	64.5%
Privately issued bonds (amortized cost: 2013 - $5,957,112; 2012 - $5,737,151)	6,461,501	17.5	6,264,715	17.0
Fixed maturities	30,380,491	82.1	30,087,959	81.5
Equity securities (cost: 2013 - $406,937; 2012 - $409,376)	415,176	1.1	411,786	1.1
Mortgage loans	4,835,917	13.1	4,950,201	13.4
Investment real estate	18,952	0.1	19,816	0.1
Policy loans	862,202	2.3	865,391	2.3
Other long-term investments	348,394	0.9	361,837	1.0
Short-term investments	161,506	0.4	217,812	0.6
Total investments	$ 37,022,638	100.0%	$ 36,914,802	100.0%

Included in the preceding table are $3.0 billion and $3.0 billion of fixed maturities and $110.6 million and $118.9 million of short-term investments classified as trading securities as of March 31, 2013 and December 31, 2012, respectively. The trading portfolio includes invested assets of $3.0 billion and $3.0 billion as of March 31, 2013 and December 31, 2012, respectively, held pursuant to modified coinsurance (Modco) arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are $315.0 million and $300.0 million of securities classified as held-to-maturity as of March 31, 2013 and December 31, 2012, respectively.

Fixed Maturity Investments

As of March 31, 2013, our fixed maturity investment holdings were approximately $30.4 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

	As of	
Rating	**March 31, 2013**	**December 31, 2012**
AAA	14.4%	14.6%
AA	7.0	7.2
A	31.5	30.8
BBB	39.6	39.7
Below investment grade	6.5	6.7
Not rated	1.0	1.0
	100.0%	100.0%

Table of Contents

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

We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio. As of March 31, 2013, based upon amortized cost, $39.8 million of our securities were guaranteed either directly or indirectly by third parties out of a total of $27.1 billion fixed maturity securities held by us (0.1% of total fixed maturity securities).

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

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

	As of	
Type	**March 31, 2013**	**December 31, 2012**
	(Dollars In Millions)	
Corporate bonds	$ 22,417.5	$ 22,054.4
Residential mortgage-backed securities	2,072.4	2,197.1
Commercial mortgage-backed securities	1,093.2	1,040.9
Other asset-backed securities	1,109.0	1,133.0
U.S. government-related securities	1,503.8	1,475.8
Other government-related securities	152.2	164.2
States, municipals, and political subdivisions	1,717.4	1,722.6
Other	315.0	300.0
Total fixed income portfolio	$ 30,380.5	$ 30,088.0

Within our fixed maturity investments, we maintain portfolios classified as available-for-sale , trading , and held-to-maturity . We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified $27.1 billion, or 89.2%, of our fixed maturities as available-for-sale as of March 31, 2013. These securities are carried at fair value on our consolidated condensed balance sheets.

Fixed maturities that we have both the positive intent and ability to hold to maturity are classified as held-to-maturity . We classified $315.0 million, or 1.0% of our fixed maturities as held-to-maturity as of March 31, 2013. These securities are carried at amortized cost on our consolidated condensed balance sheets.

Table of Contents

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounts for $3.0 billion, or 9.8%, of our fixed maturities and $110.6 million of short-term investments as of March 31, 2013. Changes in fair value on the trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

	As of	
Rating	**March 31, 2013**	**December 31, 2012**
	(Dollars In Thousands)	
AAA	$ 546,682	$ 559,374
AA	233,231	239,834
A	828,145	801,562
BBB	992,504	1,038,873
Below investment grade	354,715	353,089
Total Modco trading fixed maturities	$ 2,955,277	$ 2,992,732

A portion of our bond portfolio is invested in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS). ABS are securities that are backed by a pool of assets. These holdings as of March 31, 2013, were approximately $4.3 billion. Mortgage-backed securities (MBS) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

Table of Contents

Residential mortgage-backed securities - As of March 31, 2013, our RMBS portfolio was approximately $2.1 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities (PACs) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

The tables below include a breakdown of these holdings by type and rating as of March 31, 2013.

Type	**Percentage of Residential Mortgage-Backed Securities**
Sequential	22.9%
PAC	43.6
Pass Through	7.2
Other	26.3
	100.0%

Rating	**Percentage of Residential Mortgage-Backed Securities**
AAA	55.3%
AA	0.4
A	2.3
BBB	0.7
Below investment grade	41.3
	100.0%

Table of Contents

Alt-A Collateralized Holdings

As of March 31, 2013, we held securities with a fair value of $442.8 million, or 1.2% of invested assets, supported by collateral classified as Alt-A. As of December 31, 2012, we held securities with a fair value of $443.6 million supported by collateral classified as Alt-A. We included in this classification certain whole loan securities where such securities had underlying mortgages with a high level of limited loan documentation. As of March 31, 2013, these securities had a fair value of $143.8 million and an unrealized gain of $26.9 million.

The following table includes the percentage of our collateral classified as Alt-A, grouped by rating category, as of March 31, 2013:

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

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of March 31, 2013:

Alt-A Collateralized Holdings

	Estimated Fair Value of Security by Year of Security Origination					
Rating	**2009 and Prior**	**2010**	**2011**	**2012**	**2013**	**Total**
	(Dollars In Millions)					
A	$ 0.8	$	$	$	$	$ 0.8
Below investment grade	442.0					442.0
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ 442.8	$	$	$	$	$ 442.8

	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
Rating	**2009 and Prior**	**2010**	**2011**	**2012**	**2013**	**Total**
	(Dollars In Millions)					
A	$	$	$	$	$	$
Below investment grade	30.1					30.1
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ 30.1	$	$	$	$	$ 30.1

Table of Contents

Sub-prime Collateralized Holdings

As of March 31, 2013, we held securities with a total fair value of $2.6 million that were supported by collateral classified as sub-prime. As of December 31, 2012, we held securities with a fair value of $2.7 million that were supported by collateral classified as sub-prime.

Prime Collateralized Holdings

As of March 31, 2013, we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of $1.6 billion, or 4.4%, of total invested assets. As of December 31, 2012, we held securities with a fair value of $1.8 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

The following table includes the percentage of our collateral classified as prime, grouped by rating category, as of March 31, 2013:

Rating	Percentage of Prime Securities
AAA	70.4%
AA	0.5
A	2.9
BBB	0.9
Below investment grade	25.3
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of March 31, 2013:

Prime Collateralized Holdings

	Estimated Fair Value of Security by Year of Security Origination					
Rating	2009 and Prior	2010	2011	2012	2013	Total
			(Dollars In Millions)			
AAA	$ 437.7	$ 337.4	$ 344.9	$ 4.0	$ 21.9	$ 1,145.9
AA	7.4					7.4
A	43.3		3.7			47.0
BBB	14.2					14.2
Below investment grade	412.5					412.5
Total mortgage-backed securities collateralized by prime mortgage loans	$ 915.1	$ 337.4	$ 348.6	$ 4.0	$ 21.9	$ 1,627.0

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination 2009 and Prior	2010	2011	2012	2013	Total
	(Dollars In Millions)					
AAA	$ 30.5	$ 22.5	$ 24.2	$ 0.1	$ (0.2)	$ 77.1
AA						
A	2.5					2.5
BBB	0.9					0.9
Below investment grade	(8.1)					(8.1)
Total mortgage-backed securities collateralized by prime mortgage loans	$ 25.8	$ 22.5	$ 24.2	$ 0.1	$ (0.2)	$ 72.4

Table of Contents

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

The following table includes the percentages of our CMBS holdings, grouped by rating category, as of March 31, 2013:

Rating	**Percentage of Commercial Mortgage-Backed Securities**
AAA	67.1%
AA	12.6
A	18.7
BBB	1.6
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our CMBS as of March 31, 2013:

Commercial Mortgage-Backed Securities

	Estimated Fair Value of Security by Year of Security Origination					
Rating	**2009 and Prior**	**2010**	**2011**	**2012**	**2013**	**Total**
			(Dollars In Millions)			
AAA	$ 93.9	$ 84.5	$ 230.7	$ 280.3	$ 44.3	$ 733.7
AA		34.1	39.3	43.6	20.3	137.3
A	47.8	35.3	87.7	15.0	18.7	204.5
BBB	17.7					17.7
Total commercial mortgage- backed securities	$ 159.4	$ 153.9	$ 357.7	$ 338.9	$ 83.3	$ 1,093.2

	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
Rating	**2009 and Prior**	**2010**	**2011**	**2012**	**2013**	**Total**
			(Dollars In Millions)			
AAA	$ 3.0	$ 9.6	$ 28.9	$ 10.6	$ (0.4)	$ 51.7
AA		2.8	4.2	(0.4)	0.1	6.7
A	2.9	2.7	4.2	0.7	0.1	10.6
BBB	0.8					0.8
Total commercial mortgage- backed securities	$ 6.7	$ 15.1	$ 37.3	$ 10.9	$ (0.2)	$ 69.8

Table of Contents

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

The following table includes the percentages of our other asset-backed holdings, grouped by rating category, as of March 31, 2013:

Rating	Percentage of Other Asset-Backed Securities
AAA	55.5%
AA	15.4
A	16.8
BBB	0.2
Below investment grade	12.1
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our asset-backed securities as of March 31, 2013:

Other Asset-Backed Securities

Rating	Estimated Fair Value of Security by Year of Security Origination					
	2009 and Prior	2010	2011	2012	2013	Total
	(Dollars In Millions)					
AAA	$ 520.1	$ 32.1	$ 27.6	$ 36.0	$	$ 615.8
AA	163.9			6.7		170.6
A	35.0		75.9	67.3	8.0	186.2
BBB	2.3					2.3
Below investment grade	134.1					134.1
Total other asset-backed securities	$ 855.4	$ 32.1	$ 103.5	$ 110.0	$ 8.0	$ 1,109.0

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2009 and Prior	2010	2011	2012	2013	Total
	(Dollars In Millions)					
AAA	$ (52.7)	$ 0.1	$ 2.0	$ 1.8	$	$ (48.8)
AA	(14.7)			0.3		(14.4)
A	5.0		7.7	1.3		14.0
BBB						
Below investment grade	9.5					9.5
Total other asset-backed securities	$ (52.9)	$ 0.1	$ 9.7	$ 3.4	$	$ (39.7)

Table of Contents

We obtained ratings of our fixed maturities from Moody s Investors Service, Inc. (Moody s), Standard & Poor s Corporation (S&P), and/or Fitch Ratings (Fitch). If a fixed maturity is not rated by Moody s, S&P, or Fitch, we use ratings from the National Association of Insurance Commissioners (NAIC), or we rate the fixed maturity based upon a comparison of the unrated issue to rated issues of the same issuer or rated issues of other issuers with similar risk characteristics. As of March 31, 2013, over 99.0% of our fixed maturities were rated by Moody s, S&P, Fitch, and/or the NAIC.

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

	As of March 31, 2013	% Fair Value	As of December 31, 2012	% Fair Value
		(Dollars In Thousands)		
Banking	$ 2,382,749	7.8%	$ 2,316,051	7.7%
Other finance	416,622	1.4	346,563	1.2
Electric	3,749,769	12.3	3,782,966	12.6
Natural gas	2,221,250	7.3	2,203,779	7.3
Insurance	2,566,105	8.4	2,541,614	8.4
Energy	1,755,501	5.8	1,821,451	6.1
Communications	1,253,656	4.1	1,260,773	4.2
Basic industrial	1,307,996	4.3	1,293,037	4.3
Consumer noncyclical	1,904,964	6.3	1,738,686	5.8
Consumer cyclical	985,232	3.2	942,465	3.1
Finance companies	249,761	0.8	246,114	0.8
Capital goods	1,072,109	3.5	1,066,972	3.5
Transportation	683,802	2.3	670,477	2.2
Other industrial	257,526	0.8	236,002	0.8
Brokerage	605,936	2.0	588,307	2.0
Technology	847,452	2.8	845,282	2.8
Real estate	115,353	0.4	119,020	0.4
Other utility	41,735	0.1	34,779	0.1
Commercial mortgage-backed securities	1,093,141	3.6	1,040,896	3.5
Other asset-backed securities	1,108,983	3.7	1,132,943	3.8
Residential mortgage-backed non-agency securities	920,185	3.0	987,035	3.3
Residential mortgage-backed agency securities	1,152,247	3.8	1,210,098	4.0
U.S. government-related securities	1,503,788	4.9	1,475,816	4.9
Other government-related securities	152,205	0.5	164,222	0.5
State, municipals, and political divisions	1,717,424	5.7	1,722,611	5.7
Other	315,000	1.2	300,000	1.0
Total	$ 30,380,491	100.0%	$ 30,087,959	100.0%

Our investments classified as available-for-sale and trading in debt and equity securities are reported at fair value. Our investments classified as held-to-maturity are reported at amortized cost. As of March 31, 2013, our fixed maturity investments (bonds and redeemable preferred stocks) had a market value of $30.4 billion, which was 12.2% above amortized cost of $27.1 billion. These assets are invested for terms approximately corresponding to anticipated future benefit payments. Thus, market fluctuations are not expected to adversely affect liquidity.

Market values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate market value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to market value, management makes a determination as to the appropriate valuation amount.

Table of Contents

Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of March 31, 2013, our mortgage loan holdings were approximately $4.8 billion. We have specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). We believe these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history.

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

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of March 31, 2013 and December 31, 2012, our allowance for mortgage loan credit losses was $4.0 million and $2.9 million, respectively. While our mortgage loans do not have quoted market values, as of March 31, 2013, we estimated the fair value of our mortgage loans to be $5.6 billion (using discounted cash flows from the next call date), which was approximately 15% greater than the amortized cost, less any related loan loss reserve.

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

We also offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2013 and December 31, 2012, approximately $736.9 million and $817.3 million, respectively, of our mortgage loans had this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. Exceptions to these loan-to-value measures may be made if we believe the mortgage has an acceptable risk profile.

Certain of our mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately $143.0 million will become due in the remainder of 2013, $1.3 billion in 2014 through 2018, $588.2 million in 2019 through 2023, and $178.3 million thereafter.

As of March 31, 2013, approximately $21.2 million, or 0.06%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. 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 March 31, 2013, $14.3 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. We did not foreclose on any nonperforming loans during the three months ended March 31, 2013.

As of March 31, 2013, $6.9 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the three months ended March 31, 2013. We did not foreclose on any nonperforming loans during the three months ended March 31, 2013.

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

Table of Contents

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

Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of March 31, 2013:

Rating		Fair Value (Dollars In Thousands)	Percent of Fair Value
AAA	$	3,836,309	14.2%
AA		1,885,505	7.0
A		8,753,016	32.3
BBB		11,050,964	40.8
Investment grade		25,525,794	94.3
BB		807,597	3.0
B		93,389	0.3
CCC or lower		670,523	2.4
Below investment grade		1,571,509	5.7
Total	$	27,097,303	100.0%

Not included in the table above are $2.6 billion of investment grade and $367.5 million of below investment grade fixed maturities classified as trading securities and $315.0 million of fixed maturities classified as held-to-maturity.

Limiting bond exposure to any creditor group is another way we manage credit risk. We held no credit default swaps on the positions listed below as of March 31, 2013. The following table includes securities held in our Modco portfolio and summarizes our ten largest maturity exposures to an individual creditor group as of March 31, 2013:

	Fair Value of					
Creditor		Funded Securities		Unfunded Exposures		Total Fair Value
			(Dollars In Millions)			
Duke Energy Corp	$	213.5	$		$	213.5
Comcast Corp.		194.8				194.8
Nextera Energy Inc.		182.4				182.4
Exelon Corp.		179.7				179.7
Berkshire Hathaway Inc.		173.3				173.3
General Electric		165.7				165.7
Verizon Communications Inc.		160.2				160.2
JP Morgan Chase and Company		144.2		14.0		158.2

Rio Tinto	158.0		158.0
Morgan Stanley	150.9	0.6	