PROTECTIVE LIFE CORP
Form 10-Q
November 07, 2014
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 September 30, 2014

or

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

For the transition period from to

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**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 October 27, 2014: 79,288,518

Table of Contents

PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

TABLE OF CONTENTS

PART I

		Page
Item 1.	Financial Statements (unaudited):	
	Consolidated Condensed Statements of Income For The Three and Nine Months Ended September 30, 2014 and 2013	3
	Consolidated Condensed Statements of Comprehensive Income (Loss) For The Three and Nine Months Ended September 30, 2014 and 2013	4
	Consolidated Condensed Balance Sheets as of September 30, 2014 and December 31, 2013	5
	Consolidated Condensed Statements of Shareowners Equity For The Nine Months Ended September 30, 2014	7
	Consolidated Condensed Statements of Cash Flows For The Nine Months Ended September 30, 2014 and 2013	8
	Notes to Consolidated Condensed Financial Statements	9
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	68
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	135
Item 4.	Controls and Procedures	135

PART II

Item 1.	Legal Proceedings	136
Item 1A.	Risk Factors and Cautionary Factors that may Affect Future Results	137
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	147
Item 6.	Exhibits	148
	Signature	149

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 759,038	$ 657,218	$ 2,426,736	$ 2,140,396
Reinsurance ceded	(277,136)	(270,730)	(947,817)	(996,570)
Net of reinsurance ceded	481,902	386,488	1,478,919	1,143,826
Net investment income	558,174	454,275	1,647,153	1,378,129
Realized investment gains (losses):				
Derivative financial instruments	3,781	41,326	(191,495)	192,592
All other investments	1,194	(19,508)	153,456	(133,631)
Other-than-temporary impairment losses	(1,142)	(6,635)	(2,026)	(9,764)
Portion recognized in other comprehensive income (before taxes)	(1,212)	(2,046)	(3,379)	(7,501)
Net impairment losses recognized in earnings	(2,354)	(8,681)	(5,405)	(17,265)
Other income	105,389	98,794	311,359	278,213
Total revenues	1,148,086	952,694	3,393,987	2,841,864
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2014 - $217,641; 2013 - $204,065; nine months: 2014 - $851,028; 2013 - $882,123)	630,285	624,577	2,106,620	1,764,323
Amortization of deferred policy acquisition costs and value of business acquired	134,918	22,446	242,031	149,631
Other operating expenses, net of reinsurance ceded: (three months: 2014 - $49,196; 2013 - $47,506; nine months: 2014 - $139,507; 2013 - $138,901)	198,000	163,550	573,038	511,149
Total benefits and expenses	963,203	810,573	2,921,689	2,425,103
Income before income tax	184,883	142,121	472,298	416,761
Income tax expense	65,974	49,060	161,773	142,210
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Net income - basic	$ 1.48	$ 1.17	$ 3.88	$ 3.46
Net income - diluted	$ 1.46	$ 1.15	$ 3.82	$ 3.39
Cash dividends paid per share	$ 0.24	$ 0.20	$ 0.68	$ 0.58
Average shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Average shares outstanding - diluted	81,458,870	80,852,078	81,261,249	80,882,552

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2014 - $(44,766); 2013 - $(145,224); nine months: 2014 - $431,299; 2013 - $(641,532))	(83,138)	(269,703)	800,982	(1,191,416)
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2014 - $(7,446); 2013 - $(653); nine months: 2014 - $(16,027); 2013 - $(9,488))	(13,827)	(1,212)	(29,763)	(17,621)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2014 - $561; 2013 - $(1,543) nine months: 2014 - $2,419; 2013 - $1,383)	1,044	(2,865)	4,494	2,570
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2014 - $(22); 2013 - $8; nine months: 2014 - $(31); 2013 - $(55))	(41)	14	(58)	(103)
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2014 - $103; 2013 - $200; nine months: 2014 - $552; 2013 - $577)	190	372	1,025	1,072
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2014 - $631; 2013 - $(922); nine months: 2014 - $1,895; 2013 - $(2,766))	1,173	(1,712)	3,520	(5,136)
Total other comprehensive income (loss)	(94,599)	(275,106)	780,200	(1,210,634)
Total comprehensive income (loss)	$ 24,310	$ (182,045)	$ 1,090,725	$ (936,083)

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	September 30, 2014	**December 31, 2013**
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2014 - $34,222,620; 2013 - $33,668,770)	$ 36,922,395	$ 34,823,093
Fixed maturities, at amortized cost (fair value: 2014 - $453,741; 2013 - $335,676)	415,000	365,000
Equity securities, at fair value (cost: 2014 - $791,964; 2013 - $675,758)	809,648	646,027
Mortgage loans (2014 and 2013 includes $489,667 and $627,731 related to securitizations)	5,232,463	5,493,492
Investment real estate, net of accumulated depreciation (2014 - $376; 2013 - $1,066)	13,998	20,413
Policy loans	1,767,228	1,815,744
Other long-term investments	470,174	521,811
Short-term investments	183,411	134,146
Total investments	45,814,317	43,819,726
Cash	328,487	466,542
Accrued investment income	491,864	465,333
Accounts and premiums receivable, net of allowance for uncollectible amounts (2014 - $3,839; 2013 - $4,283)	123,136	101,039
Reinsurance receivables	6,132,550	6,175,115
Deferred policy acquisition costs and value of business acquired	3,263,299	3,570,215
Goodwill	103,139	105,463
Property and equipment, net of accumulated depreciation (2014 - $116,986; 2013 - $111,579)	52,939	52,403
Other assets	371,233	426,471
Income tax receivable	18,257	
Assets related to separate accounts		
Variable annuity	13,040,828	12,791,438
Variable universal life	813,178	783,618
Total assets	$ 70,553,227	$ 68,757,363

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(continued)

(Unaudited)

	As of	
	September 30, 2014	December 31, 2013
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$ 29,876,778	$ 29,772,325
Unearned premiums	1,521,330	1,549,815
Total policy liabilities and accruals	31,398,108	31,322,140
Stable value product account balances	2,261,546	2,559,552
Annuity account balances	11,083,763	11,125,253
Other policyholders funds	1,377,504	1,214,380
Other liabilities	1,469,374	1,144,853
Income tax payable		12,761
Deferred income taxes	1,476,749	1,050,533
Non-recourse funding obligations	594,066	562,448
Repurchase program borrowings	359,804	350,000
Debt	1,380,000	1,585,000
Subordinated debt securities	540,593	540,593
Liabilities related to separate accounts		
Variable annuity	13,040,828	12,791,438
Variable universal life	813,178	783,618
Total liabilities	65,795,513	65,042,569
Commitments and contingencies - Note 10		
Shareowners equity		
Preferred Stock; $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2014 and 2013 - 160,000,000 shares issued: 2014 and 2013 - 88,776,960	$ 44,388	$ 44,388
Additional paid-in-capital	599,199	606,934
Treasury stock, at cost (2014 - 9,490,513; 2013 - 10,199,514)	(186,818)	(200,416)
Retained earnings	3,026,679	2,769,822
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2014 - $705,180; 2013 - $289,908)	1,309,619	538,400
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2014 - $2,744; 2013 - $325)	5,097	603
Accumulated loss - derivatives, net of income tax: (2014 - $(145); 2013 - $(666))	(268)	(1,235)
Postretirement benefits liability adjustment, net of income tax: (2014 - $(21,637); 2013 - $(23,532))	(40,182)	(43,702)
Total shareowners equity	4,757,714	3,714,794
Total liabilities and shareowners equity	$ 70,553,227	$ 68,757,363

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	Total Shareowners Equity
			(Dollars In Thousands)			
Balance, December 31, 2013	$ 44,388	$ 606,934	$ (200,416)	$ 2,769,822	$ 494,066	$ 3,714,794
Net income for the nine months ended September 30, 2014				310,525		310,525
Other comprehensive income					780,200	780,200
Comprehensive income for the nine months ended September 30, 2014						1,090,725
Cash dividends ($0.68 per share)				(53,668)		(53,668)
Stock-based compensation		(7,735)	13,598			5,863
Balance, September 30, 2014	$ 44,388	$ 599,199	$ (186,818)	$ 3,026,679	$ 1,274,266	$ 4,757,714

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Nine Months Ended September 30, 2014	2013
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 310,525	$ 274,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	43,444	(41,696)
Amortization of deferred policy acquisition costs and value of business acquired	242,031	149,631
Capitalization of deferred policy acquisition costs	(215,616)	(240,398)
Depreciation expense	5,687	6,731
Deferred income tax	8,390	154,457
Accrued income tax	(11,220)	6,857
Interest credited to universal life and investment products	663,117	532,396
Policy fees assessed on universal life and investment products	(729,929)	(659,058)
Change in reinsurance receivables	42,565	60,600
Change in accrued investment income and other receivables	(28,297)	7,370
Change in policy liabilities and other policyholders funds of traditional life and health products	12,184	261,691
Trading securities:		
Maturities and principal reductions of investments	71,646	152,948
Sale of investments	187,829	220,711
Cost of investments acquired	(160,134)	(297,558)
Other net change in trading securities	(43,699)	(9,069)
Change in other liabilities	220,160	(48,694)
Other income - gains on repurchase of non-recourse funding obligations	(4,587)	(3,359)
Other, net	(8,593)	(85,008)
Net cash provided by operating activities	605,503	443,103
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	941,989	752,754
Sale of investments, available-for-sale	1,465,632	1,718,810
Cost of investments acquired, available-for-sale	(3,056,904)	(3,076,555)
Change in investments, held-to-maturity	(50,000)	(50,000)
Mortgage loans:		
New lendings	(649,125)	(392,883)
Repayments	908,364	543,297
Change in investment real estate, net	6,048	1,300
Change in policy loans, net	48,516	9,058
Change in other long-term investments, net	(69,778)	(169,668)
Change in short-term investments, net	(26,392)	(10,912)
Net unsettled security transactions	8,243	31,686
Purchase of property and equipment	(6,223)	(17,983)
Sales of property and equipment		86
Payments for business acquisitions	(906)	
Net cash used in investing activities	(480,536)	(661,010)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	190,000	430,000
Principal payments on line of credit arrangement and debt	(395,000)	(380,000)
Issuance (repayment) of non-recourse funding obligations	31,651	33,900

Repurchase program borrowings		9,804		(50,000)
Dividends to shareowners		(53,668)		(45,474)
Investment product deposits and change in universal life deposits		2,415,424		2,413,676
Investment product withdrawals		(2,461,200)		(2,198,547)
Other financing activities, net		(33)		
Net cash (used in) provided by financing activities		(263,022)		203,555
Change in cash		(138,055)		(14,352)
Cash at beginning of period		466,542		368,801
Cash at end of period	$	328,487	$	354,449

See Notes to Consolidated Condensed Financial Statements

Table of Contents

PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine month periods ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

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

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.

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, 2013. Although there were no significant changes to the Company s accounting policies during the nine months ended September 30, 2014, the Company has clarified the disclosures related to its reinsurance accounting methodology as follows:

Reinsurance Accounting Methodology Ceded premiums of the Company s traditional life insurance products are treated as an offset to direct premium and policy fee revenue and are recognized when due to the assuming company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable financial reporting period. Expense allowances paid by the assuming companies which are allocable to the current period are treated as an offset to other operating expenses. Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances representing recovery of acquisition costs is treated as an offset to direct amortization of DAC or VOBA.

Table of Contents

Amortization of deferred expense allowances is calculated as a level percentage of expected premiums in all durations given expected future lapses and mortality and accretion due to interest.

The Company utilizes reinsurance on certain short duration insurance contracts (primarily issued through the Asset Protection segment). As part of these reinsurance transactions the Company receives reinsurance allowances which reimburse the Company for acquisition costs such as commissions and premium taxes. A ceding fee is also collected to cover other administrative costs and profits for the Company. As a component of reinsurance costs, reinsurance allowances are accounted for in accordance with the relevant provisions of ASC Financial Services Insurance Topic, which state that reinsurance costs should be amortized over the contract period of the reinsurance if the contract is short-duration. Accordingly, reinsurance allowances received related to short-duration contracts are capitalized and charged to expense in proportion to premiums earned. Ceded unamortized acquisition costs are netted with direct unamortized acquisition costs in the balance sheet.

Ceded premiums and policy fees on the Company s universal life (UL), VUL, bank-owned life insurance (BOLI), and annuity products reduce premiums and policy fees recognized by the Company. Ceded claims are treated as an offset to direct benefits and settlement expenses and are recognized when the claim is incurred on a direct basis. Ceded policy reserve changes are also treated as an offset to benefits and settlement expenses and are recognized during the applicable valuation period.

Since reinsurance treaties typically provide for allowance percentages that decrease over the lifetime of a policy, allowances in excess of the ultimate or final level allowance are capitalized. Amortization of capitalized reinsurance expense allowances are amortized based on future expected gross profits. Assumptions regarding mortality, lapses, and interest rates are continuously reviewed and may be periodically changed. These changes will result in unlocking that changes the balance in the ceded deferred acquisition cost and can affect the amortization of DAC and VOBA. Ceded unearned revenue liabilities are also amortized based on expected gross profits. Assumptions are based on the best current estimate of expected mortality, lapses and interest spread.

The Company has also assumed certain policy risks written by other insurance companies through reinsurance agreements. *Premiums and policy fees* as well as *Benefits and settlement expenses* include amounts assumed under reinsurance agreements and are net of reinsurance ceded. Assumed reinsurance is accounted for in accordance with ASC Financial Services Insurance Topic.

Reinsurance Allowances Long-Duration Contracts Reinsurance allowances are intended to reimburse the ceding company for some portion of the ceding company s commissions, expenses, and taxes. The amount and timing of reinsurance allowances (both first year and renewal allowances) are contractually determined by the applicable reinsurance contract and do not necessarily bear a relationship to the amount and incidence of expenses actually paid by the ceding company in any given year.

Ultimate reinsurance allowances are defined as the lowest allowance percentage paid by the reinsurer in any policy duration over the lifetime of a universal life policy (or through the end of the level term period for a traditional life policy). Ultimate reinsurance allowances are determined during the negotiation of each reinsurance agreement and will differ between agreements.

The Company determines its cost of reinsurance to include amounts paid to the reinsurer (ceded premiums) net of amounts reimbursed by the reinsurer (in the form of allowances). As noted within ASC Financial Services Insurance Topic, The difference, if any, between amounts paid for a reinsurance contract and the amount of the liabilities for policy benefits relating to the underlying reinsured contracts is part of the

estimated cost to be amortized. The Company s policy is to amortize the cost of reinsurance over the life of the underlying reinsured contracts (for long-duration policies) in a manner consistent with the way in which benefits and expenses on the underlying contracts are recognized. For the Company s long-duration contracts, it is the Company s practice to defer reinsurance allowances as a component of the cost of reinsurance and recognize the portion related to the recovery of acquisition costs as a reduction of applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expense in proportion to net revenue recognized. The remaining balance of reinsurance allowances are included as a component of the cost of reinsurance and those allowances which are allocable to the current period are recorded as an offset to operating expenses in the current period consistent with the recognition of benefits and expenses on the underlying reinsured contracts. This practice is consistent with the Company s practice of

Table of Contents

capitalizing direct expenses (e.g. commissions), and results in the recognition of reinsurance allowances on a systematic basis over the life of the reinsured policies on a basis consistent with the way in which acquisition costs on the underlying reinsured contracts would be recognized. In some cases reinsurance allowances allocable to the current period may exceed non-deferred direct costs, which may cause net other operating expenses (related to specific contracts) to be negative.

Amortization of Reinsurance Allowances Reinsurance allowances do not affect the methodology used to amortize DAC and VOBA, or the period over which such DAC and VOBA are amortized. Reinsurance allowances offset the direct expenses capitalized, reducing the net amount that is capitalized. DAC and VOBA on traditional life policies are amortized based on the pattern of estimated gross premiums of the policies in force. Reinsurance allowances do not affect the gross premiums, so therefore they do not impact traditional life amortization patterns. DAC and VOBA on universal life products are amortized based on the pattern of estimated gross profits of the policies in force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore do impact amortization patterns.

Reinsurance Liabilities Claim liabilities and policy benefits are calculated consistently for all policies in accordance with GAAP, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners. Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed by the Company s actuarial staff to ensure that appropriate amounts are ceded.

The Company analyzes and monitors the credit worthiness of each of its reinsurance partners to minimize collection issues. For newly executed reinsurance contracts with reinsurance companies that do not meet predetermined standards, the Company requires collateral such as assets held in trusts or letters of credit.

Components of Reinsurance Cost The following income statement lines are affected by reinsurance cost:

Premiums and policy fees (reinsurance ceded on the Company s financial statements) represent consideration paid to the assuming company for accepting the ceding company s risks. Ceded premiums and policy fees increase reinsurance cost.

Benefits and settlement expenses include incurred claim amounts ceded and changes in ceded policy reserves. Ceded benefits and settlement expenses decrease reinsurance cost.

Amortization of deferred policy acquisition cost and VOBA reflects the amortization of capitalized reinsurance allowances representing recovery of acquisition costs. Ceded amortization decreases reinsurance cost.

Other expenses include reinsurance allowances paid by assuming companies to the Company less amounts representing recovery of acquisition costs. Reinsurance allowances decrease reinsurance cost.

The Company s reinsurance programs do not materially impact the other income line of the Company s income statement. In addition, net investment income generally has no direct impact on the Company s reinsurance cost. However, it should be noted that by ceding business to the assuming companies, the Company forgoes investment income on the reserves ceded to the assuming companies. Conversely, the assuming companies will receive investment income on the reserves assumed which will increase the assuming companies profitability on business assumed from the Company.

Accounting Pronouncements Not Yet Adopted

Accounting Standards Update (ASU) No. 2014-08 Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This Update changes the requirements for reporting discontinued operations and related disclosures. The Update limits the definition of a discontinued operation to

Table of Contents

disposals that represent strategic shifts that will have a major effect on an entity s operation and financial results. Additionally, the Update requires enhanced disclosures about the components of discontinued operations and the financial effects of the disposal. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2014. The Company is reviewing the additional disclosures required by the Update, and will apply the revised guidance to any disposals occurring after the effective date.

ASU No. 2014-09 Revenue from Contracts with Customers (Topic 606). This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update is effective for annual and interim periods beginning after December 15, 2016. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

ASU No. 2014-11 Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This Update changes the requirements for classification of certain repurchase agreements, and will expand the use of secured borrowing accounting for repurchase-to-maturity transactions. In addition, the Update requires additional disclosures for repurchase agreements accounted for both as sales and as secured borrowings. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2014. The Update is not anticipated to impact the Company s financial position or results of operations. The Company is reviewing its policies and processes to ensure compliance with the additional disclosure requirements in this Update.

ASU No. 2014-15 Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. This Update will require management to assess an entity s ability to continue as a going concern, and will require footnote disclosures in certain circumstances. Under the updated guidance, management should consider relevant conditions and evaluate whether it is probable that the entity will be unable to meet its obligations within one year after the issuance date of the financial statements. The Update is effective for annual periods ending December 31, 2016 and interim periods thereafter, with early adoption is permitted. The amendments in this Update will not impact the Company s financial position or results of operations. However, the new guidance will require a formal assessment of going concern by management based on criteria prescribed in the new guidance. The Company is reviewing its policies and processes to ensure compliance with the new guidance.

3. SIGNIFICANT ACQUISITIONS

On October 1, 2013 Protective Life Insurance Company (PLICO) completed the acquisition contemplated by the master agreement (the Master Agreement) dated April 10, 2013. Pursuant to that Master Agreement with AXA Financial, Inc. (AXA) and AXA Equitable Financial Services, LLC (AEFS), PLICO acquired the stock of MONY Life Insurance Company (MONY) from AEFS and entered into a reinsurance agreement (the Reinsurance Agreement) pursuant to which it reinsured on a 100% indemnity reinsurance basis certain business (the MLOA Business) of MONY Life Insurance Company of America (MLOA). The final aggregate purchase price of MONY was $689 million. The ceding commission for the reinsurance of the MLOA Business was $370 million. Together, the purchase of MONY and reinsurance of the MLOA Business are hereto referred to as (the MONY acquisition). The MONY acquisition allowed the Company to invest its capital and increase the scale of its Acquisitions segment. The MONY acquisition business is comprised of traditional and universal life insurance policies and fixed and variable annuities, most of which were written prior to 2004.

The MONY acquisition was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. During the nine months ended September 30, 2014, as a result of new information obtained about facts and circumstances that existed as of the acquisition date, the Company recorded certain measurement period adjustments to fixed maturities, mortgage loans, cash, accounts and premiums receivable, VOBA, other assets, deferred income taxes, future policy benefits and claims, other policyholders funds, and other liabilities. These were customary adjustments that occurred during the normal course of reviewing and integrating the MONY acquisition. The net result on the amount of VOBA recorded by the Company in relation to the MONY acquisition was to decrease VOBA by approximately $14.0 million. This impact has been revised in the comparative consolidated balance sheet presented as

Table of Contents

of December 31, 2013. The Company has determined that the impact on amortization and other related amounts within the comparative interim and annual periods from that previously presented in the annual or interim consolidated condensed statements of income is immaterial. The amounts presented in the following table related to the MONY acquisition (presented as of the acquisition date of October 1, 2013) have been retrospectively revised for the aforementioned measurement period adjustments.

The following table summarizes the consideration paid for the acquisition and the determination of the fair value of assets acquired and liabilities assumed at the acquisition date:

		Fair Value As of October 1, 2013 (Dollars In Thousands)
Assets		
Fixed maturities, at fair value	$	6,557,853
Equity securities, at fair value		108,413
Mortgage loans		830,415
Policy loans		967,534
Short-term investments		130,963
Total investments		8,595,178
Cash		216,164
Accrued investment income		114,695
Accounts and premiums receivable, net of allowance for uncollectible amounts		26,055
Reinsurance receivable		422,692
Value of business acquired		205,767
Other assets		5,104
Income tax receivables		21,197
Deferred income taxes		188,142
Separate account assets		195,452
Total assets	$	9,990,446
Liabilities		
Future policy benefits and claims	$	7,645,969
Unearned premiums		3,066
Total policy liabilities and accruals		7,649,035
Annuity account balances		752,163
Other policyholders funds		636,448
Other liabilities		66,124
Non-recourse funding obligation		2,548
Separate account liabilities		195,344
Total liabilities		9,301,662
Net assets acquired	$	688,784

Table of Contents

The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned acquisition was completed as of January 1, 2012:

	Unaudited	
	For The Three Months Ended September 30, 2013	For The Nine Months Ended September 30, 2013
	(Dollars In Thousands)	
Revenue	$ 1,166,516	$ 3,482,582
Net income	$ 128,036	$ 333,552
EPS - basic	$ 1.61	$ 4.20
EPS - diluted	$ 1.58	$ 4.12

4. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY converted from a mutual insurance company to a stock corporation (demutualization). In connection with its demutualization, an accounting mechanism known as a closed block (the Closed Block) was established for certain individuals participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the MONY acquisition as discussed in Note 3, *Significant Acquisitions*.

Assets allocated to the Closed Block inure solely to the benefit of each Closed Block s policyholders and will not revert to the benefit of MONY or the Company. No reallocation, transfer, borrowing or lending of assets can be made between the Closed Block and other portions of MONY s general account, any of MONY s separate accounts or any affiliate of MONY without the approval of the Superintendent of The New York State Insurance Department (the Superintendent). Closed Block assets and liabilities are carried on the same basis as similar assets and liabilities held in the general account.

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in accumulated other comprehensive income (loss) (AOCI)) at the acquisition date represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed Block remain in force. In connection with the acquisition of MONY, the Company has developed an actuarial calculation of the expected timing of MONY s Closed Block s earnings as of October 1, 2013.

If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company s net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that period, the policyholder dividend obligation would be reduced (but not below zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

Many expenses related to Closed Block operations, including amortization of VOBA, are charged to operations outside of the Closed Block; accordingly, net revenues of the Closed Block do not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside of the Closed Block are, therefore, disproportionate to the business outside of the Closed Block.

Table of Contents

Summarized financial information for the Closed Block from December 31, 2013 through September 30, 2014 is as follows:

	As of			
	September 30, 2014		December 31, 2013	
	(Dollars In Thousands)			
Closed block liabilities				
Future policy benefits, policyholders account balances and other	$	6,172,310	$	6,261,819
Policyholder dividend obligation		301,215		190,494
Other liabilities		28,102		1,259
Total closed block liabilities		6,501,627		6,453,572
Closed block assets				
Fixed maturities, available-for-sale, at fair value	$	4,441,257	$	4,113,829
Equity securities, available-for-sale, at fair value		5,384		5,223
Mortgage loans on real estate		483,836		601,959
Policy loans		780,450		802,013
Cash and other invested assets		16,411		140,577
Other assets		214,785		206,938
Total closed block assets		5,942,123		5,870,539
Excess of reported closed block liabilities over closed block assets		559,504		583,033
Portion of above representing accumulated other comprehensive income:				
Net unrealized investment gains (losses) net of deferred tax benefit of $0 and $1,074 net of policyholder dividend obligation of $69,409 and $12,720				(1,994)
Future earnings to be recognized from closed block assets and closed block liabilities	$	559,504	$	581,039

Reconciliation of the policyholder dividend obligation from December 31, 2013 through September 30, 2014 is as follows:

	For The Nine Months Ended September 30, 2014 (Dollars In Thousands)	
Policyholder dividend obligation, at December 31, 2013	$	190,494
Applicable to net revenue (losses)		(8,781)
Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation		119,502
Policyholder dividend obligation, end of period	$	301,215

Table of Contents

Closed Block revenues and expenses were as follows:

	For The Three Months Ended September 30, 2014	For The Nine Months Ended September 30, 2014
	(Dollars In Thousands)	
Revenues		
Premiums and other income	$ 48,596	$ 151,442
Net investment income	63,847	176,470
Net investment gains	223	6,328
Total revenues	112,666	334,240
Benefits and other deductions		
Benefits and settlement expenses	101,200	300,735
Other operating expenses	286	376
Total benefits and other deductions	101,486	301,111
Net revenues before income taxes	11,180	33,129
Income tax expense	3,913	11,595
Net revenues	$ 7,267	$ 21,534

5. PROPOSED DAI-ICHI MERGER

On June 3, 2014, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi) and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi which provides for the merger of DL Investment (Delaware), Inc. with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi.

The Company s Board of Directors unanimously (1) determined that the Merger and the other transactions contemplated by the Merger Agreement are fair to, advisable and in the best interests of, the Company and its shareowners, (2) approved the execution, delivery and performance of the Merger Agreement by the Company and the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and (3) resolved to recommend the approval and adoption of the Merger Agreement and the transactions contemplated by the Merger Agreement by the shareowners of the Company. The Board of Directors received an opinion as to the fairness of the Merger consideration to be received by the shareowners of the Company from its financial advisor, Morgan Stanley & Co. LLC related to the terms of the Merger Agreement.

If the proposed Merger is completed, at the effective time of the Merger (the Effective Time), each share of the Company s common stock, par value $0.50 per share, issued and outstanding immediately prior to the Effective Time, other than certain excluded shares, will be converted into the right to receive $70 in cash, without interest (the Per Share Merger Consideration). Shares of common stock held by Dai-ichi or the Company or their respective direct or indirect wholly-owned subsidiaries will not be entitled to receive the Merger Consideration. Stock appreciation rights, restricted stock units and performance shares issued under various benefit plans will be paid out as described below under Treatment of Benefit Plans .

Completion of the Merger is subject to various closing conditions, including, but not limited to, (1) adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of all outstanding shares of the Company s common stock, which adoption was approved at a

Special Meeting of Shareholders held on October 6, 2014, (2) requisite approval of the Japan Financial Services Agency of an application and notification filing by Dai-ichi and its affiliates, (3) the receipt of certain insurance regulatory approvals, (4) the absence of any laws that have been adopted or promulgated, or any order, injunction, decision or decree issued or remaining in effect, that would prohibit the Merger or make the Merger illegal, and (5) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which waiting period terminated on July 25, 2014, pursuant to a grant of early termination by the Federal Trade Commission. Each party s obligation to consummate the Merger also is subject to certain additional conditions that include the accuracy of the other party s representations and warranties contained in the Merger Agreement (subject to certain materiality qualifiers) and the

Table of Contents

other party s compliance with its covenants and agreements contained in the Merger Agreement in all material respects. The Merger Agreement does not contain a financing condition.

The Merger Agreement contains representations and warranties customary for transactions of this type. The Company has agreed to various customary covenants and agreements, including, among others, agreements to conduct its business in the ordinary course during the period between the execution of the Merger Agreement and the Effective Time, and not to engage in certain kinds of transactions during this period. In addition, and subject to certain limitations, either party may terminate the Merger Agreement if the Merger is not consummated by February 28, 2015, which date is extended until April 30, 2015 in the event of delays in obtaining regulatory approval.

Treatment of Benefit Plans

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a SAR) that is outstanding and unexercised immediately prior to the Effective Time and that has a base price per share of Common Stock underlying such SAR (the Base Price) that is less than the Per Share Merger Consideration (each such SAR, an In-the-Money SAR), whether or not exercisable or vested, will be cancelled and converted into the right to receive an amount in cash, without interest, determined by multiplying (i) the excess of the Per Share Merger Consideration over the Base Price of such In-the-Money SAR by (ii) the number of shares of Common Stock subject to such In-the-Money SAR (such amount, the SAR Consideration). At the Effective Time, each SAR that has a Base Price that is equal to or greater than the Per Share Merger Consideration, whether or not exercisable or vested, will be cancelled and the holder of such SAR will not be entitled to receive any payment in exchange for such cancellation.

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, each restricted share unit with respect to a share of Common Stock granted under any Stock Plan (each, a RSU) that is outstanding immediately prior to the Effective Time, whether or not vested, will be cancelled and converted into the right to receive an amount in cash, without interest, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of RSUs.

Pursuant to the Merger Agreement, at or immediately prior to the Effective Time, the number of performance shares earned for each award of performance shares granted under any Stock Plan will be calculated by determining the number of performance shares that would have been paid if the subject award period had ended on the December 31 immediately preceding the Effective Time (based on the conditions set for payment of performance share awards for the subject award period), provided that the number of performance shares earned for each award will not be less than the aggregate number of performance shares at the target performance level, and provided further that with respect to awards granted in the year in which the Effective Time occurs, performance shares will be earned at the same percentage as awards granted in the year preceding the year in which the Effective Time occurs. At or immediately prior to the Effective Time, each performance share so earned (each, a Performance Share) that is outstanding immediately prior to the Effective Time, whether or not vested, will be cancelled and converted into the right to receive an amount in cash, without interest, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of Performance Shares.

Table of Contents

6. INVESTMENT OPERATIONS

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Fixed maturities	$ 22,329	$ 10,546	$ 49,897	$ 42,007
Equity securities	1,298		1,298	2,367
Impairments on fixed maturity securities	(2,354)	(7,421)	(5,405)	(13,918)
Impairments on equity securities		(1,260)		(3,347)
Modco trading portfolio	(17,225)	(25,960)	110,067	(167,982)
Other investments	(5,208)	(4,094)	(7,806)	(10,023)
Total realized gains (losses) - investments	$ (1,160)	$ (28,189)	$ 148,051	$ (150,896)

For the three and nine months ended September 30, 2014, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.9 million and $51.9 million and gross realized losses were $2.5 million and $5.9 million, including $2.3 million and $5.1 million of impairment losses, respectively.

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

For the three and nine months ended September 30, 2014, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $497.1 million and $1.1 billion, respectively. The gain realized on the sale of these securities was $23.9 million and $51.9 million, respectively.

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

For the three and nine months ended September 30, 2014, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $2.3 million and $6.7 million, respectively. The losses realized on the sale of these securities were $0.3 million and $0.8 million, respectively. These securities were sold in conjunction with the Company s overall asset liability management process.

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

Table of Contents

The amortized cost and fair value of the Company s investments classified as available-for-sale as of September 30, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
			(Dollars In Thousands)		
2014					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,405,720	$ 51,253	$ (14,134)	$ 1,442,839	$ 7,945
Commercial mortgage-backed securities	1,137,642	43,744	(5,863)	1,175,523	
Other asset-backed securities	869,175	13,437	(34,273)	848,339	(105)
U.S. government-related securities	1,563,337	43,178	(22,305)	1,584,210	
Other government-related securities	19,004	3,016		22,020	1
States, municipals, and political subdivisions	1,371,113	243,943	(2,349)	1,612,707	
Corporate bonds	25,026,858	2,497,515	(117,387)	27,406,986	
	31,392,849	2,896,086	(196,311)	34,092,624	7,841
Equity securities	767,889	34,209	(16,525)	785,573	
Short-term investments	108,088			108,088	
	$ 32,268,826	$ 2,930,295	$ (212,836)	$ 34,986,285	$ 7,841
2013					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 1,435,477	$ 34,155	$ (24,564)	$ 1,445,068	$ 979
Commercial mortgage-backed securities	963,461	26,900	(19,705)	970,656	
Other asset-backed securities	926,396	15,135	(69,548)	871,983	(51)
U.S. government-related securities	1,529,818	32,150	(54,078)	1,507,890	
Other government-related securities	49,171	2,257	(1)	51,427	
States, municipals, and political subdivisions	1,315,457	103,663	(8,291)	1,410,829	
Corporate bonds	24,650,500	1,508,317	(392,067)	25,766,750	
	30,870,280	1,722,577	(568,254)	32,024,603	928
Equity securities	654,579	6,631	(36,362)	624,848	
Short-term investments	81,703			81,703	
	$ 31,606,562	$ 1,729,208	$ (604,616)	$ 32,731,154	$ 928

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

The amortized cost and fair value of the Company s investments classified as held-to-maturity as of September 30, 2014 and December 31, 2013, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
			(Dollars In Thousands)		
2014					

Fixed maturities:										
Other	$	415,000	$	38,741	$		$	453,741	$	
	$	415,000	$	38,741	$		$	453,741	$	
2013										
Fixed maturities:										
Other	$	365,000	$		$	(29,324)	$	335,676	$	
	$	365,000	$		$	(29,324)	$	335,676	$	

Table of Contents

During the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company did not record any other-than-temporary impairments on held-to-maturity securities. The Company s held-to-maturity securities had no gross unrecognized holding losses for the period ended September 30, 2014 and $29.3 million for the year ended December 31, 2013. The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings, financial health of the issuer, continued access of the issuer to capital markets and other pertinent information.

As of September 30, 2014 and December 31, 2013, the Company had an additional $2.8 billion and $2.8 billion of fixed maturities, $24.1 million and $21.2 million of equity securities, and $75.3 million and $52.4 million of short-term investments classified as trading securities, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of September 30, 2014, 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	$ 1,043,275	$ 1,057,236	$	$
Due after one year through five years	4,538,893	4,831,128		
Due after five years through ten years	8,886,075	9,347,371		
Due after ten years	16,924,606	18,856,889	415,000	453,741
	$ 31,392,849	$ 34,092,624	$ 415,000	$ 453,741

During the three and nine months ended September 30, 2014, the Company recorded pre-tax other-than-temporary impairments of investments of $1.1 million and $2.0 million, all of which related to fixed maturities, respectively. Credit impairments recorded in earnings during the three and nine months ended September 30, 2014 were $2.3 million and $5.4 million, respectively. During the three and nine months ended September 30, 2014, $1.2 million and $3.4 million of non-credit losses previously recorded in other comprehensive income were recorded in earnings as credit losses, respectively. For the three and nine months ended September 30, 2014, there were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell.

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

Table of Contents

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Beginning balance	$ 17,985	$ 51,832	$ 41,692	$ 122,121
Additions for newly impaired securities		1,663		3,278
Additions for previously impaired securities	626	4,840	1,653	7,894
Reductions for previously impaired securities due to a change in expected cash flows	(3,672)	(6,537)	(28,406)	(74,007)
Reductions for previously impaired securities that were sold in the current period				(7,488)
Ending balance	$ 14,939	$ 51,798	$ 14,939	$ 51,798

The following table includes the gross unrealized losses and fair value of the Company s investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2014:

	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	$ 149,282	$ (7,781)	$ 88,374	$ (6,353)	$ 237,656	$ (14,134)
Commercial mortgage-backed securities	123,244	(1,534)	124,578	(4,329)	247,822	(5,863)
Other asset-backed securities	109,657	(5,537)	551,045	(28,736)	660,702	(34,273)
U.S. government-related securities	374,160	(7,835)	348,900	(14,470)	723,060	(22,305)
Other government-related securities						
States, municipalities, and political subdivisions	880	(6)	40,936	(2,343)	41,816	(2,349)
Corporate bonds	2,218,594	(54,117)	995,498	(63,270)	3,214,092	(117,387)
Equities	90,797	(1,305)	128,465	(15,220)	219,262	(16,525)
	$ 3,066,614	$ (78,115)	$ 2,277,796	$ (134,721)	$ 5,344,410	$ (212,836)

RMBS have a gross unrealized loss greater than twelve months of $6.4 million as of September 30, 2014. 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.

CMBS have a gross unrealized loss greater than twelve months of $4.3 million as of September 30, 2014. 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 $28.7 million as of September 30, 2014. 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 U.S. government-related category has gross unrealized losses greater than twelve months of $14.5 million as of September 30, 2014. These declines were entirely related to changes in interest rates.

Table of Contents

The corporate bonds category has gross unrealized losses greater than twelve months of $63.3 million as of September 30, 2014. These declines were primarily related to changes in interest rates during the period. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

The equities category has a gross unrealized loss greater than twelve months of $15.2 million as of September 30, 2014. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information.

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

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, 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	$ 333,235	$ (14,051)	$ 210,486	$ (10,513)	$ 543,721	$ (24,564)
Commercial mortgage-backed securities	429,228	(18,467)	13,840	(1,238)	443,068	(19,705)
Other asset-backed securities	175,846	(14,555)	497,512	(54,993)	673,358	(69,548)
U.S. government-related securities	891,698	(53,508)	6,038	(570)	897,736	(54,078)
Other government-related securities	10,161	(1)			10,161	(1)
States, municipalities, and political subdivisions	172,157	(8,113)	335	(178)	172,492	(8,291)
Corporate bonds	7,484,010	(353,211)	272,423	(38,856)	7,756,433	(392,067)
Equities	376,776	(27,861)	21,974	(8,501)	398,750	(36,362)
	$ 9,873,111	$ (489,767)	$ 1,022,608	$ (114,849)	$ 10,895,719	$ (604,616)

RMBS had a gross unrealized loss greater than twelve months of $10.5 million as of December 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.

CMBS had a gross unrealized loss greater than twelve months of $1.2 million as of December 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 had a gross unrealized loss greater than twelve months of $55.0 million as of December 31, 2013. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company s ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The corporate bonds category had gross unrealized losses greater than twelve months of $38.9 million as of December 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 had a gross unrealized loss greater than twelve months of $8.5 million as of December 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 the securities.

As of September 30, 2014, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.7 billion and had an amortized cost of $1.6 billion. In addition, included in the Company s trading portfolio, the Company held $322.6 million of securities which were rated below investment grade. Approximately $786.5 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Fixed maturities	$ (143,367)	$ (156,636)	$ 1,004,990	$ (1,175,458)
Equity securities	(2,184)	(12,791)	30,820	(17,393)

Variable Interest Entities

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

Based on this analysis, the Company had an interest in one wholly owned subsidiary, Red Mountain, LLC (Red Mountain), that was continued to be classified as a VIE as of September 30, 2014 and December 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 9, *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. As of September 30, 2014, no payments have been made or required related to this guarantee.

Table of Contents

7. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2014, the Company s mortgage loan holdings were approximately $5.2 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 majority of the Company s mortgage loans portfolio was underwritten and funded by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

Certain of the Company s mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options or increase the interest rates on its existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are with these options called at their next call dates, approximately $29.9 million would become due for the remainder of 2014, $1.1 billion in 2015 through 2019, $510.0 million in 2020 through 2024, and $129.3 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 September 30, 2014 and December 31, 2013, approximately $583.4 million and $666.6 million, respectively, of the Company s mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and nine month periods ended September 30, 2014 and 2013, the Company recognized $8.0 million, $13.8 million, $3.7 million and $12.9 million, respectively, of participating mortgage loan income.

As of September 30, 2014, approximately $34.0 million, or 0.07%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the nine months ended September 30, 2014, certain mortgage loan transactions occurred that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. Transactions accounted for as troubled debt restructurings during the quarter included either the acceptance of assets in satisfaction of principal at a future date or the recognition of permanent impairments to principal, and were the result of agreements between the creditor and the debtor. During the three and nine month periods ending September 30, 2014, the Company accepted or agreed to accept assets of $11.2 million and $26.3 million in satisfaction of $14.6 million and $30.6 million of principal, respectively. The Company also identified one loan whose principal of $12.6 million was permanently impaired to a value of $7.3 million. These transactions resulted in a $5.3 million and $6.2 million decrease in the Company s investment in mortgage loans net of existing allowances for mortgage loans losses. Of the mortgage loan transactions accounted

for as troubled debt restructurings, $21.8 million remain on the Company s balance sheet as of September 30, 2014.

The Company s mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement. As of September 30,

Table of Contents

2014, $34.0 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming or restructured; $21.8 million of these nonperforming loans were restructured during the nine months ended September 30, 2014. The Company did not foreclose on any loans during the nine months ended September 30, 2014.

As of September 30, 2014, none of the loans subject to a pooling and servicing agreement were nonperforming. The Company did not foreclose on any nonperforming loans during the nine months ended September 30, 2014.

As of September 30, 2014 and December 31, 2013, the Company had an allowance for mortgage loan credit losses of $3.7 million and $3.1 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.

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

	As of	
	September 30, 2014	**December 31, 2013**
	(Dollars In Thousands)	
Beginning balance	$ 3,130	$ 2,875
Charge offs	(416)	(6,838)
Recoveries	(2,600)	(1,016)
Provision	3,536	8,109
Ending balance	$ 3,650	$ 3,130

It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of September 30, 2014.

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
		(Dollars In Thousands)		
Commercial mortgage loans	$ 15,104	$ 1,659	$ 10,502	$ 27,265
Number of delinquent commercial mortgage loans	5	1	5	11

Table of Contents

The Company s commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to 90 days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of September 30, 2014 and December 31, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
			(Dollars In Thousands)			
2014						
Commercial mortgage loans:						
With no related allowance recorded	$ 6,045	$ 7,558	$	$ 1,511	$	$
With an allowance recorded	16,054	16,043	3,650	3,211	187	187
2013						
Commercial mortgage loans:						
With no related allowance recorded	$ 2,208	$ 2,208	$	$ 2,208	$ 31	$
With an allowance recorded	21,288	21,281	3,130	5,322	304	304

Mortgage loans that were modified in a troubled debt restructuring were as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(Dollars In Thousands)	
2014			
Troubled debt restructuring:			
Commercial mortgage loans	5	$ 27,164	$ 21,848

8. GOODWILL

During the nine months ended September 30, 2014, the Company decreased its goodwill balance by approximately $2.3 million. The decrease was due to an adjustment in the Acquisitions segment related to tax benefits realized during 2014 on the portion of tax goodwill in excess of GAAP basis goodwill. As of September 30, 2014, the Company had an aggregate goodwill balance of $103.1 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company first determines through qualitative analysis whether relevant events and circumstances indicate that it is more likely than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying

amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company s material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company s reporting units are dependent on a number of significant assumptions. The Company s estimates, which

Table of Contents

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, 2013, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the nine months ended September 30, 2014, no events occurred which indicate an impairment should be recorded or which would invalidate the previous results of the Company s impairment assessment.

9. 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 September 30, 2014. There was an outstanding balance of $280.0 million at an interest rate of LIBOR plus 1.20% under the Credit Facility as of September 30, 2014.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (Golden Gate II), a South Carolina special purpose financial captive insurance company wholly owned by PLICO, had $575 million of outstanding non-recourse funding obligations as of September 30, 2014. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of September 30, 2014, securities related to $176.6 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $398.4 million of the non-recourse funding obligations were held by our affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support related to certain of Golden Gate II s expenses and in certain circumstances, to collateralize certain of the Company s obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II s investment income on certain investments or premium income was below certain actuarially determined amounts. As of September 30, 2014, no payments have been made under these agreements.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V, a Vermont special purpose financial insurance company, and Red Mountain, both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to $945 million of AXXX reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company (WCL). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of $275 million, increasing to a maximum of $945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V s obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through 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

Table of Contents

of September 30, 2014, the principal balance of the Red Mountain note was $415 million. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately $144.3 million and will be paid in annual installments through 2031. The support agreements provide that amounts would become payable by the Company if Golden Gate V s annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of September 30, 2014, no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a $415 million outstanding non-recourse funding obligation as of September 30, 2014. This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of $945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of September 30, 2014, 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	$	176,551	2052	1.12%
Golden Gate V Vermont Captive Insurance Company(1)		415,000	2037	6.25%
MONY Life Insurance Company(1)		2,515	2024	6.63%
Total	$	594,066		

(1) Fixed rate obligations

During the nine months ended September 30, 2014, the Company repurchased $18.3 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $4.6 million pre-tax gain for the Company. During the nine months ended September 30, 2013, the Company repurchased $16.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $3.4 million pre-tax gain for the Company. These gains are recorded in other income in the consolidated statements of income.

Letters of Credit

Golden Gate III Vermont Captive Insurance Company (Golden Gate III), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the Reimbursement Agreement) with UBS AG, Stamford Branch (UBS), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the LOC) in the initial amount of $505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the First Amended and Restated Reimbursement Agreement), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to April 1, 2022. On August 7, 2013, the Company entered into a Second Amended and Restated Reimbursement Agreement with UBS (the Second Amended and Restated Reimbursement Agreement), which amended

and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of $710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from $610 million to $720 million in 2015 if certain conditions are met. On June 25, 2014, the Company entered into a Third Amended and Restated Reimbursement Agreement with UBS (the Third Amended and Restated Reimbursement Agreement), which amended and restated the Second Amended and Restated Reimbursement Agreement. Under the Third Amended and Restated Reimbursement Agreement, a new LOC in an initial amount of $915 million was issued by UBS in

replacement of the existing LOC issued under the Second Amended and Restated Reimbursement Agreement. The term of the LOC was extended from October 1, 2023 to April 1, 2025, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from $720 million to $935 million in 2015 if certain conditions are met. The LOC is held in trust for the benefit of WCL, and supports certain obligations of Golden Gate III to WCL under an indemnity reinsurance agreement originally effective April 1, 2010, as amended and restated on November 21, 2011, and as further amended and restated on August 7, 2013 and on June 25, 2014 to include additional blocks of policies, and pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. The LOC balance was $925 million as of September 30, 2014. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of $935 million in 2015. The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III s expenses and in certain circumstances, to collateralize certain of the Company s obligations to Golden Gate III. Future scheduled capital contributions amount to approximately $122.5 million and will be paid in three installments with the last payment occurring in 2021, and these contributions may be subject to potential offset against dividend payments as permitted under the terms of the Third Amended and Restated Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Third Amended and Restated Reimbursement Agreement. As of September 30, 2014, no payments have been made under these agreements.

Golden Gate IV Vermont Captive Insurance Company (Golden Gate IV), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of $270 million to a trust for the benefit of WCL. The LOC balance increased, in accordance with the terms of the Reimbursement Agreement, during the third quarter of 2014 and was $740 million as of September 30, 2014. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum of $790 million in 2016. The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is non-recourse to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV s expenses and in certain circumstances, to collateralize certain of the Company s obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of September 30, 2014, no payments have been made under these agreements.

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of

29

Table of Contents

September 30, 2014, the fair value of securities pledged under the repurchase program was $402.0 million and the repurchase obligation of $359.8 million was included in the Company s consolidated condensed balance sheets (at an average borrowing rate of 8 basis points). During the nine months ended September 30, 2014, the maximum balance outstanding at any one point in time related to these programs was $633.7 million. The average daily balance was $511.3 million (at an average borrowing rate of 10 basis points) during the nine months ended September 30, 2014. As of December 31, 2013, the Company had a $350.0 million outstanding balance related to such borrowings. During 2013, the maximum balance outstanding at any one point in time related to these programs was $815.0 million. The average daily balance was $496.9 million (at an average borrowing rate of 11 basis points) during the year ended December 31, 2013.

10. 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.

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

July 30, 2014, the plaintiff in *Edelman* filed an amended complaint. Three putative class action lawsuits were filed in the Court of Chancery of the State of Delaware, *Martin, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9794-CB, filed June 19, 2014, *Leyendecker, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9931-CB, filed July 22, 2014 and *Hilburn, et al. v. Protective Life Corporation, et al.*, Civil Action No. 9937-CB, filed July 23, 2014. The Delaware Court of Chancery consolidated the *Martin*, *Leyendecker* and *Hilburn* actions under the caption *In*

Table of Contents

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

With respect to the *Edelman* lawsuit, on September 5, 2014, the court held a hearing to address motions to dismiss the lawsuit filed on behalf of the Company, the members of the Company s Board, and DL Investment (Delaware), Inc. On September 19, 2014, the court granted those motions and dismissed the *Edelman* lawsuit in its entirety and with prejudice, pending a possible appeal by the plaintiff. With respect to the Delaware Action, on September 24, 2014, the Company, each of the members of the Company s Board, Dai-ichi, and DL Investment (Delaware), Inc. entered into a Memorandum of Understanding (the MOU) with the plaintiffs in that case, which sets forth the parties agreement in principle for a settlement of the Delaware Action. As set forth in the MOU, the Company, the members of the Company s Board, Dai-ichi, and DL Investment (Delaware), Inc. agreed to the settlement solely to eliminate the burden, expense, distraction, and uncertainties inherent in further litigation, and without admitting any liability or wrongdoing. The MOU contemplates that the parties will seek to enter into a stipulation of settlement providing for the certification of a mandatory non opt-out class, for settlement purposes only, to include any and all record and beneficial owners of shares (excluding the members of the Company s Board and their immediate family members, any entity in which any member of the Company s Board has a controlling interest, and any successors in interest thereto) that held shares at any time during the period beginning on June 3, 2014, through the date of consummation or termination of the proposed Merger, including any and all of their respective successors in interest, successors, predecessors in interest, representatives, trustees, executors, administrators, heirs, assigns, or transferees, immediate and remote, and any person or entity acting for or on behalf of, or claiming under, any of them, together with their predecessors, successors and assigns, and a global release of claims relating to the Merger as set forth in the MOU. As part of the settlement, the Company agreed to make certain additional disclosures related to the Merger which are set forth in the Company s Form 8-K filed on September 25, 2014 and which supplement the information contained in the Company s definitive proxy statement filed with the SEC on August 25, 2014, as amended on August 27, 2014. Nothing in the Form 8-K or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality of any of the disclosures set forth in the Form 8-K. The claims in the Delaware Action will not be released until the stipulation of settlement is approved by the Court of Chancery of the State of Delaware. The settlement will not affect the consideration to be received by the Company stockholders in connection with the Merger.

Although the Company cannot predict the outcome of any litigation or regulatory action or provide assurances as to the ultimate settlement of the Delaware 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.

The Company was audited by the IRS and the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable income. The Company protested certain unfavorable adjustments and sought resolution at the IRS Appeals Division. The case has followed normal procedure and is now under review at Congress Joint Committee on Taxation. The Company believes the matter will conclude within the next twelve months. 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.

Through the acquisition of MONY by PLICO certain income tax credit carryforwards, which arose in MONY s pre-acquisition tax years, transferred to the Company. This transfer was in accordance with the applicable rules of the Internal Revenue Code and the related Regulations. In spite of this transfer, AXA, the former parent of the consolidated income tax return group in which MONY was a member, retains the right to

utilize these credits in the

Table of Contents

future to offset future increases in its 2010 through 2013 tax liabilities. The Company had determined that, based on all information known as of the acquisition date and through the March 31, 2014 reporting date, it was probable that a loss of the utilization of these carryforwards had been incurred. Due to indemnification received from AXA during the quarter ending June 30, 2014, the probability of loss of these carryforwards has been eliminated. Accordingly, in the table summarizing the fair value of net assets acquired from the Acquisition, the amount of the deferred tax asset from the credit carryforwards is no longer offset by a liability.

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 coinsured blocks of life insurance and annuity policies, are under audit for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments or unclaimed property administrators in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company is presently unable to estimate the reasonably possible loss or range of loss that may result from the audits due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, the early stages of the audits being conducted, and, with respect to one block of life insurance policies that is co-insured by a subsidiary of the Company, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with the audits 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.

11. STOCK-BASED COMPENSATION

During the nine months ended September 30, 2014, 203,295 performance shares with an estimated fair value of $10.5 million were awarded. The criteria for payment of the 2014 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 10.5%, no award is earned. If the Company s ROE is at or above 12.0%, 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 98,700 restricted stock units for the nine months ended September 30, 2014. These awards had a total fair value at grant date of $5.1 million. Approximately half of these restricted stock units vest after three years from the grant date and the remainder vest after four years.

32

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, 2013	$	23.08	1,305,101
SARs granted			
SARs exercised / forfeited		21.94	(1,127,156)
Balance at September 30, 2014	$	30.27	177,945

The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR. There were no SARs issued for the nine months ended September 30, 2014.

For more information about the impact that the proposed merger with Dai-ichi will have on stock-based compensation, refer to Note 5, *Proposed Dai-ichi Merger*.

12. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2014		2013		2014		2013	
	(Dollars In Thousands)							
Service cost benefits earned during the period	$	2,453	$	2,708	$	7,359	$	8,124
Interest cost on projected benefit obligation		2,993		2,553		8,979		7,659
Expected return on plan assets		(3,065)		(2,759)		(9,195)		(8,277)
Amortization of prior service cost/(credit)		(95)		(95)		(285)		(285)
Amortization of actuarial losses		1,897		2,729		5,691		8,187
Total benefit cost	$	4,183	$	5,136	$	12,549	$	15,408

During the nine months ended September 30, 2014, the Company contributed $9.0 million to its defined benefit pension plan for the 2013 plan year and $6.3 million for the 2014 plan year. During October of 2014, the Company contributed $0.2 million to the defined benefit pension plan for the 2014 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% and to avoid certain Pension Benefit Guaranty Corporation (PBGC) reporting triggers.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the nine months ended September 30, 2014, was immaterial to the Company s financial statements.

Table of Contents

13. 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) as of September 30, 2014 and December 31, 2013.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2013	$ 539,003	$ (1,235)	$ (43,702)	$ 494,066
Other comprehensive income (loss) before reclassifications	800,982	(58)		800,924
Other comprehensive income (loss) relating to other- than-temporary impaired investments for which a portion has been recognized in earnings	4,494			4,494
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(29,763)	1,025	3,520	(25,218)
Net current-period other comprehensive income (loss)	775,713	967	3,520	780,200
Ending Balance, September 30, 2014	$ 1,314,716	$ (268)	$ (40,182)	$ 1,274,266

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by $198.1 million and $380.4 million as of December 31, 2013 and September 30, 2014, respectively.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2012	$ 1,813,516	$ (3,496)	$ (73,298)	$ 1,736,722
Other comprehensive income (loss) before reclassifications	(1,250,498)	734	29,596	(1,220,168)
Other comprehensive income (loss) relating to other- than-temporary impaired investments	4,591			4,591

for which a portion has been recognized in earnings								
Amounts reclassified from accumulated other comprehensive income (loss)(1)		(28,606)		1,527				(27,079)
Net current-period other comprehensive income (loss)		(1,274,513)		2,261		29,596		(1,242,656)
Ending Balance, December 31, 2013	$	539,003	$	(1,235)	$	(43,702)	$	494,066

(1) See Reclassification table below for details.

(2) These balances were offset by the impact of DAC and VOBA by $204.9 million and $198.1 million as of December 31, 2012 and December 31, 2013, respectively.

Table of Contents

The following tables summarize the reclassifications amounts out of AOCI for the three months ended September 30, 2014 and 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)		Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components			
For The Three Months Ended September 30, 2014			
Gains and losses on derivative instruments			
Net settlement (expense)/benefit(1)	$	(293)	Benefits and settlement expenses, net of reinsurance ceded
		(293)	Total before tax
		103	Tax (expense) or benefit
	$	(190)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains/losses	$	23,627	Realized investment gains (losses): All other investments
Impairments recognized in earnings		(2,354)	Net impairment losses recognized in earnings
		21,273	Total before tax
		(7,446)	Tax (expense) or benefit
	$	13,827	Net of tax
Postretirement benefits liability adjustment			
Amortization of net actuarial gain/(loss)	$	(1,900)	Other operating expenses
Amortization of prior service credit/(cost)		95	Other operating expenses
		(1,805)	Total before tax
		632	Tax (expense) or benefit
	$	(1,173)	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

Table of Contents

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components		
For The Three Months Ended September 30, 2013		
Gains and losses on derivative instruments		
Net settlement (expense)/benefit(1)	$ (572)	Benefits and settlement expenses, net of reinsurance ceded
	(572)	Total before tax
	200	Tax (expense) or benefit
	$ (372)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains/losses	$ 10,546	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(8,681)	Net impairment losses recognized in earnings
	1,865	Total before tax
	(653)	Tax (expense) or benefit
	$ 1,212	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

Table of Contents

The following tables summarize the reclassifications amounts out of AOCI for the nine months ended September 30, 2014 and 2013.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (Dollars In Thousands)	Affected Line Item in the Consolidated Condensed Statements of Income
Accumulated Other Comprehensive Income (Loss) Components		
For The Nine Months Ended September 30, 2014		
Gains and losses on derivative instruments		
Net settlement (expense)/benefit(1)	$ (1,577)	Benefits and settlement expenses, net of reinsurance ceded
	(1,577)	Total before tax
	552	Tax (expense) or benefit
	$ (1,025)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains/losses	$ 51,195	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(5,405)	Net impairment losses recognized in earnings
	45,790	Total before tax
	(16,027)	Tax (expense) or benefit
	$ 29,763	Net of tax
Postretirement benefits liability adjustment		
Amortization of net actuarial gain/(loss)	$ (5,700)	Other operating expenses
Amortization of prior service credit/(cost)	285	Other operating expenses
	(5,415)	Total before tax
	1,895	Tax (expense) or benefit
	$ (3,520)	Net of tax

(1) See Note 17, Derivative Financial Instruments for additional information.

Table of Contents

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

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

(1) See Note 17, Derivative Financial Instruments for additional information.

Table of Contents

14. EARNINGS PER SHARE

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

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

	For The Three Months Ended September 30, 2014	For The Three Months Ended September 30, 2013	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Average shares issued and outstanding	79,095,917	78,521,996	78,860,218	78,396,347
Issuable under various deferred compensation plans	1,135,674	970,278	1,081,800	950,424
Weighted shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Per share:				
Net income - basic	$ 1.48	$ 1.17	$ 3.88	$ 3.46
Calculation of diluted earnings per share:				
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Weighted shares outstanding - basic	80,231,591	79,492,274	79,942,018	79,346,771
Stock appreciation rights (SARs)(1)	72,223	409,964	342,203	433,174
Issuable under various other stock-based compensation plans	869,320	592,580	718,215	758,976
Restricted stock units	285,736	357,260	258,813	343,631
Weighted shares outstanding - diluted	81,458,870	80,852,078	81,261,249	80,882,552
Per share:				
Net income - diluted	$ 1.46	$ 1.15	$ 3.82	$ 3.39

(1)Excludes 454,925 SARs as of September 30, 2013, 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.

15. INCOME TAXES

In the IRS audit that concluded in 2012, the IRS proposed favorable and unfavorable adjustments to the Company s 2003 through 2007 reported taxable incomes. The Company protested certain unfavorable adjustments and 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, such accelerated payments would not materially impact the Company or its effective tax rate.

Table of Contents

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	As of	
	September 30, 2014	December 31, 2013
	(Dollars In Thousands)	
Balance, beginning of period	$ 105,881	$ 75,292
Additions for tax positions of the current year	6,898	7,465
Additions for tax positions of prior years	41,109	26,386
Reductions of tax positions of prior years:		
Changes in judgment	(9,294)	(2,740)
Settlements during the period		
Lapses of applicable statue of limitations		(522)
Balance, end of period	$ 144,594	$ 105,881

The Company believes that it is possible that in the next 12 months approximately $115.3 million of these unrecognized tax benefits will be reduced due to the expected closure of the aforementioned Appeals process and the lapsing of previous tax years statutes of limitations. In general, this closure would represent the Company s possible successful negotiation of certain issues, coupled with its payment of the assessed taxes on the remaining issues. Regarding the amounts reported above for the nine months ended September 30, 2014 and the twelve months ended December 31, 2013, discussions with the IRS during these periods, which related to their ongoing examination of tax years 2008 through 2011, prompted the Company to contemporaneously revise upward its measurement of unrecognized tax benefits. These revisions included increasing prior determinations of amounts accrued for in earlier years as well as reducing some previously accrued amounts. These changes were almost entirely related to timing issues. Therefore, aside from the cost of interest, such changes did not result in any impact on the Company s effective tax rate.

In July 2014, the IRS issued guidance related to the tax method of accounting for hedges of guaranteed benefits on variable annuity contracts. The Company has issued contracts that provide such benefits. It has treated the derivatives that economically hedge the risk associated with such contracts as tax hedges. There are several uncertainties regarding the provisions of this guidance. Examples include its effective date and its scope. Therefore, it is uncertain at this time whether this guidance will be applicable to the Company and whether it will adopt this guidance s prescribed methodology. Consequently, the Company currently believes that the amounts of unrecognized tax benefits that relate to this issue and that are disclosed above are appropriate.

The Company used its estimate of its annual 2014 and 2013 income in computing its effective income tax rates for the three and nine months ended September 30, 2014 and 2013. The effective tax rates for the three and nine months ended September 30, 2014 were 35.7% and 34.3%, respectively, and 34.5% and 34.1% for the three and nine months ended September 30, 2013, respectively.

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

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of September 30, 2014.

40

Table of Contents

16. 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 September 30, 2014:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 1,442,834	$ 5	$ 1,442,839
Commercial mortgage-backed securities		1,175,523		1,175,523
Other asset-backed securities		282,971	565,368	848,339
U.S. government-related securities	1,316,839	267,371		1,584,210
State, municipalities, and political subdivisions		1,609,032	3,675	1,612,707
Other government-related securities		22,020		22,020
Corporate bonds	132	26,029,048	1,377,806	27,406,986
Total fixed maturity securities - available-for-sale	1,316,971	30,828,799	1,946,854	34,092,624
Fixed maturity securities - trading				
Residential mortgage-backed securities		290,862		290,862
Commercial mortgage-backed securities		151,870		151,870
Other asset-backed securities		101,523	170,676	272,199
U.S. government-related securities	229,222	4,889		234,111
State, municipalities, and political subdivisions		284,132		284,132
Other government-related securities		55,901		55,901
Corporate bonds		1,517,519	23,177	1,540,696
Total fixed maturity securities - trading	229,222	2,406,696	193,853	2,829,771
Total fixed maturity securities	1,546,193	33,235,495	2,140,707	36,922,395
Equity securities	637,708	98,882	73,058	809,648
Other long-term investments(1)	99,961	71,316	105,417	276,694
Short-term investments	146,557	36,854		183,411
Total investments	2,430,419	33,442,547	2,319,182	38,192,148
Cash	328,487			328,487
Other assets	11,692			11,692
Assets related to separate accounts				
Variable annuity	13,040,828			13,040,828
Variable universal life	813,178			813,178
Total assets measured at fair value on a recurring basis	$ 16,624,604	$ 33,442,547	$ 2,319,182	$ 52,386,333
Liabilities:				
Annuity account balances(2)	$	$	$ 98,129	$ 98,129
Other liabilities (1)	39,510	46,155	533,746	619,411
Total liabilities measured at fair value on a recurring basis	$ 39,510	$ 46,155	$ 631,875	$ 717,540

(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, 2013:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 1,445,040	$ 28	$ 1,445,068
Commercial mortgage-backed securities		970,656		970,656
Other asset-backed securities		326,175	545,808	871,983
U.S. government-related securities	1,211,141	296,749		1,507,890
State, municipalities, and political subdivisions		1,407,154	3,675	1,410,829
Other government-related securities		51,427		51,427
Corporate bonds	107	24,216,703	1,549,940	25,766,750
Total fixed maturity securities - available-for-sale	1,211,248	28,713,904	2,099,451	32,024,603
Fixed maturity securities - trading				
Residential mortgage-backed securities		310,877		310,877
Commercial mortgage-backed securities		158,570		158,570
Other asset-backed securities		93,278	194,977	288,255
U.S. government-related securities	191,332	4,906		196,238
State, municipalities, and political subdivisions		260,892		260,892
Other government-related securities		57,097		57,097
Corporate bonds		1,497,362	29,199	1,526,561
Total fixed maturity securities - trading	191,332	2,382,982	224,176	2,798,490
Total fixed maturity securities	1,402,580	31,096,886	2,323,627	34,823,093
Equity securities	523,219	50,927	71,881	646,027
Other long-term investments (1)	56,469	54,965	196,133	307,567
Short-term investments	132,544	1,602		134,146
Total investments	2,114,812	31,204,380	2,591,641	35,910,833
Cash	466,542			466,542
Other assets	10,979			10,979
Assets related to separate accounts				
Variable annuity	12,791,438			12,791,438
Variable universal life	783,618			783,618
Total assets measured at fair value on a recurring basis	$ 16,167,389	$ 31,204,380	$ 2,591,641	$ 49,963,410
Liabilities:				
Annuity account balances (2)	$	$	$ 107,000	$ 107,000
Other liabilities (1)	30,241	156,931	270,630	457,802
Total liabilities measured at fair value on a recurring basis	$ 30,241	$ 156,931	$ 377,630	$ 564,802

(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 approximately 90% of the Company s available-for-sale and trading fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the nine months ended September 30, 2014.

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 September 30, 2014, the Company held $3.4 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

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

Table of Contents

assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

As of September 30, 2014, the Company held $736.1 million of Level 3 ABS, which included $565.4 million of other asset-backed securities classified as available-for-sale and $170.7 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 September 30, 2014, the Company classified approximately $29.8 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 Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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

As of September 30, 2014, the Company classified approximately $1.4 billion of bonds and securities as Level 3 valuations. Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of September 30, 2014, the Company held approximately $171.9 million of equity securities classified as Level 2 and Level 3. Of this total, $66.0 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 investments in preferred stock.

Table of Contents

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 17, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of September 30, 2014, 98.2% 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.

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

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

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

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

The embedded derivatives are carried at fair value in other long-term investments and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments . Refer to Note 17, *Derivative Financial Instruments* for more information related to each embedded derivatives gains and losses.

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

The balance of the fixed indexed annuities (FIA) embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified for company experience, with attained age factors varying from 49% - 80%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company s non-performance risk) thereafter. Policyholder

Table of Contents

assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life (IUL) embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2008 VBT Primary Tables modified for company experience, with attained age factors varying from 37% - 74%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company s non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the statutory policy liabilities (net of policy loans) of $2.6 billion and the fair value of the trading securities of $2.9 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity account balances

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

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for September 30, 2014, ranged from a one month rate of 0.29%, a 5 year rate of 2.58%, and a 30 year rate of 4.21%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Separate Accounts

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

Table of Contents

Valuation of Level 3 Financial Instruments

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

Assets:					
Corporate bonds		1,312,780	Discounted cash flow	Spread over treasury	0.51% - 5.75% (1.86%)
Embedded derivatives - GMWB(1)	$	24,854	Actuarial cash flow model	Mortality	49% to 80% of 1994 MGDB table
				Lapse	0% - 24%, depending on product/duration/funded status of guarantee
				Utilization	97% - 103%
				Nonperformance risk	0.13% - 1.02%
Embedded derivative - FIA		103,497	Actuarial cash flow model	Expenses	$83 - $97 per policy
				Withdrawal rate	1.1% - 4.5% depending on duration and tax qualification
				Mortality	49% to 80% of 1994 MGDB table
				Lapse	2.5% - 40.0%, depending on duration/surrender charge period
				Nonperformance risk	0.13% - 1.02%

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

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

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

The Company has considered all reasonably available quantitative inputs as of September 30, 2014, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $248.4 million of financial instruments being classified as Level 3 as of September 30, 2014. Of the $248.4 million, $171.2 million are other asset backed securities, $74.2 million are corporate bonds, and $3.0 million are equity securities.

Table of Contents

In certain cases the Company has determined that book value materially approximates fair value. As of September 30, 2014, the Company held $87.7 million of financial instruments where book value approximates fair value. Of the $87.7 million, $70.0 million represents equity securities, which are predominantly FHLB stock, $14.0 million are corporate bonds, and $3.7 million are other fixed maturity securities.

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, 2013 (Dollars In Thousands)		Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Other asset-backed securities	$	545,808	Discounted cash flow	Liquidity premium	1.00% - 1.68% (1.08%)
				Paydown rate	8.57% - 16.87% (12.05%)
Corporate bonds		1,555,898	Discounted cash flow	Spread over treasury	0.11% - 6.75% (2.06%)
Embedded derivatives - GMWB(1)		156,287	Actuarial cash flow model	Mortality	49% to 80% of 1994 MGDB table
				Lapse	0% - 24%, depending on product/duration/funded status of guarantee
				Utilization	97% - 103%
				Nonperformance risk	0.15% - 1.06%
Liabilities:					
Annuity account balances(2)	$	107,000	Actuarial cash flow model	Asset earned rate	5.37%
				Expenses	$88 - $102 per policy
				Withdrawal rate	2.20%
				Mortality	49% to 80% of 1994 MGDB table
				Lapse	2.2% - 33.0%, depending on duration/surrender charge period
				Return on assets	1.50% - 1.85% depending on surrender charge period
				Nonperformance risk	0.15% - 1.06%
Embedded derivative - FIA		25,324	Actuarial cash flow model	Expenses	$83 - $97 per policy
				Withdrawal rate	1.1% - 4.5% depending on duration and tax qualification
				Mortality	49% to 80% of 1994 MGDB table
				Lapse	2.2% - 45.0%, depending on duration/surrender charge period
				Nonperformance risk	0.15% - 1.06%

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

(2)Represents liabilities related to fixed indexed annuities.

Table of Contents

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

The Company has considered all reasonably available quantitative inputs as of December 31, 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 $216.6 million of financial instruments being classified as Level 3 as of December 31, 2013. Of the $216.6 million, $195.0 million are other asset backed securities, $21.0 million are corporate bonds, 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, 2013, the Company held $77.2 million of financial instruments where book value approximates fair value. Of the $77.2 million, $71.3 million represents equity securities, which are predominantly FHLB stock, $2.2 million of other corporate bonds, and $3.7 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 increase when spreads decrease, and decrease when spreads increase.

The fair value of the GMWB embedded derivative is sensitive to changes in the discount rate which includes the Company s nonperformance risk, volatility, lapse, and mortality assumptions. The volatility assumption is an observable input as it is based on market inputs. The Company s nonperformance risk, lapse, and mortality are unobservable. An increase in the three unobservable assumptions would result in a decrease in the fair value and conversely, if there is a decrease in the assumptions the fair value would increase. The fair value is also dependent on the assumed policyholder utilization of the GMWB where an increase in assumed utilization would result in an increase in the fair value and conversely, if there is a decrease in the assumption, the fair value 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, which are unobservable. The value of the liability increases with an increase in required return on assets and a decrease in the asset earned rate and conversely, the value of the liability decreases with a decrease in required return on assets and an increase in the asset earned rate.

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

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

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2014, 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	$ 10	$	$	$	$ (1)	$	$ (5)	$	$	$	$ 1	$ 5	$
Commercial mortgage-backed securities													
Other asset-backed securities	568,097		2,161	(71)	(4,299)		(140)				(380)	565,368	
U.S. government-related securities													
States, municipals, and political subdivisions	3,675											3,675	
Other government-related securities													
Corporate bonds	1,524,297	201	8,435		(9,452)	11,797	(59,352)			(96,565)	(1,555)	1,377,806	
Total fixed maturity securities - available-for-sale	2,096,079	201	10,596	(71)	(13,752)	11,797	(59,497)			(96,565)	(1,934)	1,946,854	
Fixed maturity securities - trading													
Residential mortgage-backed securities	842	11								(853)			
Commercial mortgage-backed securities													
Other asset-backed securities	176,386	1,834		(837)			(7,137)				430	170,676	1,287
U.S. government-related securities													
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds	31,520	182		(676)			(5,583)			(2,518)	252	23,177	234
Total fixed maturity securities - trading	208,748	2,027		(1,513)			(12,720)			(3,371)	682	193,853	1,521
Total fixed maturity securities	2,304,827	2,228	10,596	(1,584)	(13,752)	11,797	(72,217)			(99,936)	(1,252)	2,140,707	1,521

Equity securities	81,784	1,298	2,461		(91)	(1,742)				(10,651)	(1)	73,058	
Other long-term investments(1)	123,301	233		(18,117)								105,417	(17,884)
Short-term investments													
Total investments	2,509,912	3,759	13,057	(19,701)	(13,843)	10,055	(72,217)			(110,587)	(1,253)	2,319,182	(16,363)
Total assets measured at fair value on a recurring basis	$ 2,509,912	$ 3,759	$ 13,057	$ (19,701)	$ (13,843)	$ 10,055	$ (72,217)	$	$	$ (110,587)	$ (1,253)	$ 2,319,182	$ (16,363)
Liabilities:													
Annuity account balances(2)	$ 102,456	$ 862	$	$	$	$	$	$ 125	$ 3,590	$	$	$ 98,129	$
Other liabilities(1)	484,747	22,317		(71,316)								533,746	(48,999)
Total liabilities measured at fair value on a recurring basis	$ 587,203	$ 23,179	$	$ (71,316)	$	$	$	$ 125	$ 3,590	$	$	$ 631,875	$ (48,999)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2014, there were no transfers into Level 3.

For the three months ended September 30, 2014, there were $110.6 million of securities transferred out of Level 3. This amount was transferred to Level 2. These transfers resulted from securities that were priced using significant unobservable inputs in previous periods, but are now priced by independent pricing services or brokers, using no significant unobservable inputs as of September 30, 2014.

For the three months ended September 30, 2014, there were no transfers from Level 2 to Level 1.

For the three months ended September 30, 2014, 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 September 30, 2013, 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	$ 14,062	$	$ 1,310	$	$	$	$ (12)	$	$	$ (15,333)	$ 11	$ 38	$
Commercial mortgage-backed securities													
Other asset-backed securities	576,396		52		(26,969)	11,769	(12,085)				(392)	548,771	
U.S. government-related securities													
States, municipals, and political subdivisions	4,330											4,330	
Other government-related securities	20,000		1				(20,000)				(1)		
Corporate bonds	194,895		1,662		(3,513)	11,002	(13,558)			(3,385)	385	187,488	
Total fixed maturity securities - available-for-sale	809,683		3,025		(30,482)	22,771	(45,655)			(18,718)	3	740,627	
Fixed maturity securities - trading													
Residential mortgage-backed securities	1,582			(1)			(72)			(1,494)	(15)		
Commercial mortgage-backed securities													
Other asset-backed securities	168,851	3,167		(1,080)		16,394	(16,568)				203	170,967	1,596
U.S. government-related securities													
States, municipals and political subdivisions	3,500			(123)						(3,377)			
Other government-related securities													
Corporate bonds	5,092			(4)							4	5,092	(4)
Total fixed maturity securities - trading	179,025	3,167		(1,208)		16,394	(16,640)			(4,871)	192	176,059	1,592
Total fixed maturity securities	988,708	3,167	3,025	(1,208)	(30,482)	39,165	(62,295)			(23,589)	195	916,686	1,592

Equity securities	69,418											69,418	
Other long-term investments(1)	100,072	53,791		(300)								153,563	53,491
Short-term investments													
Total investments	1,158,198	56,958	3,025	(1,508)	(30,482)	39,165	(62,295)			(23,589)	195	1,139,667	55,083
Total assets measured at fair value on a recurring basis	$ 1,158,198	$ 56,958	$ 3,025	$ (1,508)	$ (30,482)	$ 39,165	$ (62,295)	$	$	$ (23,589)	$ 195	$ 1,139,667	$ 55,083
Liabilities:													
Annuity account balances(2)	$ 114,614	$	$	$ (2,472)	$	$	$	$ 46	$ 6,542	$	$	$ 110,590	$
Other liabilities(1)	335,581	72,905		(23,854)								286,530	49,051
Total liabilities measured at fair value on a recurring basis	$ 450,195	$ 72,905	$	$ (26,326)	$	$	$	$ 46	$ 6,542	$	$	$ 397,120	$ 49,051

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2013, $1.3 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of September 31, 2013.

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

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

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

Table of Contents

The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2014, 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	$ 28	$	$	$	$ (1)	$	$ (23)	$	$	$	$ 1	$ 5	$
Commercial mortgage-backed securities													
Other asset-backed securities	545,808		36,227	(71)	(5,532)		(9,934)				(1,130)	565,368	
U.S. government-related securities													
States, municipals, and political subdivisions	3,675											3,675	
Other government-related securities													
Corporate bonds	1,549,940	1,170	62,723		(16,717)	102,029	(162,391)			(151,858)	(7,090)	1,377,806	
Total fixed maturity securities - available-for-sale	2,099,451	1,170	98,950	(71)	(22,250)	102,029	(172,348)			(151,858)	(8,219)	1,946,854	
Fixed maturity securities - trading													
Residential mortgage-backed securities		11				842				(853)			
Commercial mortgage-backed securities													
Other asset-backed securities	194,977	8,685		(3,951)			(29,832)				797	170,676	1,959
U.S. government-related securities													
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds	29,199	1,060		(729)		4,059	(10,693)			4	277	23,177	(1)
Total fixed maturity securities - trading	224,176	9,756		(4,680)		4,901	(40,525)			(849)	1,074	193,853	1,958
Total fixed maturity securities	2,323,627	10,926	98,950	(4,751)	(22,250)	106,930	(212,873)			(152,707)	(7,145)	2,140,707	1,958

Equity securities	71,881	1,298	3,653		(257)	9,551	(2,416)			(10,651)	(1)	73,058	
Other long-term investments(1)	196,133	478		(91,194)								105,417	(90,716)
Short-term investments													
Total investments	2,591,641	12,702	102,603	(95,945)	(22,507)	116,481	(215,289)			(163,358)	(7,146)	2,319,182	(88,758)
Total assets measured at fair value on a recurring basis	$ 2,591,641	$ 12,702	$ 102,603	$ (95,945)	$ (22,507)	$ 116,481	$ (215,289)	$	$	$ (163,358)	$ (7,146)	$ 2,319,182	$ (88,758)
Liabilities:													
Annuity account balances(2)	$ 107,000	$	$	$ (2,261)	$	$	$	$ 300	$ 11,432	$	$	$ 98,129	$
Other liabilities(1)	270,630	22,342		(285,458)								533,746	(263,116)
Total liabilities measured at fair value on a recurring basis	$ 377,630	$ 22,342	$	$ (287,719)	$	$	$	$ 300	$ 11,432	$	$	$ 631,875	$ (263,116)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2014, $31.0 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of September 30, 2014. All transfers are recognized as of the end of the period.

For the nine months ended September 30, 2014, there were $194.4 million of securities transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were previously priced using significant unobservable inputs, now priced by independent pricing services or brokers.

For the nine months ended September 30, 2014, there were no transfers from Level 2 to Level 1.

For the nine months ended September 30, 2014, there were no transfers out of Level 1.

Table of Contents

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

	Beginning Balance	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	$	$ 1,310	$	$ (337)	$ 14,349	$ (12)	$	$	$ (15,287)	$ 11	$ 38	$
Commercial mortgage-backed securities													
Other asset-backed securities	596,143		43,808		(54,517)	24,931	(62,471)			1,227	(350)	548,771	
U.S. government-related securities													
States, municipals, and political subdivisions	4,335						(5)					4,330	
Other government-related securities	20,011		2		(3)		(20,000)				(10)		
Corporate bonds	167,892	116	2,673		(13,559)	29,277	(58,742)			58,945	886	187,488	
Total fixed maturity securities - available-for-sale	788,385	116	47,793		(68,416)	68,557	(141,230)			44,885	537	740,627	
Fixed maturity securities - trading													
Residential mortgage-backed securities				(1)		1,582	(72)			(1,494)	(15)		
Commercial mortgage-backed securities													
Other asset-backed securities	70,535	7,964		(3,949)		122,224	(29,344)			2,210	1,327	170,967	4,814
U.S. government-related securities													
States, municipals and political subdivisions				(123)		3,500				(3,377)			
Other government-related securities													
Corporate bonds	115	1		(27)			(17)			5,013	7	5,092	(4)
Total fixed maturity securities - trading	70,650	7,965		(4,100)		127,306	(29,433)			2,352	1,319	176,059	4,810
Total fixed maturity securities	859,035	8,081	47,793	(4,100)	(68,416)	195,863	(170,663)			47,237	1,856	916,686	4,810

Equity securities	69,418											69,418	
Other long-term investments(1)	31,591	122,643		(671)								153,563	121,972
Short-term investments													
Total investments	960,044	130,724	47,793	(4,771)	(68,416)	195,863	(170,663)			47,237	1,856	1,139,667	126,782
Total assets measured at fair value on a recurring basis	$ 960,044	$ 130,724	$ 47,793	$ (4,771)	$ (68,416)	$ 195,863	$ (170,663)	$	$	$ 47,237	$ 1,856	$ 1,139,667	$ 126,782
Liabilities:													
Annuity account balances(2)	$ 129,468	$	$	$ (6,159)	$	$	$	$ 247	$ 25,284	$	$	$ 110,590	$
Other liabilities(1)	611,437	377,398		(52,491)								286,530	(324,907)
Total liabilities measured at fair value on a recurring basis	$ 740,905	$ 377,398	$	$ (58,650)	$	$	$	$ 247	$ 25,284	$	$	$ 397,120	$ (324,907)

(1)Represents certain freestanding and embedded derivatives.

(2)Represents liabilities related to fixed indexed annuities.

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

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

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

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

Table of Contents

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

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

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

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

Estimated Fair Value of Financial Instruments

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

		As of			
		September 30, 2014		December 31, 2013	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$ 5,232,463	$ 5,727,368	$ 5,493,492	$ 5,956,133
Policy loans	3	1,767,228	1,767,228	1,815,744	1,815,744
Fixed maturities, held-to-maturity(1)	3	415,000	453,741	365,000	335,676
Liabilities:					
Stable value product account balances	3	$ 2,261,546	$ 2,278,155	$ 2,559,552	$ 2,566,209
Annuity account balances	3	11,083,763	10,667,467	11,125,253	10,639,637
Debt:					
Bank borrowings	3	$ 280,000	$ 280,000	$ 485,000	$ 485,000
Senior Notes	2	1,100,000	1,356,020	1,100,000	1,294,675
Subordinated debt securities	2	540,593	548,783	540,593	473,503
Non-recourse funding obligations(2)	3	594,066	575,532	562,448	470,709

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, $415.0 million, fair value of $431.1 million, as of September 30, 2014, and $365.0 million, fair value of $321.5 million as of December 31, 2013, relates to non-recourse funding obligations issued by Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

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

Table of Contents

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

Policy loans

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

Fixed maturities, held-to-maturity

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

Stable value product and Annuity account balances

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

Debt

Bank borrowings

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

Non-recourse funding obligations

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

Table of Contents

Derivatives Related to Interest Rate Risk Management

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

Derivatives Related to Risk Mitigation of Variable Annuity Contracts

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

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

Accounting for Derivative Instruments

The Company records its derivative financial instruments in the consolidated condensed balance sheet in other long-term investments and other liabilities in accordance with GAAP, which requires that all derivative instruments be recognized in the balance sheet at fair value. The change

in the fair value of derivative financial instruments is reported either in the statement of income or in other comprehensive income (loss), depending upon whether it qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists.

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

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

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

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

Table of Contents

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives Related to Variable Annuity Contracts

- The Company uses equity, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility. No volatility future positions were held as of September 30, 2014.

- The Company uses equity options, variance swaps, and volatility options to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity markets and overall volatility. No volatility option positions were held as of September 30, 2014.

- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products.

- The Company markets certain VA 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.

Derivatives Related to Fixed Annuity Contracts

- The Company uses equity and volatility futures to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity and overall volatility.

- The Company used equity options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity markets.

- The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

Other Derivatives

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. None of these positions were held as of September 30, 2014.

- The Company purchased interest rate caps to mitigate its risk with respect to the Company s LIBOR exposure and the potential impact of European financial market distress. None of these positions were held as of September 30, 2014.

- The Company uses various swaps and other types of derivatives to manage risk related to other exposures.

- The Company markets certain IUL products. The IUL component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

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

Table of Contents

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

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended September 30, 2014	For The Three Months Ended September 30, 2013	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013
	(Dollars In Thousands)			
Derivatives related to variable annuity contracts:				
Interest rate futures - VA	$ 1,979	$ (2,255)	$ 12,777	$ (26,393)
Equity futures - VA	861	(12,568)	(9,049)	(39,829)
Currency futures - VA	10,185	(6,531)	6,020	1,440
Variance swaps - VA	1,570	(1,347)	(1,103)	(9,566)
Equity options - VA	2,050	(29,094)	(31,240)	(65,631)
Interest rate swaptions - VA	(2,812)	1,725	(17,213)	(738)
Interest rate swaps - VA	22,011	(19,224)	124,548	(125,502)
Embedded derivative - GMWB	(51,429)	80,541	(181,105)	264,231
Total derivatives related to variable annuity contracts	(15,585)	11,247	(96,365)	(1,988)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(2,462)	(104)	(9,036)	(145)
Equity futures - FIA	117	(42)	1,067	(42)
Volatility futures - FIA	(4)		4	
Equity options - FIA	1,099	104	5,077	85
Total derivatives related to FIA contracts	(1,250)	(42)	(2,888)	(102)
Derivatives related to IUL contracts:				
Embedded derivative - IUL	347		62	
Equity futures - IUL	16		16	
Equity options - IUL	(24)		(24)	
Total derivatives related to IUL contracts	339		54	
Embedded derivative - Modco reinsurance treaties	20,426	30,074	(91,945)	191,847
Interest rate swaps		72		2,984
Other derivatives	(149)	(25)	(351)	(149)
Total realized gains (losses) - derivatives	$ 3,781	$ 41,326	$ (191,495)	$ 192,592

The following table sets forth realized investments gains and losses for Modco trading portfolio that is included in realized investment gains (losses) all other investments:

Realized investment gains (losses) - all other investments

For The Three Months Ended September 30,	For The Nine Months Ended September 30,

	2014	2013	2014	2013
	(Dollars In Thousands)			
Modco trading portfolio(1)	$ (17,225)	$ (25,960)	$ 110,067	$ (167,982)

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

Table of Contents

The following tables present the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship:

Gain (Loss) on Derivatives in Cash Flow Relationship

	Amount 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 September 30, 2014			
Inflation	$ (64)	$ (293)	$ (79)
Total	$ (64)	$ (293)	$ (79)
For The Nine Months Ended September 30, 2014			
Inflation	$ (90)	$ (1,577)	$ (205)
Total	$ (90)	$ (1,577)	$ (205)

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 September 30, 2013			
Inflation	$ 22	$ (572)	$ (62)
Total	$ 22	$ (572)	$ (62)
For The Nine Months Ended September 30, 2013			
Inflation	$ (157)	$ (1,649)	$ (253)
Total	$ (157)	$ (1,649)	$ (253)

Table of Contents

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

	As of September 30, 2014		As of December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Derivatives not designated as hedging instruments:				
Interest rate swaps	$ 345,000	$ 6,426	$ 200,000	$ 1,961
Embedded derivative - Modco reinsurance treaties	65,241	1,381	80,376	1,517
Embedded derivative - GMWB	4,637,095	104,036	6,113,017	194,616
Equity futures	291,062	5,451	3,387	111
Currency futures	87,061	1,963	14,338	321
Equity options	2,212,459	144,029	1,376,205	78,277
Interest rate swaptions	625,000	13,078	625,000	30,291
Other	592	330	425	473
	$ 8,263,510	$ 276,694	$ 8,412,748	$ 307,567
Other liabilities				
Cash flow hedges:				
Inflation	$ 105,786	$ 433	$ 182,965	$ 1,865
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,130,000	43,470	1,230,000	153,322
Variance swaps	1,000	2,252	1,500	1,744
Embedded derivative - Modco reinsurance treaties	2,539,004	298,728	2,578,590	206,918
Embedded derivative - GMWB	5,109,066	128,912	2,494,142	38,388
Embedded derivative - FIA	689,543	103,497	244,424	25,324
Embedded derivative - IUL	5,232	2,609		
Interest rate futures	337,015	1,949	322,902	5,221
Equity futures	57,615	604	164,595	6,595
Currency futures	81,945	124	118,008	840
Equity options	587,303	36,811	257,065	17,558
Other	358	22	230	27
	$ 10,643,867	$ 619,411	$ 7,594,421	$ 457,802

Based on the expected cash flows of the underlying hedged items, the Company expects to reclassify $0.3 million out of accumulated other comprehensive income (loss) into earnings during the next twelve months.

Table of Contents

18. 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 9, *Debt and Other Obligations* for details of the Company s repurchase agreement programs.

The tables below present the derivative instruments by assets and liabilities for the Company as of September 30, 2014:

	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	$ 170,970	$	$ 170,970	$ 58,156	$ 34,311	$ 78,503
Embedded derivative - Modco reinsurance treaties	1,381		1,381			1,381
Embedded derivative - GMWB	104,036		104,036			104,036
Total derivatives, subject to a master netting arrangement or similar arrangement	276,387		276,387	58,156	34,311	183,920
Total derivatives, not subject to a master netting arrangement or similar arrangement	307		307			307
Total derivatives	276,694		276,694	58,156	34,311	184,227
Total Assets	$ 276,694	$	$ 276,694	$ 58,156	$ 34,311	$ 184,227

Table of Contents

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	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	$ 85,665	$	$ 85,665	$ 58,156	$ 25,961	$ 1,548
Embedded derivative - Modco reinsurance treaties	298,728		298,728			298,728
Embedded derivative - GMWB	128,912		128,912			128,912
Embedded derivative - FIA	103,497		103,497			103,497
Embedded derivative - IUL	2,609		2,609			2,609
Total derivatives, subject to a master netting arrangement or similar arrangement	619,411		619,411	58,156	25,961	535,294
Total derivatives, not subject to a master netting arrangement or similar arrangement						
Total derivatives	619,411		619,411	58,156	25,961	535,294
Repurchase agreements(1)	359,804		359,804			359,804
Total Liabilities	$ 979,215	$	$ 979,215	$ 58,156	$ 25,961	$ 895,098

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

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2013:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	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	$ 110,983	$	$ 110,983	$ 52,487	$ 10,700	$ 47,796
Embedded derivative - Modco reinsurance treaties	1,517		1,517			1,517
Embedded derivative - GMWB	194,616		194,616			194,616
Total derivatives, subject to a master netting arrangement or similar arrangement	307,116		307,116	52,487	10,700	243,929
Total derivatives, not subject to a master netting arrangement or similar arrangement	451		451			451
Total derivatives	307,567		307,567	52,487	10,700	244,380
Total Assets	$ 307,567	$	$ 307,567	$ 52,487	$ 10,700	$ 244,380

Table of Contents

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Paid	
	(Dollars In Thousands)					
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	$ 187,172	$	$ 187,172	$ 52,487	$ 98,359	$ 36,326
Embedded derivative - Modco reinsurance treaties	206,918		206,918			206,918
Embedded derivative - GMWB	38,388		38,388			38,388
Embedded derivative - FIA	25,324		25,324			25,324
Total derivatives, subject to a master netting arrangement or similar arrangement	457,802		457,802	52,487	98,359	306,956
Total derivatives, not subject to a master netting arrangement or similar arrangement						
Total derivatives	457,802		457,802	52,487	98,359	306,956
Repurchase agreements(1)	350,000		350,000			350,000
Total Liabilities	$ 807,802	$	$ 807,802	$ 52,487	$ 98,359	$ 656,956

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

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

- The Acquisitions segment focuses on acquiring, converting, and servicing policies from other companies. The segment s primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment s acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

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

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

Table of Contents

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

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

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

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

There were no significant intersegment transactions during the three or nine months ended September 30, 2014 and 2013.

Table of Contents

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
Revenues				
Life Marketing	$ 400,706	$ 377,416	$ 1,192,504	$ 1,092,063
Acquisitions	408,522	240,067	1,273,714	752,247
Annuities	182,239	196,305	482,313	547,259
Stable Value Products	38,713	25,208	93,641	91,596
Asset Protection	70,584	71,495	207,837	210,879
Corporate and Other	47,322	42,203	143,978	147,820
Total revenues	$ 1,148,086	$ 952,694	$ 3,393,987	$ 2,841,864
Segment Operating Income (Loss)				
Life Marketing	$ 32,820	$ 29,218	$ 82,654	$ 77,598
Acquisitions	72,929	29,429	198,807	93,241
Annuities	49,335	50,866	156,236	130,646
Stable Value Products	19,506	19,206	54,190	59,514
Asset Protection	8,530	6,827	23,433	20,292
Corporate and Other	(15,110)	(14,251)	(42,520)	(35,066)
Total segment operating income	168,010	121,295	472,800	346,225
Realized investment (losses) gains - investments(1)	(4,836)	(36,282)	138,617	(165,349)
Realized investment (losses) gains - derivatives	21,709	57,108	(139,119)	235,885
Income tax expense	(65,974)	(49,060)	(161,773)	(142,210)
Net income	$ 118,909	$ 93,061	$ 310,525	$ 274,551
Investment gains (losses)(2)	$ (1,160)	$ (28,189)	$ 148,051	$ (150,896)
Less: amortization related to DAC/VOBA and benefits and settlement expenses	3,676	8,093	9,434	14,453
Realized investment gains (losses) - investments	$ (4,836)	$ (36,282)	$ 138,617	$ (165,349)
Derivative gains (losses)(3)	$ 3,781	$ 41,326	$ (191,495)	$ 192,592
Less: VA GMWB economic cost	(17,928)	(15,782)	(52,376)	(43,293)
Realized investment gains (losses) - derivatives	$ 21,709	$ 57,108	$ (139,119)	$ 235,885

(1) Includes credit related other-than-temporary impairments of $2.3 million and $5.4 million for the three and nine months ended September 30, 2014, respectively, as compared to $8.7 million and $17.3 million for the three and nine months ended September 30, 2013, respectively.

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

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

Table of Contents

	Operating Segment Assets As of September 30, 2014 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 13,699,580	$ 19,895,240	$ 20,595,599	$ 2,260,840
Deferred policy acquisition costs and value of business acquired	1,950,507	635,336	637,752	706
Goodwill	10,192	30,194		
Total assets	$ 15,660,279	$ 20,560,770	$ 21,233,351	$ 2,261,546

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 917,926	$ 9,802,176	$ 15,428	$ 67,186,789
Deferred policy acquisition costs and value of business acquired	38,596	402		3,263,299
Goodwill	62,670	83		103,139
Total assets	$ 1,019,192	$ 9,802,661	$ 15,428	$ 70,553,227

	Operating Segment Assets As of December 31, 2013 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$ 13,135,914	$ 20,188,321	$ 19,974,246	$ 2,558,551
Deferred policy acquisition costs and value of business acquired	2,071,470	799,255	647,485	1,001
Goodwill	10,192	32,517		
Total assets	$ 15,217,576	$ 21,020,093	$ 20,621,731	$ 2,559,552

	Asset Protection	Corporate and Other	Adjustments	Total Consolidated
Investments and other assets	$ 852,273	$ 8,355,618	$ 16,762	$ 65,081,685
Deferred policy acquisition costs and value of business acquired	50,358	646		3,570,215
Goodwill	62,671	83		105,463
Total assets	$ 965,302	$ 8,356,347	$ 16,762	$ 68,757,363

20. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to September 30, 2014, and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.

On September 15, 2014, the Company announced that it had issued notice to redeem the entire $100,000,000 outstanding principal amount of the Company s 8.00% Senior Notes issued on October 9, 2009. The payment in respect of the redemption of the Senior Notes was made on October 15, 2014.

The Company held a Special Meeting of Shareholders on October 6, 2014. At the meeting, the Company s shareowners voted upon and approved a proposal to adopt the Merger Agreement.

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, 2013, 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 2, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, 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, 2013.

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 fixed universal life (UL), variable universal life (VUL), bank-owned life insurance (BOLI), and level premium term insurance (traditional) products on a national basis

Table of Contents

primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, and independent marketing organizations.

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

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

- ***Stable Value Products*** - We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank (FHLB), and markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans. Additionally, we have contracts outstanding pursuant to a funding agreement-backed notes program registered with the 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 for the three months ended September 30, 2014 was $118.9 million or $1.46 per average diluted share. After-tax operating income for the three months ended September 30, 2014 was $107.9 million or $1.33 per average diluted share.

We reported strong financial results for the first nine months of 2014 and we remain confident in our ability to execute on our plans for the remainder of the year.

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

RECENT DEVELOPMENTS PROPOSED DAI-ICHI MERGER

As described in Note 5, *Proposed Dai-ichi Merger*, to the consolidated condensed financial statements, on June 3, 2014, we entered into an Agreement and Plan of Merger (the Merger Agreement) with The Dai-ichi Life Insurance Company, Limited, a *kabushiki kaisha* organized under the laws of Japan (Dai-ichi) and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi, which provides for the merger of DL Investment (Delaware), Inc. with and into the Company (the Merger), with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi. If the proposed Merger is completed, at the effective time of the Merger (the Effective Time), each share of our common stock, par value $0.50 per share, issued and outstanding immediately prior to the Effective Time, other than certain excluded shares, will be converted into the right to receive $70 in cash, without interest (the Per Share Merger Consideration). Shares of common stock held by Dai-ichi or the Company or their respective direct or indirect wholly-owned subsidiaries will not be entitled to receive the Merger Consideration. Stock appreciation rights, restricted stock units and performance shares issued under various benefit plans will be paid

Table of Contents

out as described in Note 5, *Proposed Dai-ichi Merger*, to the consolidated condensed financial statements included in this report, under the heading Treatment of Benefit Plans .

Completion of the Merger is subject to various closing conditions, including, but not limited to, (1) adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of all outstanding shares of common stock, which adoption was approved at a Special Meeting of Shareholders held on October 6, 2014, (2) requisite approval of the Japan Financial Services Agency of an application and notification filing by Dai-ichi and its affiliates, (3) the receipt of certain insurance regulatory approvals, (4) the absence of any laws that have been adopted or promulgated, or any order, injunction, decision or decree issued or remaining in effect, that would prohibit the Merger or make the Merger illegal, and (5) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which waiting period terminated on July 25, 2014, pursuant to a grant of early termination by the Federal Trade Commission. Each party s obligation to consummate the Merger also is subject to certain additional conditions that include the accuracy of the other party s representations and warranties contained in the Merger Agreement (subject to certain materiality qualifiers) and the other party s compliance with its covenants and agreements contained in the Merger Agreement in all material respects. The Merger Agreement does not contain a financing condition. Subject to certain limitations, either party may terminate the Merger Agreement if the Merger is not consummated by February 28, 2015, which date is extended until April 30, 2015 in the event of delays in obtaining regulatory approval.

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

RISKS AND UNCERTAINTIES

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

Risks Related to the Proposed Dai-ichi Merger

- the Merger is subject to various closing conditions, including regulatory and third party approvals;
- failure to timely complete the Merger could adversely impact our stock price, business, financial condition, and results of operations;
- the pendency of the Merger and operating restrictions contained in the Merger Agreement could adversely affect our business and operations;
- shareowner litigation against the Company, our directors and/or Dai-ichi could delay or prevent the Merger and cause us to incur significant costs and expenses; and;
- our debt ratings and the financial strength ratings of our insurance subsidiaries may be adversely affected by the transactions contemplated by the Merger Agreement;

General

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

Table of Contents

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

Financial environment

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

- the amount of statutory capital that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;

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

Industry

- we are highly regulated, are subject to routine audits, examinations and actions by regulators, law enforcement agencies, and self-regulatory organizations;

- 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, 2013.

Deferred Policy Acquisition Costs

Based on the Accounting Standards Codification (ASC or Codification) Financial Services Insurance Topic, we make certain assumptions regarding the mortality, persistency, expenses, and interest rates we expect to experience in future periods. These assumptions are to be best estimates and are periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, using guidance from ASC Investments-Debt and Equity Securities Topic, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with our universal life an investment products had been realized. Acquisition costs for stable value contracts are amortized over the term of the contracts using the effective yield method.

RESULTS OF OPERATIONS

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

claims, and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of our business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. 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. In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

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

Table of Contents

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

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Segment Operating Income (Loss)						
Life Marketing	$ 32,820	$ 29,218	12.3%	$ 82,654	$ 77,598	6.5%
Acquisitions	72,929	29,429	n/m	198,807	93,241	n/m
Annuities	49,335	50,866	(3.0)	156,236	130,646	19.6
Stable Value Products	19,506	19,206	1.6	54,190	59,514	(8.9)
Asset Protection	8,530	6,827	24.9	23,433	20,292	15.5
Corporate and Other	(15,110)	(14,251)	(6.0)	(42,520)	(35,066)	(21.3)
Total segment operating income	168,010	121,295	38.5	472,800	346,225	36.6
Realized investment gains (losses) - investments(1)	(4,836)	(36,282)		138,617	(165,349)	
Realized investment gains (losses) - derivatives	21,709	57,108		(139,119)	235,885	
Income tax expense	(65,974)	(49,060)		(161,773)	(142,210)	
Net income	$ 118,909	$ 93,061	27.8	$ 310,525	$ 274,551	13.1
Investment gains (losses)(2)	$ (1,160)	$ (28,189)		$ 148,051	$ (150,896)	
Less: amortization related to DAC/VOBA and benefits and settlement expenses	3,676	8,093		9,434	14,453	
Realized investment gains (losses) - investments	$ (4,836)	$ (36,282)		$ 138,617	$ (165,349)	
Derivative gains (losses) (3)	$ 3,781	$ 41,326		$ (191,495)	$ 192,592	
Less: VA GMWB economic cost	(17,928)	(15,782)		(52,376)	(43,293)	
Realized investment gains (losses) - derivatives	$ 21,709	$ 57,108		$ (139,119)	$ 235,885	

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(1) Includes credit related other-than-temporary impairments of $2.3 million and $5.4 million for the three and nine months ended September 30, 2014, respectively, as compared to $8.7 million and $17.3 million for the three and nine months ended September 30, 2013, respectively.

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

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

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Net income for the three months ended September 30, 2014, included a $46.7 million, or 38.5%, increase in segment operating income. The increase consisted of a $3.6 million increase in the Life Marketing segment, a $43.5 million increase in the Acquisitions segment, a $0.3 million increase in the Stable Value Products segment, and a $1.7 million increase in the Asset Protection segment. These increases were partially offset by a $1.5 million decrease in the Annuities segment and a $0.9 million decrease in the Corporate and Other segment.

We experienced net realized gains of $2.6 million for the three months ended September 30, 2014, as compared to net realized gains of $13.1 million for the three months ended September 30, 2013. The gains realized for the three months ended September 30, 2014, were primarily related to $23.6 million of gains related to investment securities sale activity, $3.2 million of gains related to the net activity of the modified coinsurance portfolio, and net gains of $0.3 million of derivatives related to indexed universal life (IUL) contracts. Partially offsetting these gains were $2.3 million of other-than-temporary impairment credit-related losses, $5.4 million of losses related to other investment and derivative activity, $15.6 million of losses on derivatives related to variable annuity contracts, and net losses of $1.3 million of derivatives related to fixed indexed annuity (FIA) contracts.

• Life Marketing segment operating income was $32.8 million for the three months ended September 30, 2014, representing an increase of $3.6 million, or 12.3%, from the three months ended September 30, 2013. The

Table of Contents

increase was primarily due to higher universal life premiums and policy fees, favorable traditional mortality, and higher investment income due to an increase in reserves. These items were largely offset by the impact of prospective unlocking and an increase in non-deferred expenses. The segment recorded an unfavorable $2.6 million of prospective unlocking for the three months ended September 30, 2014, as compared to a favorable $2.4 million of prospective unlocking for the three months ended September 30, 2013.

- Acquisitions segment operating income was $72.9 million for the three months ended September 30, 2014, an increase of $43.5 million as compared to the three months ended September 30, 2013, primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY operating income was $29.3 million for the three months ended September 30, 2014. In addition, the increase was driven by a $15.9 million favorable variance related to prospective unlocking. For the three months ended September 30, 2014, the segment recorded favorable prospective unlocking of $11.7 million as compared to an unfavorable $4.2 million of prospective unlocking for the three months ended September 30, 2013.

- Annuities segment operating income was $49.3 million for the three months ended September 30, 2014, as compared to $50.9 million for the three months ended September 30, 2013, a decrease of $1.5 million or 3.0%. This variance included an unfavorable change in unlocking and other operating expenses partially offset by higher net policy fees and other income in the VA line and lower credited interest. The segment recorded an unfavorable $3.4 million of unlocking for the three months ended September 30, 2014, as compared to favorable unlocking of $4.9 million for the three months ended September 30, 2013.

- Stable Value Products segment operating income was $19.5 million and increased $0.3 million, or 1.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase in operating earnings resulted from an increase in participating mortgage income offset by lower adjusted operating spreads and a decline in average account values. Participating mortgage income for the three months ended September 30, 2014 was $3.9 million compared to $2.4 million for the three months ended September 30, 2013. The adjusted operating spread, which excludes participating income, decreased by 5 basis points for the three months ended September 30, 2014 over the prior year.

- Asset Protection segment operating income was $8.5 million, representing an increase of $1.7 million, or 24.9%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Service contract earnings increased $1.6 million, primarily due to lower losses. Credit insurance earnings increased $0.1 million, primarily resulting from lower expenses. Earnings from the GAP product were consistent with the prior year.

- Corporate & Other segment operating loss was $15.1 million for the three months ended September 30, 2014, as compared to an operating loss of $14.3 million for the three months ended September 30, 2013. The change was primarily due to higher overhead expenses partially offset by a $7.5 million favorable investment income variance related to called securities compared to the three months ended September 30, 2013.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Net income for the nine months ended September 30, 2014, included a $126.6 million, or 36.6%, increase in segment operating income. The increase consisted of a $5.1 million increase in the Life Marketing segment, a $105.6 million increase in the Acquisitions segment, a $25.6 million increase in the Annuities segment, and a $3.1 million increase in the Asset Protection segment. These increases were partially offset by a $5.3 million decrease in the Stable Value Products segment and a $7.5 million decrease in the Corporate and Other segment.

We experienced net realized losses of $43.4 million for the nine months ended September 30, 2014, as compared to net realized gains of $41.7 million for the nine months ended September 30, 2013. The losses realized for the nine months ended September 30, 2014, were primarily related to $96.4 million of losses on derivatives related to variable annuity contracts, $5.4 million of other-than-temporary impairment credit-related losses, net losses of $2.9 million of derivatives related to FIA contracts, and $8.2 million of losses related to other investment and derivative activity. Partially offsetting these losses were gains of $51.2 million related to investment securities sale activity, $18.1

Table of Contents

million of gains related to the net activity of the modified coinsurance portfolio, and net gains of $0.1 million of derivatives related to IUL contracts.

- Life Marketing segment operating income was $82.7 million for the nine months ended September 30, 2014, representing an increase of $5.1 million, or 6.5%, from the nine months ended September 30, 2013. The increase was primarily due to higher universal life premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional mortality. This increase was largely offset by less favorable universal life mortality and unfavorable prospective unlocking compared to 2013. The segment recorded an unfavorable $2.6 million of prospective unlocking for the nine months ended September 30, 2014, as compared to a favorable $2.4 million for the nine months ended September 30, 2013.

- Acquisitions segment operating income was $198.8 million for the nine months ended September 30, 2014, an increase of $105.6 million as compared to the nine months ended September 30, 2013. This was primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY operating income was $86.3 million for the nine months ended September 30, 2014. In addition, the increase was driven by a $15.9 million favorable variance related to prospective unlocking. For the nine months ended September 30, 2014, the segment recorded favorable prospective unlocking of $11.7 million as compared to an unfavorable $4.2 million of prospective unlocking for the nine months ended September 30, 2013.

- Annuities segment operating income was $156.2 million for the nine months ended September 30, 2014, as compared to $130.6 million for the nine months ended September 30, 2013, an increase of $25.6 million, or 19.6%. This variance was a result of higher net policy fees and other income in the VA line and lower credited interest. These favorable variances were partially offet by an unfavorable change in unlocking and other operating expenses. The segment recorded a favorable $0.1 million of unlocking for the nine months ended September 30, 2014, as compared to favorable unlocking of $8.5 million for the three months ended September 30, 2013.

- Stable Value Products segment operating income was $54.2 million and decreased $5.3 million, or 8.9%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The decrease in operating earnings resulted from a decrease in participating mortgage income and a decline in average account values. Participating mortgage income for the nine months ended September 30, 2014 was $4.9 million compared to $9.5 million for the nine months ended September 30, 2013.

- Asset Protection segment operating income was $23.4 million, representing an increase of $3.1 million, or 15.5%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Service contract earnings increased $3.1 million primarily due to lower loss ratios and higher volume. Credit insurance earnings increased $0.8 million primarily due to lower losses and lower expenses in 2014. Earnings from the GAP product line decreased $0.8 million primarily resulting from higher losses.

- Corporate and Other segment operating loss was $42.5 million for the nine months ended September 30, 2014, as compared to an operating loss of $35.1 million for the nine months ended September 30, 2013. The change resulted from an $11.9 million unfavorable variance in other operating expenses partially offset by a $2.6 million increase in net investment income and a $1.2 million increase in other income as compared to the nine months ended September 30, 2013.

Table of Contents

Life Marketing

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
REVENUES						
Gross premiums and policy fees	$ 377,014	$ 356,809	5.7%	$ 1,226,218	$ 1,217,852	0.7%
Reinsurance ceded	(150,586)	(145,075)	(3.8)	(550,661)	(607,917)	9.4
Net premiums and policy fees	226,428	211,734	6.9	675,557	609,935	10.8
Net investment income	139,818	129,935	7.6	410,550	387,237	6.0
Other income	31,435	32,144	(2.2)	94,537	91,288	3.6
Total operating revenues	397,681	373,813	6.4	1,180,644	1,088,460	8.5
Realized gains (losses) - investments	2,686	3,603	(25.5)	11,806	3,603	n/m
Realized gains (losses) - derivatives	339		n/m	54		n/m
Total revenues	400,706	377,416	6.2	1,192,504	1,092,063	9.2
BENEFITS AND EXPENSES						
Benefits and settlement expenses	215,949	330,156	(34.6)	819,615	866,995	(5.5)
Amortization of deferred policy acquisition costs	106,737	(24,284)	n/m	148,179	16,804	n/m
Other operating expenses	42,175	38,723	8.9	130,196	127,063	2.5
Operating benefits and expenses	364,861	344,595	5.9	1,097,990	1,010,862	8.6
Amortization related to benefits and settlement expenses	29	483	(94.0)	1,740	483	n/m
Amortization of DAC related to realized gains (losses) - investments	200	819	(75.6)	3,555	819	n/m
Total benefits and expenses	365,090	345,897	5.5	1,103,285	1,012,164	9.0
INCOME BEFORE INCOME TAX	35,616	31,519	13.0	89,219	79,899	11.7
Less: realized gains (losses)	3,025	3,603		11,860	3,603	
Less: amortization related to benefits and settlement expenses	(29)	(483)		(1,740)	(483)	
Less: related amortization of DAC	(200)	(819)		(3,555)	(819)	
OPERATING INCOME	$ 32,820	$ 29,218	12.3	$ 82,654	$ 77,598	6.5

Table of Contents

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

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Sales By Product						
Traditional	$ 183	$ 390	(53.1)%	$ 433	$ 1,091	(60.3)%
Universal life	33,058	32,261	2.5	93,942	123,437	(23.9)
BOLI			n/m	22		n/m
	$ 33,241	$ 32,651	1.8	$ 94,397	$ 124,528	(24.2)
Sales By Distribution Channel						
Independent agents	$ 24,587	$ 23,395	5.1	$ 70,945	$ 86,040	(17.5)
Stockbrokers / banks	7,923	8,608	(8.0)	21,409	36,831	(41.9)
BOLI / other	731	648	12.8	2,043	1,657	23.3
	$ 33,241	$ 32,651	1.8	$ 94,397	$ 124,528	(24.2)
Average Life Insurance In-force(1)						
Traditional	$ 399,961,084	$ 423,831,748	(5.6)	$ 405,583,949	$ 430,538,542	(5.8)
Universal life	139,804,885	109,933,560	27.2	132,052,762	100,813,147	31.0
	$ 539,765,969	$ 533,765,308	1.1	$ 537,636,711	$ 531,351,689	1.2
Average Account Values						
Universal life	$ 7,175,792	$ 7,003,612	2.5	$ 7,142,767	$ 6,865,081	4.0
Variable universal life	561,709	468,595	19.9	545,762	440,238	24.0
	$ 7,737,501	$ 7,472,207	3.6	$ 7,688,529	$ 7,305,319	5.2

(1) Amounts are not adjusted for reinsurance ceded.

Table of Contents

Operating expenses detail

Other operating expenses for the segment were as follows:

	For The Three Months Ended September 30, 2014	For The Three Months Ended September 30, 2013	Change	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Insurance companies:						
First year commissions	$ 38,881	$ 39,168	(0.7)%	$ 111,925	$ 135,332	(17.3)%
Renewal commissions	7,653	8,238	(7.1)	22,319	25,426	(12.2)
First year ceding allowances	(663)	(939)	29.4	(1,556)	(3,035)	48.7
Renewal ceding allowances	(37,755)	(40,322)	6.4	(100,571)	(120,393)	16.5
General & administrative	44,849	41,005	9.4	132,415	130,001	1.9
Taxes, licenses, and fees	7,235	8,153	(11.3)	20,401	28,666	(28.8)
Other operating expenses incurred	60,200	55,303	8.9	184,933	195,997	(5.6)
Less: commissions, allowances & expenses capitalized	(47,700)	(46,636)	(2.3)	(144,728)	(156,364)	7.4
Other insurance company operating expenses	12,500	8,667	44.2	40,205	39,633	1.4
Marketing companies:						
Commissions	21,801	22,298	(2.2)	66,450	64,610	2.8
Other operating expenses	7,874	7,758	1.5	23,541	22,820	3.2
Other marketing company operating expenses	29,675	30,056	(1.3)	89,991	87,430	2.9
Other operating expenses	$ 42,175	$ 38,723	8.9	$ 130,196	$ 127,063	2.5

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income

Operating income was $32.8 million for the three months ended September 30, 2014, representing an increase of $3.6 million, or 12.3%, from the three months ended September 30, 2013. The increase was primarily due to higher universal life premiums and policy fees, favorable traditional mortality, and higher investment income due to an increase in reserves. These items were largely offset by the impact of prospective unlocking and an increase in non-deferred expenses. The segment recorded an unfavorable $2.6 million of prospective unlocking for the three months ended September 30, 2014, as compared to a favorable $2.4 million of prospective unlocking for the three months ended September 30, 2013.

Operating revenues

Total operating revenues for the three months ended September 30, 2014, increased $23.9 million, or 6.4%, as compared to the three months ended September 30, 2013. This increase was driven by higher net premiums and policy fees due to continued growth in the universal life block and higher investment income due to increases in net in force reserves.

Net premiums and policy fees

Net premiums and policy fees increased by $14.7 million, or 6.9%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due to continued growth in the universal life block, partially offset by decreases in traditional life premiums.

Net investment income

Net investment income in the segment increased $9.9 million, or 7.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Of the increase in net investment income, $4.7

Table of Contents

million was attributable to a net increase in universal life reserves. Additionally, traditional life investment income increased $4.5 million primarily due to higher reserve balances.

Other income

Other income decreased $0.7 million, or 2.2%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to lower revenue in the segment s non-insurance operations.

Benefits and settlement expenses

Benefits and settlement expenses decreased by $114.2 million, or 34.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due primarily to the impact of unlocking and favorable traditional and universal life mortality, which was partially offset by growth in retained universal life insurance in-force. For the three months ended September 30, 2014, universal life and BOLI unlocking decreased policy benefits and settlement expenses $78.7 million as compared to an increase of $41.2 million in the three months ended September 30, 2013. Unlocking in 2014 was largely driven by assumption changes to mortality, reinsurance and yields. Reinsurance, lapses, yields, and credited interest contributed to the unlocking in 2013.

Amortization of DAC

DAC amortization increased $131.0 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to the impact of unlocking. For the three months ended September 30, 2014, universal life and BOLI unlocking increased amortization by $90.6 million, largely driven by assumption changes to mortality, reinsurance and yields. For the three months ended September 30, 2013, universal life and BOLI unlocking decreased amortization $40.3 million.

Other operating expenses

Other operating expenses increased $3.5 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. This increase reflects higher new business acquisition costs associated with slightly higher sales and higher general administrative expenses of $3.8 million.

Sales

Sales for the segment increased $0.6 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income

Operating income was $82.7 million for the nine months ended September 30, 2014, representing an increase of $5.1 million, or 6.5%, from the nine months ended September 30, 2013. The increase was primarily due to higher universal life premiums and policy fees, higher investment income due to an increase in reserves, and favorable traditional life mortality. This increase was largely offset by less favorable universal life mortality and unfavorable prospective unlocking compared to 2013. The segment recorded an unfavorable $2.6 million of prospective unlocking for the nine months ended September 30, 2014, as compared to a favorable $2.4 million for the nine months ended September 30, 2013.

Operating revenues

Total operating revenues for the nine months ended September 30, 2014, increased $92.2 million, or 8.5%, as compared to the nine months ended September 30, 2013. This increase was driven by higher net premiums and policy fees due to continued growth in the universal life block and higher investment income due to increases in net in force reserves.

Table of Contents

Net premiums and policy fees

Net premiums and policy fees increased by $65.6 million, or 10.8%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to an increase in premiums and policy fees associated with growth of the universal life block of business, and the impact of unlocking on ceded premiums, which was almost entirely offset in benefit and settlement expense in the second quarter of 2014. The increase was partially offset by decreases in traditional life premiums.

Net investment income

Net investment income in the segment increased $23.3 million, or 6.0%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Of the increase in net investment income, $14.9 million was the result of a net increase in universal life reserves. Additionally, traditional life investment income increased $6.8 million due to higher reserves, higher tax benefits and lower funding costs.

Other income

Other income increased $3.2 million, or 3.6%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to higher revenue in the segment s non-insurance operations.

Benefits and settlement expenses

Benefits and settlement expenses decreased by $47.4 million, or 5.5%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to the impact of unlocking and favorable traditional life mortality, partially offset by growth in retained universal life insurance in-force and less favorable mortality in the universal life block. For the nine months ended September 30, 2014, universal life and BOLI unlocking decreased policy benefits and settlement expenses $57.5 million as compared to an increase of $42.8 million for the nine months ended September 30, 2013. Unlocking in 2014 was largely driven by assumption changes to mortality, reinsurance, and yields. Of the total impact due to unlocking, $23.5 million is offset within the decline in ceded premiums in the second quarter of 2014. Reinsurance, lapses, yields, and credited interest contributed to the unlocking in 2013.

Amortization of DAC

DAC amortization increased $131.4 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to differing impacts of unlocking. In 2014, universal life and BOLI unlocking increased amortization $95.8 million, as compared to a decrease of $42.6 million in 2013.

Other operating expenses

Other operating expenses increased $3.1 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. This increase reflects higher marketing company expenses of $2.6 million and higher general administrative expenses, offset by reduced new business acquisition costs associated with lower sales.

Sales

Sales for the segment decreased $30.1 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Universal life sales decreased $29.5 million due to sales in 2013 of a product we are no longer marketing.

Table of Contents

Reinsurance

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

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration, and investment contracts business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore, impact DAC amortization on these lines of business. Deferred reinsurance allowances on level term business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in-force. Thus, deferred reinsurance allowances may impact DAC amortization. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Impact of reinsurance

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

Life Marketing Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$ (150,586)	$ (145,075)	$ (550,661)	$ (607,917)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(131,579)	(121,278)	(558,976)	(596,141)
Amortization of deferred policy acquisition costs	(26,144)	(9,279)	(45,333)	(33,717)
Other operating expenses (1)	(36,119)	(35,227)	(101,763)	(101,592)
Total benefits and expenses	(193,842)	(165,784)	(706,072)	(731,450)
NET IMPACT OF REINSURANCE (2)	$ 43,256	$ 20,709	$ 155,411	$ 123,533
Allowances received	$ (38,418)	$ (41,261)	$ (102,127)	$ (120,427)

Less: Amount deferred		2,299		6,034		364		18,835
Allowances recognized								
(ceded other operating expenses) (1)	$	(36,119)	$	(35,227)	$	(101,763)	$	(101,592)

(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%.

Table of Contents

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. In addition, since 2012, a much smaller percentage of the segment s new universal life business has been ceded. As a result of that change, the relative impact of reinsurance on the Life Marketing segment s overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality, unlocking of balances, and variations from term business during the post level premium period.

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

The higher ceded premiums for 2014 as compared to 2013 were caused primarily by higher universal life premiums and policy fees of $4.4 million. Ceded universal life premiums increased with the increase in the direct universal life premiums and policy fees.

Ceded benefits and settlement expenses were higher for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due to higher universal life ceded claims, partially offset by decreases in ceded reserves. Traditional ceded benefits decreased $4.3 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due to lower ceded claims, slightly offset by an increase in ceded reserves. Universal life ceded benefits increased $14.7 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due to higher ceded claims partially offset by a decrease in change in ceded reserves. Ceded universal life claims were $19.0 million higher for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

Ceded amortization of deferred policy acquisitions costs increased for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to the differences in unlocking between the two periods.

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

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

The lower ceded premiums for 2014 as compared to 2013 were caused primarily by lower universal life premiums and policy fees of $11.5 million and lower traditional life premiums of $46.5 million. Ceded traditional premium for the nine months ended September 30, 2014 decreased from the nine months ended September 30, 2013, primarily due to fluctuations in the number of policies entering their post level period. Ceded universal life premiums for the nine months ended September 30, 2014 decreased from the nine months ended September 30, 2013 primarily due to the second quarter 2014 impact of unlocking on ceded premiums, almost entirely offset in benefit and settlement expenses.

Ceded benefits and settlement expenses were lower for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to a decrease in change in ceded reserves, partially offset by higher ceded claims. Traditional ceded benefits decreased $47.5 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to a decrease in change in ceded reserves and a

Table of Contents

decrease in ceded death benefits. Universal life ceded benefits increased $11.0 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to an increase in ceded claims, partially offset by a decrease in ceded reserves due to the impact of unlocking on ceded premium. Ceded universal life claims were $68.2 million higher for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013.

Ceded amortization of deferred policy acquisitions costs increased for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to the differences in unlocking between the two periods.

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

Table of Contents

Acquisitions

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
REVENUES						
Gross premiums and policy fees	$ 270,959	$ 194,379	39.4%	$ 872,356	$ 611,299	42.7%
Reinsurance ceded	(90,744)	(92,970)	2.4	(293,459)	(292,229)	(0.4)
Net premiums and policy fees	180,215	101,409	77.7	578,897	319,070	81.4
Net investment income	219,453	133,695	64.1	656,113	403,050	62.8
Other income	3,036	1,004	n/m	10,386	3,033	n/m
Total operating revenues	402,704	236,108	70.6	1,245,396	725,153	71.7
Realized gains (losses) - investments	(14,718)	(24,992)	41.1	119,927	(163,726)	n/m
Realized gains (losses) - derivatives	20,536	28,951	(29.1)	(91,609)	190,820	n/m
Total revenues	408,522	240,067	70.2	1,273,714	752,247	69.3
BENEFITS AND EXPENSES						
Benefits and settlement expenses	295,252	173,423	70.2	919,849	530,773	73.3
Amortization of value of business acquired	2,703	18,030	(85.0)	37,106	54,904	(32.4)
Other operating expenses	31,820	15,226	n/m	89,634	46,235	93.9
Operating benefits and expenses	329,775	206,679	59.6	1,046,589	631,912	65.6
Amortization related to benefits and settlement expenses	2,564	104	n/m	13,595	104	n/m
Amortization of VOBA related to realized gains (losses) - investments	612	398	53.8	1,393	1,514	(8.0)
Total benefits and expenses	332,951	207,181	60.7	1,061,577	633,530	67.6
INCOME BEFORE INCOME TAX	75,571	32,886	n/m	212,137	118,717	78.7
Less: realized gains (losses)	5,818	3,959		28,318	27,094	
Less: amortization related to benefits and settlement expenses	(2,564)	(104)		(13,595)	(104)	
Less: related amortization of VOBA	(612)	(398)		(1,393)	(1,514)	
OPERATING INCOME	$ 72,929	$ 29,429	n/m	$ 198,807	$ 93,241	n/m

Table of Contents

The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Average Life Insurance In-Force(1)						
Traditional	$ 186,577,010	$ 166,134,343	12.3%	$ 190,139,888	$ 169,083,110	12.5%
Universal life	34,619,902	27,475,762	26.0	35,366,654	28,050,853	26.1
	$ 221,196,912	$ 193,610,105	14.2	$ 225,506,542	$ 197,133,963	14.4
Average Account Values						
Universal life	$ 4,540,271	$ 3,318,872	36.8	$ 4,573,397	$ 3,338,832	37.0
Fixed annuity(2)	3,765,858	3,018,382	24.8	3,795,553	3,048,919	24.5
Variable annuity	1,462,919	577,578	n/m	1,492,537	576,569	n/m
	$ 9,769,048	$ 6,914,832	41.3	$ 9,861,487	$ 6,964,320	41.6
Interest Spread - UL & Fixed Annuities						
Net investment income yield(3)	5.66%	5.73%		5.67%	5.70%	
Interest credited to policyholders	3.97	4.02		3.98	3.99	
Interest spread	1.69%	1.71%		1.69%	1.71%	

(1) Amounts are not adjusted for reinsurance ceded.

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

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

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income

Operating income was $72.9 million for the three months ended September 30, 2014, an increase of $43.5 million as compared to the three months ended September 30, 2013, primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY operating income was $29.3 million for the three months ended September 30, 2014. In addition, the increase was driven by a $15.9 million favorable variance related to prospective unlocking. For the three months ended September 30, 2014, the segment recorded favorable prospective unlocking of $11.7 million as compared to an unfavorable $4.2 million of prospective unlocking for the three months ended September 30, 2013.

Operating revenues

Net premiums and policy fees increased $78.8 million, or 77.7%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY net premiums for the three months ended September 30, 2014 were $79.1 million, and were partly offset by runoff of other business. Net investment income increased $85.8 million, or 64.1%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, due to the $94.0 million impact of MONY partly offset by expected runoff of business.

Total benefits and expenses

Total benefits and expenses increased $125.8 million, or 60.7%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase was primarily due to the MONY acquisition increasing operating benefits and expenses $145.7 million, partly offset by runoff and the impact of favorable unlocking of $9.7 million for the three months ended September 30, 2014 as compared to an unfavorable $1.7 million for three months ended September 30, 2013.

Table of Contents

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income

Operating income was $198.8 million for the nine months ended September 30, 2014, an increase of $105.6 million as compared to the nine months ended September 30, 2013. This was primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY operating income was $86.3 million for the nine months ended September 30, 2014. In addition, the increase was driven by a $15.9 million favorable variance related to prospective unlocking. For the nine months ended September 30, 2014, the segment recorded favorable prospective unlocking of $11.7 million as compared to an unfavorable $4.2 million of prospective unlocking for the nine months ended September 30, 2013.

Operating revenues

Net premiums and policy fees increased $259.8 million, or 81.4%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to the impact of the MONY acquisition which occurred in the fourth quarter of 2013. MONY net premiums for the nine months ended September 30, 2014 were $282.5 million, and were partly offset by runoff of other business. Net investment income increased $253.1 million, or 62.8%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, due to the $272.9 million impact of MONY, partly offset by expected runoff of business.

Total benefits and expenses

Total benefits and expenses increased $428.0 million, or 67.6%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase was primarily due to the MONY acquisition, partly offset by the impact of favorable unlocking of $6.3 million for the nine months ended September 30, 2014 as compared to an unfavorable $2.4 million for the nine months ended September 30, 2013. The MONY acquisition increased operating benefits and expenses $475.9 million.

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, 2013.

Table of Contents

Impact of reinsurance

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

Acquisitions Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$ (90,744)	$ (92,970)	$ (293,459)	$ (292,229)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(69,300)	(65,336)	(240,838)	(238,789)
Amortization of deferred policy acquisition costs	(3,544)	(2,718)	(9,703)	(7,307)
Other operating expenses	(12,027)	(12,014)	(34,972)	(36,460)
Total benefits and expenses	(84,871)	(80,068)	(285,513)	(282,556)
NET IMPACT OF REINSURANCE (1)	$ (5,873)	$ (12,902)	$ (7,946)	$ (9,673)

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

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

The net impact of reinsurance was more favorable by $7.0 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to a favorable impact from the MONY acquisition. In the three months ended September 30, 2014, ceded revenues increased by $2.2 million and ceded benefits and expenses increased by $4.8 million as the impact of the MONY acquisition more than offset runoff in other blocks.

The net impact of reinsurance was more favorable by $1.7 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to a favorable impact from the MONY acquisition. In the nine months ended September 30,

2014, ceded revenues increased by $1.2 million and ceded benefits and expenses increased by $3.0 million as the impact of the MONY acquisition more than offset runoff in other blocks.

Table of Contents

Annuities

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
REVENUES						
Gross premiums and policy fees	$ 38,614	$ 34,870	10.7%	$ 112,445	$ 96,387	16.7%
Reinsurance ceded			n/m			n/m
Net premiums and policy fees	38,614	34,870	10.7	112,445	96,387	16.7
Net investment income	117,646	116,699	0.8	351,943	352,045	n/m
Realized gains (losses) - derivatives	(17,928)	(15,782)	(13.6)	(52,376)	(43,293)	(21.0)
Other income	38,027	33,295	14.2	109,444	90,690	20.7
Total operating revenues	176,359	169,082	4.3	521,456	495,829	5.2
Realized gains (losses) - investments	4,787	236	n/m	7,734	10,227	(24.4)
Realized gains (losses) - derivatives, net of economic cost	1,093	26,987	(95.9)	(46,877)	41,203	n/m
Total revenues	182,239	196,305	(7.2)	482,313	547,259	(11.9)
BENEFITS AND EXPENSES						
Benefits and settlement expenses	78,031	80,963	(3.6)	232,864	243,804	(4.5)
Amortization of deferred policy acquisition costs and value of business acquired	18,336	11,246	63.0	44,504	37,663	18.2
Other operating expenses	30,657	26,007	17.9	87,852	83,716	4.9
Operating benefits and expenses	127,024	118,216	7.5	365,220	365,183	n/m
Amortization related to benefits and settlement expenses	290	(2,276)	n/m	2,297	(3,132)	n/m
Amortization of DAC related to realized gains (losses) - investments	(19)	8,565	n/m	(13,146)	14,665	n/m
Total benefits and expenses	127,295	124,505	2.2	354,371	376,716	(5.9)
INCOME BEFORE INCOME TAX	54,944	71,800	(23.5)	127,942	170,543	(25.0)
Less: realized gains (losses) - investments	4,787	236		7,734	10,227	
Less: realized gains (losses) - derivatives, net of economic cost	1,093	26,987		(46,877)	41,203	
Less: amortization related to benefits and settlement expenses	(290)	2,276		(2,297)	3,132	
Less: related amortization of DAC	19	(8,565)		13,146	(14,665)	
OPERATING INCOME	$ 49,335	$ 50,866	(3.0)	$ 156,236	$ 130,646	19.6

Table of Contents

The following table summarizes key data for the Annuities segment:

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Sales						
Fixed annuity	$ 267,604	$ 180,714	48.1%	$ 717,359	$ 434,165	65.2%
Variable annuity	279,458	357,484	(21.8)	686,966	1,656,066	(58.5)
	$ 547,062	$ 538,198	1.6	$ 1,404,325	$ 2,090,231	(32.8)
Average Account Values						
Fixed annuity(1)	$ 8,243,541	$ 8,214,702	0.4	$ 8,212,895	$ 8,251,504	(0.5)
Variable annuity	12,456,974	10,989,161	13.4	12,268,923	10,354,702	18.5
	$ 20,700,515	$ 19,203,863	7.8	$ 20,481,818	$ 18,606,206	10.1
Interest Spread - Fixed Annuities(2)						
Net investment income yield	5.47%	5.50%		5.48%	5.51%	
Interest credited to policyholders	3.33	3.50		3.34	3.54	
Interest spread	2.14%	2.00%		2.14%	1.97%	

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

(2) Interest spread on average general account values.

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Derivatives related to variable annuity contracts:						
Interest rate futures - VA	$ 1,979	$ (2,255)	$ 4,234	$ 12,777	$ (26,393)	$ 39,170
Equity futures - VA	861	(12,568)	13,429	(9,049)	(39,829)	30,780
Currency futures - VA	10,185	(6,531)	16,716	6,020	1,440	4,580
Variance swaps - VA	1,570	(1,347)	2,917	(1,103)	(9,566)	8,463
Equity options - VA	2,050	(29,094)	31,144	(31,240)	(65,631)	34,391
Interest rate swaptions - VA	(2,812)	1,725	(4,537)	(17,213)	(738)	(16,475)
Interest rate swaps - VA	22,011	(19,224)	41,235	124,548	(125,502)	250,050
Embedded derivative - GMWB(1)	(51,429)	80,541	(131,970)	(181,105)	264,231	(445,336)
Total derivatives related to variable annuity contracts	(15,585)	11,247	(26,832)	(96,365)	(1,988)	(94,377)
Derivatives related to FIA contracts:						
Embedded derivative - FIA	(2,462)	(104)	(2,358)	(9,036)	(145)	(8,891)
Equity futures - FIA	117	(42)	159	1,067	(42)	1,109
Volatility futures - FIA	(4)		(4)	4		4
Equity options - FIA	1,099	104	995	5,077	85	4,992
Total derivatives related to FIA contracts	(1,250)	(42)	(1,208)	(2,888)	(102)	(2,786)

Economic cost - VA GMWB(2)		17,928		15,782		2,146		52,376		43,293		9,083
Realized gains (losses) - derivatives, net of economic cost	$	1,093	$	26,987	$	(25,894)	$	(46,877)	$	41,203	$	(88,080)

(1) Includes impact of nonperformance risk of $10.0 million for the three months ended September 30, 2014 and a net zero impact for the nine months ended September 30, 2014 and $(10.5) million and $(3.1) million for the three and nine months ended September 30, 3013, respectively.

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

Table of Contents

	As of		
	September 30, 2014	December 31, 2013	Change
	(Dollars In Thousands)		
GMDB - Net amount at risk(1)	$ 98,901	$ 90,021	9.9%
GMDB Reserves	20,526	16,001	28.3
GMWB and GMAB Reserves	24,891	(156,228)	n/m
Account value subject to GMWB rider	9,711,404	9,513,847	2.1
GMWB Benefit Base	9,741,126	9,162,797	6.3
GMAB Benefit Base	5,035	5,441	(7.5)
S&P 500® Index	1,972	1,848	6.7

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

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income

Segment operating income was $49.3 million for the three months ended September 30, 2014, as compared to $50.9 million for the three months ended September 30, 2013, a decrease of $1.5 million or 3.0%. This variance included an unfavorable change in unlocking and other operating expenses partially offset by higher net policy fees and other income in the VA line and lower credited interest. The segment recorded an unfavorable $3.4 million of unlocking for the three months ended September 30, 2014, as compared to favorable unlocking of $4.9 million for the three months ended September 30, 2013.

Operating revenues

Segment operating revenues increased $7.3 million, or 4.3%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to increases in net policy fees and other income from the VA line of business. Those increases were partially offset by increased GMWB economic cost in the VA line of business. Average fixed account balances increased 0.4% and average variable account balances grew 13.4% for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

Benefits and settlement expenses

Benefits and settlement expenses decreased $2.9 million, or 3.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. This decrease was primarily the result of lower credited interest and a $1.0 million favorable change in unlocking. Partially offsetting these favorable changes was an unfavorable change of $1.4 million in guaranteed benefit reserves.

Amortization of DAC

DAC amortization increased $7.1 million, or 63.0%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to an unfavorable change in unlocking. DAC unlocking for the three months ended September 30, 2014 was $3.5 million unfavorable as compared to $5.8 million favorable unlocking for the three months ended September 30, 2013.

Other operating expenses

Other operating expenses increased $4.7 million, or 17.9%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase is primarily due to higher renewal commissions.

Sales

Total sales increased $8.9 million, or 1.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Sales of variable annuities decreased $78.0 million, or 21.8% for the three

Table of Contents

months ended September 30, 2014, as compared to the three months ended September 30, 2013. Sales of fixed annuities increased by $86.9 million, or 48.1% for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, driven by an increase in fixed indexed annuities (FIA) sales.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income

Segment operating income was $156.2 million for the nine months ended September 30, 2014, as compared to $130.6 million for the nine months ended September 30, 2013, an increase of $25.6 million, or 19.6%. This variance was a result of higher net policy fees and other income in the VA line and lower credited interest. These favorable variances were partially offet by an unfavorable change in unlocking and other operating expenses. The segment recorded a favorable $0.1 million of unlocking for the nine months ended September 30, 2014, as compared to favorable unlocking of $8.5 million for the nine months ended September 30, 2013.

Operating revenues

Segment operating revenues increased $25.6 million, or 5.2%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to increases in policy fees and other income from the VA line of business. Those increases were partially offset by increased GMWB economic cost in the VA line of business. Average fixed account balances decreased 0.5% while average variable account balances grew 18.5% for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013.

Benefits and settlement expenses

Benefits and settlement expenses decreased $10.9 million, or 4.5%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. This decrease was primarily the result of lower credited interest, lower realized losses in the MVA annuities line and a $0.5 million favorable change in unlocking. These favorable changes were partially offset by unfavorable changes in guaranteed benefit reserves and the SPIA mortality variance.

Amortization of DAC

DAC amortization increased $6.8 million, or 18.2%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to an unfavorable change in unlocking. DAC unlocking for the nine months ended September 30, 2014, was $1.0 million favorable as compared to $9.9 million favorable unlocking for the nine months ended September 30, 2013.

Other operating expenses

Other operating expenses increased $4.1 million, or 4.9%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase is due to higher renewal commissions partially offset by lower acquisition expenses and lower guaranty fund allocations.

Sales

Total sales decreased $685.9 million, or 32.8%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Sales of variable annuities decreased $969.1 million, or 58.5% for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Sales of fixed annuities increased by $283.2 million, or 65.2% for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, driven by an increase in FIA sales.

Table of Contents

Stable Value Products

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30,			For The Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
REVENUES						
Net investment income	$ 28,781	$ 29,478	(2.4)%	$ 83,737	$ 93,203	(10.2)%
Other income			n/m	1		n/m
Total operating revenues	28,781	29,478	(2.4)	83,738	93,203	(10.2)
Realized gains (losses)	9,932	(4,270)	n/m	9,903	(1,607)	n/m
Total revenues	38,713	25,208	53.6	93,641	91,596	2.2
BENEFITS AND EXPENSES						
Benefits and settlement expenses	8,793	9,639	(8.8)	28,126	31,925	(11.9)
Amortization of deferred policy acquisition costs	96	110	(12.7)	295	287	2.8
Other operating expenses	386	523	(26.2)	1,127	1,477	(23.7)
Total benefits and expenses	9,275	10,272	(9.7)	29,548	33,689	(12.3)
INCOME BEFORE INCOME TAX	29,438	14,936	97.1	64,093	57,907	10.7
Less: realized gains (losses)	9,932	(4,270)		9,903	(1,607)	
OPERATING INCOME	$ 19,506	$ 19,206	1.6	$ 54,190	$ 59,514	(8.9)

Table of Contents

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

	For The Three Months Ended September 30, 2014	2013	Change	For The Nine Months Ended September 30, 2014	2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
Sales						
GIC	$ 15,000	$ 80,200	(81.3)%	$ 40,850	$ 397,504	(89.7)%
GFA - Direct Institutional			n/m	50,000		n/m
	$ 15,000	$ 80,200	(81.3)	$ 90,850	$ 397,504	(77.1)
Average Account Values	$ 2,358,842	$ 2,503,294	(5.8)%	$ 2,478,224	$ 2,529,382	(2.0)%
Ending Account Values	$ 2,261,546	$ 2,531,262	(10.7)%	$ 2,261,546	$ 2,531,262	(10.7)%
Operating Spread						
Net investment income yield	4.88%	4.71%		4.51%	4.91%	
Interest credited	1.49	1.54		1.51	1.68	
Operating expenses	0.08	0.10		0.08	0.09	
Operating spread	3.31%	3.07%		2.92%	3.14%	
Adjusted operating spread(1)	2.64%	2.69%		2.65%	2.64%	

(1) Excludes participating mortgage loan income and other income.

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income

Operating income was $19.5 million and increased $0.3 million, or 1.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase in operating earnings resulted from an increase in participating mortgage income offset by lower adjusted operating spreads and a decline in average account values. Participating mortgage income for the three months ended September 30, 2014 was $3.9 million compared to $2.4 million for the three months ended September 30, 2013. The adjusted operating spread, which excludes participating income, decreased by 5 basis points for the three months ended September 30, 2014 over the prior year.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income

Operating income was $54.2 million and decreased $5.3 million, or 8.9%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The decrease in operating earnings resulted from a decrease in participating mortgage income and a decline in average account values. Participating mortgage income for the nine months ended September 30, 2014 was $4.9 million compared to $9.5 million for the nine months ended September 30, 2013.

Table of Contents

Asset Protection

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2014 (Dollars In Thousands)	For The Three Months Ended September 30, 2013	Change	For The Nine Months Ended September 30, 2014 (Dollars In Thousands)	For The Nine Months Ended September 30, 2013	Change
REVENUES						
Gross premiums and policy fees	$ 68,340	$ 66,604	2.6%	$ 203,052	$ 200,993	1.0%
Reinsurance ceded	(35,804)	(32,681)	(9.6)	(103,689)	(96,416)	(7.5)
Net premiums and policy fees	32,536	33,923	(4.1)	99,363	104,577	(5.0)
Net investment income	5,589	5,804	(3.7)	17,043	17,440	(2.3)
Other income	32,459	31,768	2.2	91,431	88,862	2.9
Total operating revenues	70,584	71,495	(1.3)	207,837	210,879	(1.4)
BENEFITS AND EXPENSES						
Benefits and settlement expenses	24,745	26,384	(6.2)	73,813	77,006	(4.1)
Amortization of deferred policy acquisition costs	6,133	7,402	(17.1)	19,782	22,471	(12.0)
Other operating expenses	31,176	30,882	1.0	90,809	91,110	(0.3)
Total benefits and expenses	62,054	64,668	(4.0)	184,404	190,587	(3.2)
INCOME BEFORE INCOME TAX	8,530	6,827	24.9	23,433	20,292	15.5
OPERATING INCOME	$ 8,530	$ 6,827	24.9	$ 23,433	$ 20,292	15.5

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

	For The Three Months Ended September 30, 2014 (Dollars In Thousands)	For The Three Months Ended September 30, 2013	Change	For The Nine Months Ended September 30, 2014 (Dollars In Thousands)	For The Nine Months Ended September 30, 2013	Change
Sales						
Credit insurance	$ 7,754	$ 9,105	(14.8)%	$ 22,812	$ 26,291	(13.2)%
Service contracts	104,821	102,796	2.0	289,068	283,984	1.8
GAP	19,193	18,140	5.8	54,951	50,359	9.1
	$ 131,768	$ 130,041	1.3	$ 366,831	$ 360,634	1.7
Loss Ratios(1)						
Credit insurance	30.5%	20.7%		29.2%	34.8%	
Service contracts	92.5	99.0		88.8	92.0	
GAP	53.2	46.0		56.5	41.7	

(1) Incurred claims as a percentage of earned premiums

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income

Operating income was $8.5 million, representing an increase of $1.7 million, or 24.9%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013.

Table of Contents

Service contract earnings increased $1.6 million, primarily due to lower losses. Credit insurance earnings increased $0.1 million, primarily resulting from lower expenses. Earnings from the GAP product were consistent with the prior year.

Net premiums and policy fees

Net premiums and policy fees decreased $1.4 million, or 4.1%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Service contract premiums decreased $1.0 million and GAP premiums decreased $0.5 million primarily due to higher ceded premiums. Credit insurance premiums increased $0.1 million.

Other income

Other income increased $0.7 million, or 2.2%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013 due primarily to higher volume in the service contract and GAP product lines.

Benefits and settlement expenses

Benefits and settlement expenses decreased $1.6 million, or 6.2%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Service contract claims decreased $2.4 million resulting from lower loss ratios and higher ceded losses. The decrease was partially offset by an increase in GAP claims of $0.3 million and credit insurance claims of $0.4 million due to higher loss ratios.

Amortization of DAC and Other operating expenses

Amortization of DAC was $1.3 million, or 17.1%, lower for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to lower DAC balances and a change in the mix of business in the GAP product line. Other operating expenses increased $0.3 million, or 1.0%, for the three months ended September 30, 2014.

Sales

Total segment sales increased $1.7 million, or 1.3%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. Higher auto sales helped drive increased service contract sales of $2.0 million and GAP product sales of $1.1 million. Credit insurance sales decreased $1.4 million due to the decreasing demand for this product.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income

Operating income was $23.4 million, representing an increase of $3.1 million, or 15.5%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Service contract earnings increased $3.1 million primarily due lower loss ratios and higher volume. Credit insurance earnings increased $0.8 million primarily due to lower losses and lower expenses in 2014. Earnings from the GAP product line decreased $0.8 million primarily resulting from higher losses.

Net premiums and policy fees

Net premiums and policy fees decreased $5.2 million, or 5.0%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Service contract premiums decreased $3.4 million and GAP premiums decreased $2.3 million primarily due to higher ceded premiums. Credit insurance premiums increased $0.5 million.

Table of Contents

Other income

Other income increased $2.6 million, or 2.9%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013 due primarily to higher volume in the service contract and GAP product lines.

Benefits and settlement expenses

Benefits and settlement expenses decreased $3.2 million, or 4.1%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Service contract claims decreased $5.2 million due to higher ceded losses and lower loss ratios. Credit insurance claims decreased $0.5 million, primarily due to lower loss ratios. The decreases were partially offset by an increase of $2.5 million in GAP claims due to higher loss ratios.

Amortization of DAC and Other operating expenses

Amortization of DAC was $2.7 million, or 12.0%, lower for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to lower DAC balances and a change in the mix of business in the GAP product line. Other operating expenses decreased $0.3 million for the nine months ended September 30, 2014.

Sales

Total segment sales increased $6.2 million, or 1.7%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. Higher auto sales in 2014 helped drive increased service contract sales of $5.1 million and GAP product sales of $4.6 million. The increase was partly offset by a decrease in credit insurance sales of $3.5 million due to the decreasing demand for this product.

Reinsurance

The majority of the Asset Protection segment s reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies (PARCs). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, *Summary of Significant Accounting Policies* to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Table of Contents

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

Asset Protection Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$ (35,804)	$ (32,681)	$ (103,689)	$ (96,416)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(15,462)	(14,993)	(46,222)	(42,894)
Amortization of deferred policy acquisition costs	(1,595)	(1,770)	(4,633)	(5,192)
Other operating expenses	(1,762)	(1,530)	(5,434)	(4,494)
Total benefits and expenses	(18,819)	(18,293)	(56,289)	(52,580)
NET IMPACT OF REINSURANCE (1)	$ (16,985)	$ (14,388)	$ (47,400)	$ (43,836)

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

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Reinsurance premiums ceded increased $3.1 million, or 9.6%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase was primarily due to an increase in ceded GAP and service contract premiums, somewhat offset by a decline in ceded dealer credit insurance premiums due to lower sales.

Benefits and settlement expenses ceded increased $0.5 million, or 3.1%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase was primarily due to higher ceded losses in the service contract and GAP lines, somewhat offset by lower ceded losses in the dealer credit line.

Amortization of DAC ceded decreased $0.2 million while other operating expenses increased $0.2 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013.

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

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Reinsurance premiums ceded increased $7.3 million, or 7.5%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase was primarily due to an increase in ceded GAP and service contract premiums, somewhat offset by a decline in ceded dealer credit insurance premiums due to lower sales.

Benefits and settlement expenses ceded increased $3.3 million, or 7.8%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013. The increase was primarily due to higher ceded losses in the service contract line.

Table of Contents

Amortization of DAC ceded decreased $0.6 million, or 10.8%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily as the result of a decrease in ceded activity in the dealer credit line and a change in the mix of business in the GAP product line. Other operating expenses increased $0.9 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013 mainly due to increased ceded activity in the GAP line.

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

Table of Contents

Corporate and Other

Segment results of operations

Segment results were as follows:

	For The Three Months Ended September 30, 2014	For The Three Months Ended September 30, 2013	Change	For The Nine Months Ended September 30, 2014	For The Nine Months Ended September 30, 2013	Change
	(Dollars In Thousands)			(Dollars In Thousands)		
REVENUES						
Gross premiums and policy fees	$ 4,111	$ 4,556	(9.8)%	$ 12,665	$ 13,865	(8.7)%
Reinsurance ceded	(2)	(4)	50.0	(8)	(8)	n/m
Net premiums and policy fees	4,109	4,552	(9.7)	12,657	13,857	(8.7)
Net investment income	46,887	38,664	21.3	127,767	125,154	2.1
Other income	432	583	(25.9)	5,560	4,340	28.1
Total operating revenues	51,428	43,799	17.4	145,984	143,351	1.8
Realized gains (losses) - investments	(3,926)	(2,829)	(38.8)	(1,524)	354	n/m
Realized gains (losses) - derivatives	(180)	1,233	n/m	(482)	4,115	n/m
Total revenues	47,322	42,203	12.1	143,978	147,820	(2.6)
BENEFITS AND EXPENSES						
Benefits and settlement expenses	4,632	5,701	(18.8)	14,721	16,365	(10.0)
Amortization of deferred policy acquisition costs	120	160	(25.0)	363	504	(28.0)
Other operating expenses	61,786	52,189	18.4	173,420	161,548	7.3
Total benefits and expenses	66,538	58,050	14.6	188,504	178,417	5.7
INCOME (LOSS) BEFORE INCOME TAX	(19,216)	(15,847)	(21.3)	(44,526)	(30,597)	(45.5)
Less: realized gains (losses) - investments	(3,926)	(2,829)		(1,524)	354	
Less: realized gains (losses) - derivatives	(180)	1,233		(482)	4,115	
OPERATING INCOME (LOSS)	$ (15,110)	$ (14,251)	(6.0)	$ (42,520)	$ (35,066)	(21.3)

For The Three Months Ended September 30, 2014 as compared to The Three Months Ended September 30, 2013

Segment operating income (loss)

Corporate & Other segment operating loss was $15.1 million for the three months ended September 30, 2014, as compared to an operating loss of $14.3 million for the three months ended September 30, 2013. The change was primarily due to higher overhead expenses partially offset by a $7.5 million favorable investment income variance related to called securities compared to the three months ended September 30, 2013.

Operating revenues

Net investment income for the segment increased $8.2 million, or 21.3%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013. The increase in net investment income was primarily due to a $7.5 million favorable variance related to called securities and a $0.9 million increase related to a portfolio of securities designated for trading as compared to the three months ended September 30, 2013. Net premiums and policy fees decreased $0.4 million, or 9.7%, for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013 and other income decreased $0.2 million.

Table of Contents

Total benefits and expenses

Total benefits and expenses increased $8.5 million for the three months ended September 30, 2014, as compared to the three months ended September 30, 2013, primarily due to higher overhead expenses for the three months ended September 30, 2014.

For The Nine Months Ended September 30, 2014 as compared to The Nine Months Ended September 30, 2013

Segment operating income (loss)

Corporate and Other segment operating loss was $42.5 million for the nine months ended September 30, 2014, as compared to an operating loss of $35.1 million for the nine months ended September 30, 2013. The change resulted from an $11.9 million unfavorable variance in other operating expenses partially offset by a $2.6 million increase in net investment income and a $1.2 million increase in other income as compared to the nine months ended September 30, 2013.

Operating revenues

Net investment income for the segment increased $2.6 million, or 2.1%, for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, and net premiums and policy fees decreased $1.2 million, or 8.7%. The increase in net investment income included a $5.5 million favorable variance related to called securities and a $1.8 million increase related to a portfolio of securities designated for trading as compared to the nine months ended September 30, 2013. Partially offsetting these increases was a $2.0 million unfavorable variance related to mortgage loan prepayment fee income as compared to the nine months ended September 30, 2013 and lower core net investment income. Other income increased $1.2 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, primarily due to a $1.2 million favorable variance related to gains generated on the repurchase of non-recourse funding obligations.

Total benefits and expenses

Total benefits and expenses increased $10.1 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, primarily due to higher overhead expenses.

Table of Contents

CONSOLIDATED INVESTMENTS

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

Portfolio Description

As of September 30, 2014, our investment portfolio was approximately $45.8 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			
	September 30, 2014		December 31, 2013	
	(Dollars In Thousands)			
Publicly issued bonds (amortized cost: 2014 - $26,810,505; 2013 - $26,112,290)	$ 28,997,046	63.3%	$ 27,069,262	61.8%
Privately issued bonds (amortized cost: 2014 - $7,827,115; 2013 - $7,921,480)	8,340,349	18.2	8,118,831	18.5
Fixed maturities	37,337,395	81.5	35,188,093	80.3
Equity securities (cost: 2014 - $791,964; 2013 - $675,758)	809,648	1.8	646,027	1.5
Mortgage loans	5,232,463	11.4	5,493,492	12.5
Investment real estate	13,998		20,413	
Policy loans	1,767,228	3.9	1,815,744	4.1
Other long-term investments	470,174	1.0	521,811	1.2
Short-term investments	183,411	0.4	134,146	0.4
Total investments	$ 45,814,317	100.0%	$ 43,819,726	100.0%

Included in the preceding table are $2.8 billion and $2.8 billion of fixed maturities and $75.3 million and $52.4 million of short-term investments classified as trading securities as of September 30, 2014 and December 31, 2013, respectively. The trading portfolio includes invested assets of $2.8 billion and $2.8 billion as of September 30, 2014 and December 31, 2013, 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 $415.0 million and $365.0 million of securities classified as held-to-maturity as of September 30, 2014 and December 31, 2013, respectively.

Fixed Maturity Investments

As of September 30, 2014, our fixed maturity investment holdings were approximately $37.3 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

	As of	
Rating	**September 30, 2014**	**December 31, 2013**
AAA	12.5%	12.5%
AA	7.1	7.0
A	32.3	32.2
BBB	41.5	41.7
Below investment grade	5.5	5.6
Not rated	1.1	1.0
	100.0%	100.0%

Table of Contents

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

We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio. As of September 30, 2014, based upon amortized cost, $35.5 million of our securities were guaranteed either directly or indirectly by third parties out of a total of $34.3 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, VOBA, and policyholder dividend obligation 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	**September 30, 2014**	**December 31, 2013**
	(Dollars In Millions)	
Corporate bonds	$ 28,947.7	$ 27,293.4
Residential mortgage-backed securities	1,733.7	1,756.0
Commercial mortgage-backed securities	1,327.4	1,129.2
Other asset-backed securities	1,120.5	1,160.2
U.S. government-related securities	1,818.3	1,704.1
Other government-related securities	77.9	108.5
States, municipals, and political subdivisions	1,896.9	1,671.7
Other	415.0	365.0
Total fixed income portfolio	$ 37,337.4	$ 35,188.1

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 $34.1 billion, or 91.3%, of our fixed maturities as available-for-sale as of September 30, 2014. 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 $415.0 million, or 1.1% of our fixed maturities as held-to-maturity as of September 30, 2014. These securities are carried at amortized cost on our consolidated condensed balance sheets.

Table of Contents

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounts for $2.8 billion, or 7.6%, of our fixed maturities and $75.3 million of short-term investments as of September 30, 2014. Changes in fair value on the trading portfolio, including gains and losses from sales, are passed to the reinsurers through the contractual terms of the reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement. The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	As of September 30, 2014	As of December 31, 2013
	(Dollars In Thousands)	
AAA	$ 446,609	$ 419,866
AA	270,741	266,173
A	896,117	854,020
BBB	893,708	924,554
Below investment grade	319,453	324,453
Total Modco trading fixed maturities	$ 2,826,628	$ 2,789,066

A portion of our bond portfolio is invested in residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS). ABS are securities that are backed by a pool of assets. These holdings as of September 30, 2014, were approximately $4.2 billion. Mortgage-backed securities (MBS) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions, prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

Table of Contents

Residential mortgage-backed securities - As of September 30, 2014, our RMBS portfolio was approximately $1.7 billion. Sequential securities receive payments in order until each class is paid off. Planned amortization class securities (PACs) pay down according to a schedule. Pass through securities receive principal as principal of the underlying mortgages is received.

The tables below include a breakdown of these holdings by type and rating as of September 30, 2014.

Type	**Percentage of Residential Mortgage-Backed Securities**
Sequential	27.7%
PAC	36.9
Pass Through	10.4
Other	25.0
	100.0%

Rating	**Percentage of Residential Mortgage-Backed Securities**
AAA	64.0%
AA	0.1
A	0.9
BBB	0.4
Below investment grade	34.6
	100.0%

Table of Contents

Alt-A Collateralized Holdings

As of September 30, 2014, we held securities with a fair value of $377.4 million, or 0.8% of invested assets, supported by collateral classified as Alt-A. As of December 31, 2013, we held securities with a fair value of $395.0 million supported by collateral classified as Alt-A. We included in this classification certain whole loan securities where such securities had underlying mortgages with a high level of limited loan documentation. As of September 30, 2014, these securities had a fair value of $135.9 million and an unrealized gain of $34.0 million.

The following table includes the percentage of our collateral classified as Alt-A, grouped by rating category, as of September 30, 2014:

Rating	Percentage of Alt-A Securities
A	1.3%
BBB	0.3
Below investment grade	98.4
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by Alt-A mortgage loans by rating as of September 30, 2014:

Alt-A Collateralized Holdings

	Estimated Fair Value of Security by Year of Security Origination					
Rating	2010 and Prior	2011	2012	2013	2014	Total
			(Dollars In Millions)			
A	$ 5.1	$	$	$	$	$ 5.1
BBB	1.2					1.2
Below investment grade	371.1					371.1
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ 377.4	$	$	$	$	$ 377.4

	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
Rating	2010 and Prior	2011	2012	2013	2014	Total
			(Dollars In Millions)			
A	$ 0.1	$	$	$	$	$ 0.1
BBB	0.1					0.1
Below investment grade	44.2					44.2
Total mortgage-backed securities collateralized by Alt-A mortgage loans	$ 44.4	$	$	$	$	$ 44.4

Table of Contents

Sub-prime Collateralized Holdings

As of September 30, 2014, we held securities with a total fair value of $1.8 million that were supported by collateral classified as sub-prime. As of December 31, 2013, we held securities with a fair value of $2.0 million that were supported by collateral classified as sub-prime.

Prime Collateralized Holdings

As of September 30, 2014, we had RMBS collateralized by prime mortgage loans (including agency mortgages) with a total fair value of $1.4 billion, or 3.0%, of total invested assets. As of December 31, 2013, we held securities with a fair value of $1.4 billion of RMBS collateralized by prime mortgage loans (including agency mortgages).

The following table includes the percentage of our collateral classified as prime, grouped by rating category, as of September 30, 2014:

Rating	Percentage of Prime Securities
AAA	82.0%
AA	0.2
A	0.7
BBB	0.4
Below investment grade	16.7
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our mortgage-backed securities collateralized by prime mortgage loans (including agency mortgages) by rating as of September 30, 2014:

Prime Collateralized Holdings

	Estimated Fair Value of Security by Year of Security Origination					
Rating	2010 and Prior	2011	2012	2013	2014	Total
			(Dollars In Millions)			
AAA	$ 509.4	$ 316.6	$ 26.9	$ 152.1	$ 105.4	$ 1,110.4
AA	0.2				2.3	2.5
A	9.8					9.8
BBB	5.4					5.4
Below investment grade	226.4					226.4
Total mortgage-backed securities collateralized by prime mortgage	$ 751.2	$ 316.6	$ 26.9	$ 152.1	$ 107.7	$ 1,354.5

loans

Rating	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
	2010 and Prior	2011	2012	2013	2014	Total
	(Dollars In Millions)					
AAA	$ 24.0	$ 11.5	$ 0.1	$ 0.4	$ (0.4)	$ 35.6
AA						
A	0.5					0.5
BBB	0.5					0.5
Below investment grade	10.8					10.8
Total mortgage-backed securities collateralized by prime mortgage loans	$ 35.8	$ 11.5	$ 0.1	$ 0.4	$ (0.4)	$ 47.4

Table of Contents

Commercial mortgage-backed securities - Our CMBS portfolio consists of commercial mortgage-backed securities issued in securitization transactions. As of September 30, 2014, the CMBS holdings were approximately $1.3 billion. As of December 31, 2013, the CMBS holdings were approximately $1.1 billion.

The following table includes the percentages of our CMBS holdings, grouped by rating category, as of September 30, 2014:

Rating	**Percentage of Commercial Mortgage-Backed Securities**
AAA	70.6%
AA	15.3
A	12.4
BBB	1.7
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our CMBS as of September 30, 2014:

Commercial Mortgage-Backed Securities

	Estimated Fair Value of Security by Year of Security Origination					
Rating	**2010 and Prior**	**2011**	**2012**	**2013**	**2014**	**Total**
			(Dollars In Millions)			
AAA	$ 149.8	$ 211.9	$ 308.0	$ 147.9	$ 119.1	$ 936.7
AA	32.9	38.1	42.5	29.9	59.3	202.7
A	79.9	52.0	13.6	19.6		165.1
BBB	22.9					22.9
Total commercial mortgage-backed securities	$ 285.5	$ 302.0	$ 364.1	$ 197.4	$ 178.4	$ 1,327.4

	Estimated Unrealized Gain (Loss) of Security by Year of Security Origination					
Rating	**2010 and Prior**	**2011**	**2012**	**2013**	**2014**	**Total**
			(Dollars In Millions)			
AAA	$ 8.3	$ 18.9	$ 2.9	$ 0.5	$ 0.4	$ 31.0
AA	2.1	3.1	(1.4)	(0.3)	0.2	3.7
A	3.2	0.6	(0.8)	(0.8)		2.2
BBB	0.4					0.4
Total commercial mortgage-backed securities	$ 14.0	$ 22.6	$ 0.7	$ (0.6)	$ 0.6	$ 37.3

Table of Contents

Other asset-backed securities Other asset-backed securities pay down based on cash flow received from the underlying pool of assets, such as receivables on auto loans, student loans, credit cards, etc. As of September 30, 2014, these holdings were approximately $1.1 billion. As of December 31, 2013, these holdings were approximately $1.2 billion.

The following table includes the percentages of our other asset-backed holdings, grouped by rating category, as of September 30, 2014:

Rating	Percentage of Other Asset-Backed Securities
AAA	51.3%
AA	19.0
A	17.4
BBB	0.6
Below investment grade	11.7
	100.0%

The following tables categorize the estimated fair value and unrealized gain/(loss) of our asset-backed securities as of September 30, 2014:

Other Asset-Backed Securities

	Estimated Fair Value of Security by Year of Security Origination					
Rating	2010 and Prior	2011	2012	2013	2014	Total
	(Dollars In Millions)					
AAA	$ 490.9	$ 13.2	$ 31.8	$ 19.1	$ 20.1	$ 575.1
AA	156.2		56.5			212.7
A	43.5	51.5	56.0	34.5	10.0	195.5