PROTECTIVE LIFE CORP
Form 10-Q
August 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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 ý 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 ý No o

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 "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated Filer o

Non-accelerated filer x   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 ý

Number of shares of Common Stock, $0.01 Par Value, outstanding as of July 25, 2016: 1,000

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PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED JUNE 30, 2016

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PART II

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands, Except Per Share Amounts)
Revenues					
Premiums and policy fees	$857,948	$832,088	$1,710,743	$1,341,096	$ 261,866
Reinsurance ceded	(336,605)	(345,244)	(646,932)	(486,645)	(89,956)
Net of reinsurance ceded	521,343	486,844	1,063,811	854,451	171,910
Net investment income	488,460	436,291	963,577	725,163	175,180
Realized investment gains (losses):					
Derivative financial instruments	(83,366)	94,603	(156,865)	128,244	(123,274)
All other investments	88,783	(102,337)	170,511	(137,393)	81,153
Other-than-temporary impairment losses	(5,527)	(13,395)	(8,296)	(13,395)	(636)
Portion recognized in other comprehensive income (before taxes)	4,560	7,661	4,712	7,661	155
Net impairment losses recognized in earnings	(967)	(5,734)	(3,584)	(5,734)	(481)
Other income	102,148	109,094	205,864	176,357	36,421
Total revenues	1,116,401	1,018,761	2,243,314	1,741,088	340,909
Benefits and expenses					
Benefits and settlement expenses, net of reinsurance ceded: (three and six months: 2016 Successor - $276,294 and $576,167); (2015 Successor - $303,743 and $420,951) (2015 Predecessor - $87,674)	713,697	694,606	1,428,242	1,180,905	267,287
Amortization of deferred policy acquisition costs and value of business acquired	20,761	40,094	51,507	67,991	4,072
Other operating expenses, net of reinsurance ceded: (three and six months: 2016 Successor - $50,950 and $99,261); (2015 Successor - $49,741 and $84,777); (2015 Predecessor - $35,036)	213,282	187,151	423,062	302,455	68,368
Total benefits and expenses	947,740	921,851	1,902,811	1,551,351	339,727
Income before income tax	168,661	96,910	340,503	189,737	1,182
Income tax expense (benefit)	56,541	33,070	113,035	63,036	(327)
Net income	$112,120	$63,840	$227,468	$126,701	$ 1,509
Net income - basic					$ 0.02
Net income - diluted					$ 0.02

Cash dividends paid per share	$ —
Average shares outstanding - basic	80,452,848
Average shares outstanding - diluted	81,759,287

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See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Net income	$112,120	$63,840	$227,468	$126,701	$ 1,509
Other comprehensive income (loss):					
Change in net unrealized gains (losses) on investments, net of income tax: (three and six months 2016 Successor - $314,161 and $550,511); (2015 Successor - $(324,302) and $(481,657)); (2015 Predecessor - $259,738)	583,441	(602,274)	1,022,377	(894,507)	482,370
Reclassification adjustment for investment amounts included in net income, net of income tax: (three and six months 2016 Successor - $(5,588) and $(6,616); (2015 Successor - $831 and $700); (2015 Predecessor - $(2,244))	(10,377)	1,543	(12,287)	1,301	(4,166)
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 and six months 2016 Successor - $(1,543) and $(1,384)); (2015 Successor - $(2,458) and $(2,458)); (2015 Predecessor - $(131))	(2,866)	(4,566)	(2,572)	(4,566)	(243)
Change in accumulated (loss) gain - derivatives, net of income tax: (2015 Successor - $12 and $0); (2015 Predecessor - $5)	—	23	—	—	9
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2015 Successor - $(31) and $0); (2015 Predecessor - $13)	—	(59)	—	—	23
Change in postretirement benefits liability adjustment, net of income tax: (2015 Predecessor - $(6,475))	—	—	—	—	(12,025)
Total other comprehensive income (loss)	570,198	(605,333)	1,007,518	(897,772)	465,968
Total comprehensive income (loss)	$682,318	$(541,493)	$1,234,986	$(771,071)	$ 467,477

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	Successor Company	
	As of June 30, 2016	As of December 31, 2015
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: Successor 2016 - $39,456,317; 2015 - $38,457,049)	$38,852,025	$35,573,250
Fixed maturities, at amortized cost (fair value: Successor 2016 - $2,853,788; 2015 - $515,000)	2,779,280	593,314
Equity securities, at fair value (cost: Successor 2016 - $718,409; 2015 - $732,485)	739,709	739,263
Mortgage loans (related to securitizations: Successor 2016 - $305,373; 2015 - $359,181)	5,748,675	5,662,812
Investment real estate, net of accumulated depreciation (Successor 2016 - $173; 2015 - $133)	7,028	11,118
Policy loans	1,670,218	1,699,508
Other long-term investments	919,809	622,567
Short-term investments	286,201	268,718
Total investments	51,002,945	45,170,550
Cash	428,519	396,072
Accrued investment income	480,204	473,598
Accounts and premiums receivable	258,369	62,459
Reinsurance receivables	5,447,828	5,536,751
Deferred policy acquisition costs and value of business acquired	1,890,984	1,558,808
Goodwill	732,443	732,443
Other intangibles, net of accumulated amortization (Successor 2016 - $58,531; 2015 - $37,869)	625,143	645,131
Property and equipment, net of accumulated depreciation (Successor 2016 - $12,859; 2015 - $8,277)	103,466	102,865
Other assets	162,131	153,222
Income tax receivable	13,761	—
Assets related to separate accounts		
Variable annuity	12,891,214	12,829,188
Variable universal life	831,818	827,610
Total assets	$74,868,825	$68,488,697

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(continued)
(Unaudited)

	Successor Company	
	As of June 30, 2016	As of December 31, 2015
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$30,591,043	$29,703,897
Unearned premiums	745,312	723,536
Total policy liabilities and accruals	31,336,355	30,427,433
Stable value product account balances	2,838,674	2,131,822
Annuity account balances	10,678,701	10,719,862
Other policyholders' funds	1,354,970	1,069,572
Other liabilities	2,636,695	1,693,310
Income tax payable	—	49,957
Deferred income taxes	1,707,863	997,281
Non-recourse funding obligations	2,863,409	685,684
Repurchase program borrowings	160,000	438,185
Debt	1,397,236	1,588,806
Subordinated debt securities	445,023	448,763
Liabilities related to separate accounts		
Variable annuity	12,891,214	12,829,188
Variable universal life	831,818	827,610
Total liabilities	69,141,958	63,907,473
Commitments and contingencies - Note 13	0	0
Shareowner's equity		
Common Stock, Successor: 2016 and 2015 - $0.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,554,059	5,554,059
Treasury stock, at cost	—	—
Retained earnings	406,424	268,299
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (Successor 2016 - $(127,390); 2015 - $(671,285))	(236,582)	(1,246,672)
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (Successor 2016 - $(1,596); 2015 - $(212))	(2,965)	(393)
Postretirement benefits liability adjustment, net of income tax: (Successor 2016 - $3,194; 2015 - $3,194)	5,931	5,931
Total shareowner's equity	5,726,867	4,581,224
Total liabilities and shareowner's equity	$74,868,825	$68,488,697

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNER'S EQUITY
(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner's equity
	(Dollars In Thousands)					
Successor Company						
Balance, December 31, 2015	$ —	$ 5,554,059	$ —	$ 268,299	$ (1,241,134)	$ 4,581,224
Net income for the six months ended June 30, 2016				227,468		227,468
Other comprehensive income					1,007,518	1,007,518
Comprehensive income for the six months ended June 30, 2016						1,234,986
Dividends to parent				(89,343)		(89,343)
Balance, June 30, 2016	$ —	$ 5,554,059	$ —	$ 406,424	$ (233,616)	$ 5,726,867

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Successor Company		Predecessor Company
	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)
Cash flows from operating activities			
Net income	$227,468	$126,701	$ 1,509
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment (gains) losses	(10,062)	14,883	42,602
Amortization of DAC and VOBA	51,507	67,991	4,072
Capitalization of DAC	(162,363)	(130,347)	(22,489)
Depreciation and amortization expense	27,008	20,922	820
Deferred income tax	168,049	16,056	30,791
Accrued income tax	(63,718)	117,041	(32,803)
Interest credited to universal life and investment products	365,702	422,093	79,088
Policy fees assessed on universal life and investment products	(633,366)	(491,769)	(90,288)
Change in reinsurance receivables	88,923	110,125	(85,081)
Change in accrued investment income and other receivables	(30,069)	15,831	(5,789)
Change in policy liabilities and other policyholders' funds of traditional life and health products	(180,674)	(153,073)	176,980
Trading securities:			
Maturities and principal reductions of investments	54,710	40,104	17,946
Sale of investments	299,517	78,302	26,422
Cost of investments acquired	(331,920)	(135,770)	(27,289)
Other net change in trading securities	31,036	83,770	(26,901)
Amortization of premiums and accretion of discounts on investments and mortgage loans	197,319	177,658	12,930
Change in other liabilities	274,971	(228,189)	238,592
Other, net	(43,897)	(27,763)	(149,889)
Net cash provided by operating activities	$330,141	$124,566	$ 191,223

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(continued)

	Successor Company		Predecessor Company
	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)
Cash flows from investing activities			
Maturities and principal reductions of investments, available-for-sale	$630,133	$202,371	$59,028
Sale of investments, available-for-sale	1,212,879	2,051,567	191,062
Cost of investments acquired, available-for-sale	(2,852,940)	(2,593,859)	(149,887)
Change in investments, held-to-maturity	(2,188,000)	(35,000)	—
Mortgage loans:			
New lendings	(575,386)	(637,908)	(100,530)
Repayments	457,181	510,580	45,741
Change in investment real estate, net	3,883	52	7
Change in policy loans, net	29,290	32,008	6,365
Change in other long-term investments, net	(65,499)	(154,537)	(25,339)
Change in short-term investments, net	(41,017)	34,946	(40,314)
Net unsettled security transactions	112,433	(46,266)	37,510
Purchase of property and equipment	(8,282)	(2,444)	(649)
Amounts received from reinsurance transaction	325,800	—	—
Net cash (used in) provided by investing activities	$(2,959,525)	$(638,490)	$22,994
Cash flows from financing activities			
Borrowings under line of credit arrangements and debt	$100,000	$155,000	$—
Principal payments on line of credit arrangement and debt	(258,763)	(119,399)	(60,000)
Issuance (repayment) of non-recourse funding obligations	2,176,700	35,000	—
Repurchase program borrowings	(278,185)	552,213	—
Dividends to shareowners	(89,343)	—	—
Investment product deposits and change in universal life deposits	2,219,455	1,222,581	169,233
Investment product withdrawals	(1,208,033)	(1,225,576)	(240,147)
Other financing activities, net	—	171	(4)
Net cash provided by (used in) financing activities	$2,661,831	$619,990	$(130,918)
Change in cash	32,447	106,066	83,299
Cash at beginning of period	396,072	462,710	379,411
Cash at end of period	$428,519	$568,776	$462,710

See Notes to Consolidated Condensed Financial Statements

PROTECTIVE LIFE CORPORATION
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

On February 1, 2015, Protective Life Corporation (the “Company”) became a wholly owned subsidiary of The Dai-ichi Life Insurance Company, Limited, a kabushiki kaisha organized under the laws of Japan (“Dai-ichi Life”), when DL Investment (Delaware), Inc. a wholly owned subsidiary of Dai-ichi Life, merged with and into the Company (the "Merger"). Prior to February 1, 2015, and for the periods reported as “predecessor”, the Company’s stock was publicly traded on the New York Stock Exchange. Subsequent to the Merger date, the Company remains as an SEC registrant within the United States. The Company is a holding company with subsidiaries that provide financial services through the production, distribution, and administration of insurance and investment products. The Company markets individual life insurance, credit life and disability insurance, guaranteed investment contracts, guaranteed funding agreements, fixed and variable annuities, and extended service contracts throughout the United States. The Company also maintains a separate segment devoted to the acquisition of insurance policies from other companies. Founded in 1907, Protective Life Insurance Company (“PLICO”) is the Company’s largest operating subsidiary.

In conjunction with the Merger, the Company elected to apply “pushdown” accounting by applying the guidance allowed by ASC Topic 805, Business Combinations, including the initial recognition of most of the Company’s assets and liabilities at fair value as of the acquisition date, and similarly recognizing goodwill calculated based on the terms of the transaction and the fair value of the new basis of net assets of the Company. The new basis of accounting will be the basis of the accounting records for assets and liabilities held at the acquisition date in the preparation of future financial statements and related disclosures after the Merger date.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for the interim periods presented herein. Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. 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 six months ended June 30, 2016 (Successor Company) are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2016 (Successor Company). The year-end consolidated condensed financial data included herein was derived from audited financial statements but does not include all disclosures required by GAAP within this report. 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, 2015 (Successor Company).

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

Entities Included

The consolidated condensed financial statements for the predecessor and successor periods presented in this report 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, 2015 (Successor Company). There were no significant changes to the Company's accounting policies during the six months ended June 30, 2016 (Successor Company).

Accounting Pronouncements Recently Adopted

Accounting Standards Update ("ASU") No. 2015-02-Consolidation-Amendments to the Consolidation Analysis. This Update makes several targeted changes to generally accepted accounting principles, including a) eliminating the presumption that a general partner should consolidate a limited partnership and b) eliminating the consolidation model specific to limited partnerships. The amendments also clarify when fees and related party relationships should be considered in the consolidation of variable interest entities. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2015. The Update did not impact the Company's financial position or results of operations, and the Company is prepared to comply with the revised guidance in future periods.

ASU No. 2015-03-Interest-Imputation of Interest. The objective of this Update is to eliminate diversity in practice related to the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The Update is effective for fiscal years beginning after December 15, 2015, and requires revised presentation of debt issuance costs in all periods presented in the financial statements. The Update did not impact the Company's financial position or results of operations, and the Company is prepared to comply with the revised guidance in future periods.

ASU No. 2015-15 - Interest - Imputation of Interest - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The objective of this Update is to clarify the SEC Staff’s position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on the topic in ASU No. 2015-03. This Update reflects the SEC Staff’s decision to not object when an entity defers and presents debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement. The Update did not impact the Company's financial position or results of operations, and the Company is prepared to comply with the revised guidance in future periods.

ASU No. 2015-05 - Intangibles - Goodwill and Other - Internal-Use Software. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer’s accounting for service contracts. The Update is effective for annual and interim periods beginning after December 15, 2015. The Update did not impact the Company's financial position or results of operations, and the Company is prepared to comply with the revised guidance in future periods.

Accounting Pronouncements Not Yet Adopted

ASU No. 2014-09-Revenue from Contracts with Customers (Topic 606). This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update was originally effective for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU No. 2015-14 - Revenues from Contracts with Customers: Deferral of the Effective Date, to defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. Early adoption will be allowed, but not before the original effective date. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its non-insurance operations.

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 for annual and interim periods thereafter, with early adoption 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.

ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The Company does not anticipate that the additional disclosures introduced in this Update will be material to its financial statements.

ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2017. The Company is reviewing its policies and processes to ensure compliance with the revised guidance.

ASU No. 2016-02 - Leases. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of leases. The most significant change will relate to the accounting model used by lessees. The Update will require all leases with terms greater than 12 months to be recorded on the balance sheet in the form of a lease asset and liability. The amendments in the Update are effective for annual and interim periods beginning after December 15, 2018. The Company is reviewing its policies and processes to ensure compliance with the revised guidance.

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ASU No. 2016-13 - Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. The amendments in this Update introduce a new impairment model for certain financial assets, including mortgage loans and reinsurance receivables. The new model will not apply to debt securities classified as available-for-sale. For assets within the scope of the new model, an entity will recognize as an allowance its estimate of the contractual cash flows not expected to be collected. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred. The Update also makes targeted changes to the current impairment model for available-for-sale debt securities, which comprise the majority of the Company's invested assets. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2019. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its operations and financial results.

3. REINSURANCE AND FINANCING TRANSACTIONS

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the "Master Agreement"), with Genworth Life and Annuity Insurance Company ("GLAIC"). Pursuant to the Master Agreement, effective January 1, 2016, PLICO entered into a reinsurance agreement (the "Reinsurance Agreement") under the terms of which PLICO coinsures certain term life insurance business of GLAIC (the "GLAIC Block"). In connection with the reinsurance transaction, on January 15, 2016, Golden Gate Captive Insurance Company ("Golden Gate"), a wholly owned subsidiary of PLICO, and Steel City, LLC ("Steel City"), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance $2.188 billion of "XXX" reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life Insurance Company ("WCL"), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of $2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of $2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the "Risk-Takers") provide credit enhancement to the Steel City notes for the 18-year term in exchange for credit enhancement fees. The transaction is "non-recourse" to PLICO, WCL and the Company, meaning that none of these companies are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. As a result of the financing transaction described above, the $800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes. Also on January 15, 2016, Golden Gate paid an extraordinary dividend of $300 million to PLICO as approved by the Vermont Department of Financial Regulation.

The transactions described above resulted in an increase to total assets and total liabilities of $2.8 billion. Of the $2.8 billion increase in total assets, $0.6 billion was the result of the reinsurance transaction with GLAIC which included a $280 million increase in VOBA. The remaining $2.2 billion increase to total assets and liabilities is associated with the financing transaction between Golden Gate and Steel City.

The Company considered whether the Reinsurance Agreement constituted the purchase of a business for accounting and reporting purposes pursuant to ASC 805, Business Combinations. While the transaction included a continuation of the revenue-producing activities associated with the reinsured policies, it did not result in the acquisition of a market distribution system, sales force or production techniques. Based on Management's decision not to pursue distribution opportunities or future sales related to the reinsured policies, the Company accounted for the transaction as a reinsurance agreement under ASC 944, Insurance Contracts and asset acquisition under ASC 805. Accordingly, the Company recorded the assets and liabilities acquired under the reinsurance agreement at fair value and recognized an intangible asset (value of business acquired or "VOBA") equal to the excess of the fair value of assets acquired over liabilities assumed, measured in accordance with the Company's accounting policies for insurance and reinsurance contracts that it issues or holds pursuant to ASC 944.

4. DAI-ICHI MERGER

On February 1, 2015 the Company, subsequent to required approvals from the Company's shareholders and relevant regulatory authorities, became a wholly owned subsidiary of Dai-ichi Life as contemplated by the Agreement and Plan of Merger (the "Merger Agreement") with Dai-ichi Life and DL Investment (Delaware), Inc., a Delaware corporation and wholly owned subsidiary of Dai-ichi Life, which provided for the Merger of DL Investment (Delaware), Inc. with and into the Company, with the Company surviving the Merger as a wholly owned subsidiary of Dai-ichi Life. On February 1, 2015 each share of the Company's common stock outstanding was converted into the right to receive $70 per share, without interest (the "Per Share Merger Consideration"). The aggregate cash consideration paid in connection with the Merger for the outstanding shares of common stock was approximately $5.6 billion and paid directly to the shareowners of record by Dai-ichi Life. The Merger provided Dai-ichi Life with a platform for growth in the United States, where it did not previously have a significant presence. In connection with the completion of the Merger, the Company's previously publicly traded equity was delisted from the NYSE, although the Company remains an SEC registrant for financial reporting purposes in the United States.

The Merger was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. On the date of the Merger, goodwill of $735.7 million represented the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflected the Company's assembled workforce, future growth potential and other sources of value not associated with identifiable assets. During the measurement period subsequent to February 1, 2015, the Company made adjustments to provisional amounts related to certain tax balances that resulted in a decrease to goodwill of $3.3 million from the amount recorded at the Merger date. The balance of goodwill associated with the Merger as of December 31, 2015 (Successor Company) and June 30, 2016 (Successor Company) was $732.4 million. None of the goodwill is tax deductible.

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

	Fair Value As of February 1, 2015 (Dollars In Thousands)
Assets	
Fixed maturities	$ 38,363,025
Equity securities	745,512
Mortgage loans	5,580,229
Investment real estate	7,456
Policy loans	1,751,872
Other long-term investments	686,507
Short-term investments	316,167
Total investments	47,450,768
Cash	462,710
Accrued investment income	484,021
Accounts and premiums receivable	112,182
Reinsurance receivables	5,724,020
Value of business acquired	1,276,886
Goodwill	735,712
Other intangibles	683,000
Property and equipment	104,364
Other assets	120,762
Income tax receivable	15,458
Assets related to separate accounts	
Variable annuity	12,970,587
Variable universal life	819,188
Total assets	$ 70,959,658
Liabilities	
Future policy and benefit claims	$ 30,195,841
Unearned premiums	682,183
Total policy liabilities and accruals	30,878,024
Stable value product account balances	1,932,277
Annuity account balances	10,941,661
Other policyholders’ funds	1,388,083
Other liabilities	2,188,863
Deferred income taxes	1,535,556
Non-recourse funding obligations	621,798
Repurchase program borrowings	50,000
Debt	1,519,211
Subordinated debt securities	560,351
Liabilities related to separate accounts	
Variable annuity	12,970,587
Variable universal life	819,188
Total liabilities	65,405,599
Net assets acquired	$ 5,554,059

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Treatment of certain acquisition related costs

The Company recorded costs related to the Merger in either the predecessor or successor periods based on the specific facts and circumstances underlying each individual transaction. Certain of these costs were fully contingent on the consummation of the Merger on February 1, 2015 (Successor Company). These costs are not expensed in either the Predecessor or Successor Company Statement of Comprehensive Income (Loss). Liabilities for payment of these contingent costs are included in the opening balance sheet as of February 1, 2015 (Successor Company), and the nature and amount of the costs are discussed below.

Fees in the amount of $28.8 million which were paid to the Company's financial advisor related to the Merger were recorded as liabilities as of the acquisition date. In accordance with the terms of the contract, payment of these fees was contingent on the successful closing of the Merger, and became payable on the date thereof.

Certain of the Company's stock-based compensation arrangements provided for acceleration of benefits on the completion of a change-in-control event. Upon the completion of the Merger, benefits in the amount of $138.2 million became payable to eligible employees under these arrangements. Such accounts were recorded as liabilities as of the acquisition closing date. The portion of this payable that represented expense accelerated on the merger date was $25.4 million.

Treatment of Benefit Plans

At or immediately prior to the Merger, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a "SAR") that were outstanding and unexercised immediately prior to the Merger and that had a base price per share of Common Stock underlying such SAR (the "Base Price") that was less than the Per Share Merger Consideration (each such SAR, an "In-the-Money SAR"), whether or not exercisable or vested, was cancelled and converted into the right to receive an amount in cash less any applicable withholding taxes, 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 or immediately prior to the effective time of the Merger, each restricted stock unit with respect to a share of Common Stock granted under any Stock Plan (each, a "RSU") that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of RSUs.

The number of performance shares earned for each award of performance shares granted under any Stock Plan was 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 Merger (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 were not less than the aggregate number of performance shares at the target performance level. Each performance share earned that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of Performance Shares.

5. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY Life Insurance Company ("MONY") converted from a mutual insurance company to a stock corporation ("demutualization"). In connection with its demutualization, an accounting mechanism known as a closed block (the "Closed Block") was established for certain individuals' participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the acquisition of MONY in 2013.

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

The excess of Closed Block liabilities over Closed Block assets (adjusted to exclude the impact of related amounts in accumulated other comprehensive income (loss) ("AOCI")) at the acquisition date of October 1, 2013, represented the estimated maximum future post-tax earnings from the Closed Block that would be recognized in income from continuing operations over the period the policies and contracts in the Closed Block remain in force. In connection with the acquisition of MONY, the Company developed an actuarial calculation of the expected timing of MONY's Closed Block's earnings as of October 1, 2013. Pursuant to the acquisition of the Company by Dai-ichi Life, this actuarial calculation of the expected timing of MONY's Closed Block earnings was recalculated and reset as of February 1, 2015, along with the establishment of a policyholder dividend obligation as of such date.

If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company's net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that period, the policyholder dividend obligation would be reduced (but not below

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zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

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

Summarized financial information for the Closed Block as of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company) is as follows:

	Successor Company	
	As of June 30, 2016	As of December 31, 2015
	(Dollars In Thousands)	
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	$5,939,342	$6,010,520
Policyholder dividend obligation	232,422	—
Other liabilities	13,268	24,539
Total closed block liabilities	6,185,032	6,035,059
Closed block assets		
Fixed maturities, available-for-sale, at fair value	$4,677,305	$4,426,090
Mortgage loans on real estate	245,997	247,162
Policy loans	726,563	746,102
Cash	—	34,420
Other assets	148,763	162,640
Total closed block assets	5,798,628	5,616,414
Excess of reported closed block liabilities over closed block assets	386,404	418,645
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses) net of policyholder dividend obligation of $(9,488) (Successor) and $(179,360) (Successor)	—	(18,597)
Future earnings to be recognized from closed block assets and closed block liabilities	$386,404	$400,048

Reconciliation of the policyholder dividend obligation is as follows:

	Successor Company		Predecessor Company
	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)
Policyholder dividend obligation, beginning of period	$—	$323,432	$ 366,745
Applicable to net revenue (losses)	(28,921)	(15,096)	(1,369)
	261,343	(256,053)	135,077

Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation; includes deferred tax benefits of $5,109 (Successor); $89,618 (2015 - Successor); $47,277 (2015 - Predecessor)			
Policyholder dividend obligation, end of period	$232,422	$52,283	$ 500,453

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Closed Block revenues and expenses were as follows:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Revenues					
Premiums and other income	$47,320	$49,998	$91,239	$81,669	$ 15,065
Net investment income	52,008	54,833	102,875	87,681	19,107
Net investment gains	450	2,216	637	2,850	568
Total revenues	99,778	107,047	194,751	172,200	34,740
Benefits and other deductions					
Benefits and settlement expenses	92,029	98,975	172,084	154,746	31,152
Other operating expenses	653	263	1,677	474	—
Total benefits and other deductions	92,682	99,238	173,761	155,220	31,152
Net revenues before income taxes	7,096	7,809	20,990	16,980	3,588
Income tax expense	2,484	2,733	7,346	5,943	1,256
Net revenues	$4,612	$5,076	$13,644	$11,037	$ 2,332

6. INVESTMENT OPERATIONS

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

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Fixed maturities	$16,730	$3,339	$22,451	$3,712	$ 6,891
Equity securities	202	21	36	21	—
Impairments on corporate securities	(964)	(5,734)	(3,581)	(5,734)	(481)
Modco trading portfolio	76,201	(108,741)	154,355	(141,901)	73,062
Other investments	(4,353)	3,044	(6,334)	775	1,200
Total realized gains (losses) - investments	$87,816	$(108,071)	$166,927	$(143,127)	$ 80,672

Gross realized gains and gross realized losses on investments available-for-sale (fixed maturities, equity securities, and short-term investments) are as follows:

	Successor Company				Predecessor Company
	For The Three Months	For The Three Months	For The Six Months	February 1, 2015 to	January 1, 2015 to January 31, 2015

	Ended June 30, 2016	Ended June 30, 2015	Ended June 30, 2016	June 30, 2015	
	(Dollars In Thousands)				(Dollars In Thousands)
Gross realized gains	$18,752	$5,435	$27,800	$6,942	$ 6,920
Gross realized losses	$(2,784)	$(7,809)	$(8,894)	$(8,943)	$ (469)
Impairments losses included in gross realized losses	$(964)	$(5,734)	$(3,581)	$(5,734)	$ —

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The chart below summarizes the fair value (proceeds) and the gains/losses realized on securities the Company sold that were in an unrealized gain position and an unrealized loss position.

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Securities in an unrealized gain position:					
Fair value (proceeds)	$513,544	$432,158	$822,793	$715,038	$ 172,551
Gains realized	$18,752	$5,435	$27,800	$6,942	$ 6,920
Securities in an unrealized loss position[1]:					
Fair value (proceeds)	$6,895	$28,644	$60,582	$49,326	$ 435
Losses realized[2]	$(1,820)	$(2,075)	$(5,313)	$(3,209)	$ (29)

[1] The Company made the decision to exit these holdings in conjunction with its overall asset liability management process.
[2] The losses realized for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), were immaterial to the Company.

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The amortized cost and fair value of the Company's investments classified as available-for-sale as of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company), are as follows:

Successor Company As of June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
	(Dollars In Thousands)				
Fixed maturities:					
Residential mortgage-backed securities	$1,900,934	$50,003	$(9,253)	$1,941,684	$(1)
Commercial mortgage-backed securities	1,570,208	30,278	(3,726)	1,596,760	—
Other asset-backed securities	1,151,430	5,267	(36,055)	1,120,642	—
U.S. government-related securities	1,350,769	21,232	(205)	1,371,796	—
Other government-related securities	18,348	332	—	18,680	—
States, municipals, and political subdivisions	1,727,664	31,429	(21,594)	1,737,499	—
Corporate securities	28,883,011	380,022	(1,052,087)	28,210,946	(4,560)
Preferred stock	64,362	1,732	(1,667)	64,427	—
	36,666,726	520,295	(1,124,587)	36,062,434	(4,561)
Equity securities	710,361	26,392	(5,092)	731,661	—
Short-term investments	247,995	—	—	247,995	—
	$37,625,082	$546,687	$(1,129,679)	$37,042,090	$(4,561)
As of December 31, 2015					
Fixed maturities:					
Residential mortgage-backed securities	$1,773,099	$9,286	$(17,112)	$1,765,273	$—
Commercial mortgage-backed securities	1,328,317	428	(41,858)	1,286,887	—
Other asset-backed securities	813,056	2,758	(18,763)	797,051	—
U.S. government-related securities	1,566,260	449	(34,532)	1,532,177	—
Other government-related securities	18,483	—	(743)	17,740	—
States, municipals, and political subdivisions	1,729,732	682	(126,814)	1,603,600	—
Corporate securities	28,499,691	26,369	(2,682,274)	25,843,786	(605)
Preferred stock	64,362	192	(1,867)	62,687	—
	35,793,000	40,164	(2,923,963)	32,909,201	(605)
Equity securities	724,226	13,255	(6,477)	731,004	—
Short-term investments	206,991	—	—	206,991	—
	$36,724,217	$53,419	$(2,930,440)	$33,847,196	$(605)

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

As of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company), the Company had an additional $2.8 billion and $2.7 billion of fixed maturities, $8.0 million and $8.3 million of equity securities, and $38.2 million and $61.7 million of short-term investments classified as trading securities, respectively.

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The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of June 30, 2016 (Successor Company), by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Successor Company			
	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	$750,175	$750,605	$—	$—
Due after one year through five years	6,892,759	6,932,132	—	—
Due after five years through ten years	7,793,745	7,908,634	—	—
Due after ten years	21,230,047	20,471,063	2,779,280	2,853,788
	$36,666,726	$36,062,434	$2,779,280	$2,853,788

The chart below summarizes the Company's other-than-temporary impairments of investments. All of the impairments were related to fixed maturities.

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Other-than-temporary impairments	$(5,527)	$(13,395)	$(8,296)	$(13,395)	$ (636)
Non-credit impairment losses recorded in other comprehensive income	4,560	7,661	4,712	7,661	155
Net impairment losses recognized in earnings	$(967)	$(5,734)	$(3,584)	$(5,734)	$ (481)

There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the three and six months ended June 30, 2016 (Successor Company), for the three months ended June 30, 2015 (Successor Company), for the period of February 1, 2015 to June 30, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

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

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30,	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015

	2015				
	(Dollars In Thousands)				(Dollars In Thousands)
Beginning balance	$2,619	$—	$22,761	$—	$ 15,478
Additions for newly impaired securities	964	4,472	3,056	4,472	—
Additions for previously impaired securities	—	—	525	—	221
Reductions for previously impaired securities due to a change in expected cash flows	—	—	(22,759)	—	—
Reductions for previously impaired securities that were sold in the current period	(2,619)	—	(2,619)	—	—
Ending balance	$964	$4,472	$964	$4,472	$ 15,699

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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 June 30, 2016 (Successor Company):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$192,301	$(3,103)	$152,965	$(6,150)	$345,266	$(9,253)
Commercial mortgage-backed securities	43,965	(283)	194,550	(3,443)	238,515	(3,726)
Other asset-backed securities	90,316	(1,188)	550,860	(34,867)	641,176	(36,055)
U.S. government-related securities	1,283	(5)	57,372	(200)	58,655	(205)
States, municipalities, and political subdivisions	34,112	(274)	718,798	(21,320)	752,910	(21,594)
Corporate securities	2,342,859	(128,963)	13,483,925	(923,124)	15,826,784	(1,052,087)
Preferred stock	—	—	19,271	(1,667)	19,271	(1,667)
Equities	55,137	(1,225)	87,602	(3,867)	142,739	(5,092)
	$2,759,973	$(135,041)	$15,265,343	$(994,638)	$18,025,316	$(1,129,679)

RMBS and CMBS had gross unrealized losses greater than twelve months of $6.2 million and $3.4 million, respectively, as of June 30, 2016 (Successor Company). Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of $34.9 million as of June 30, 2016 (Successor Company). This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The U.S. government-related securities and the states, municipalities, and political subdivisions categories had gross unrealized losses greater than twelve months of $0.2 million and $21.3 million, respectively, as of June 30, 2016 (Successor Company). These declines were related to changes in interest rates.

The corporate securities category had gross unrealized losses greater than twelve months of $923.1 million as of June 30, 2016 (Successor Company). The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of June 30, 2016 (Successor Company), the Company had a total of 1,414 positions that were in an unrealized loss position, but the Company does not consider these unrealized loss positions to be other-than-temporary. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and the Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

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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, 2015 (Successor Company):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$977,433	$(17,112)	$ —	$ —	$977,433	$(17,112)
Commercial mortgage-backed securities	1,233,518	(41,858)	—	—	1,233,518	(41,858)
Other asset-backed securities	633,274	(18,763)	—	—	633,274	(18,763)
U.S. government-related securities	1,291,476	(34,532)	—	—	1,291,476	(34,532)
Other government-related securities	17,740	(743)	—	—	17,740	(743)
States, municipalities, and political subdivisions	1,566,752	(126,814)	—	—	1,566,752	(126,814)
Corporate securities	24,283,448	(2,682,274)	—	—	24,283,448	(2,682,274)
Preferred stock	34,685	(1,867)	—	—	34,685	(1,867)
Equities	248,493	(6,477)	—	—	248,493	(6,477)
	$30,286,819	$(2,930,440)	$ —	$ —	$30,286,819	$(2,930,440)

The book value of the Company's investment portfolio was marked to fair value as of February 1, 2015 (Successor Company), in conjunction with the Dai-ichi Merger which resulted in the elimination of previously unrealized gains and losses from accumulated other comprehensive income. The level of interest rates as of February 1, 2015 (Successor Company) resulted in an increase in the carrying value of the Company's investments. Since February 1, 2015 (Successor Company), interest rates have increased resulting in net unrealized losses in the Company's investment portfolio.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and 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 June 30, 2016 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.8 billion and had an amortized cost of $1.9 billion. In addition, included in the Company's trading portfolio, the Company held $270.8 million of securities which were rated below investment grade. Approximately $325.5 million of the available-for-sale and trading securities that were below investment grade 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:

Successor Company				Predecessor Company
For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
(Dollars In Thousands)				(Dollars In Thousands)

Fixed maturities	$848,995	$(1,040,143)	$1,481,680	$(1,383,342)	$ 670,229
Equity securities	9,509	(9,048)	9,439	(7,537)	10,226

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The amortized cost and fair value of the Company's investments classified as held-to-maturity as of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company), are as follows:

Successor Company As of June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	$626,280	$ —	$(22,879)	$603,401	$ —
Steel City LLC	2,153,000	97,387	—	2,250,387	—
	$2,779,280	$ 97,387	$(22,879)	$2,853,788	$ —

Successor Company As of December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI
	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	$593,314	$ —	$(78,314)	$515,000	$ —
	$593,314	$ —	$(78,314)	$515,000	$ —

During the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not record any other-than-temporary impairments on held-to-maturity securities.

The Company's held-to-maturity securities had $97.4 million of gross unrealized gains and $22.9 million of gross unrecognized holding losses by maturity as of June 30, 2016 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information. These held-to-maturity securities are issued by affiliates of the Company which are considered variable interest entities ("VIE's"). The Company is not the primary beneficiary of these entities and thus the securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding obligations issued by captive insurance companies that are affiliates of the Company.

The Company's held-to-maturity securities had $78.3 million of gross unrecognized holding losses as of December 31, 2015 (Successor Company). The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information.

Variable Interest Entities

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

Based on this analysis, the Company had an interest in two subsidiaries as of June 30, 2016 (Successor Company), Red Mountain LLC ("Red Mountain") and Steel City LLC ("Steel City"), that were determined to be VIEs. As of December 31, 2015 (Successor Company), the Company had an interest in one subsidiary, Red Mountain, that was determined to be a VIE.

The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (“Golden Gate V”) in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued a note (the "Red Mountain Note") to Golden Gate V. For details of this transaction, see Note 12, 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

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Company's risk of loss related to the VIE is limited to its investment, through an affiliate, of $10,000. Additionally, the Company has guaranteed Red Mountain's payment obligation for the credit enhancement fee to the unrelated third party provider. As of June 30, 2016 (Successor Company), no payments have been made or required related to this guarantee.

Steel City, a newly formed wholly owned subsidiary of the Company, entered into a financing agreement on January 15, 2016 involving Golden Gate Captive Insurance Company, in which Golden Gate issued non-recourse funding obligations to Steel City and Steel City issued three notes (the "Steel City Notes") to Golden Gate. Credit enhancement on the Steel City Notes is provided by unrelated third parties. For details of the financing transaction, see Note 12, Debt and Other Obligations. The activity most significant to Steel City is the issuance of the Steel City Notes. The Company had the power, via its 100% ownership, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third parties in their function as providers of credit enhancement on the Steel City Notes. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company's risk of loss related to the VIE is limited to its investment of $10,000. Additionally, the Company has guaranteed Steel City's payment obligation for the credit enhancement fee to the unrelated third party providers. As of June 30, 2016 (Successor Company), no payments have been made or required related to this guarantee.

7. 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.

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 (Successor Company):

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$—	$1,941,681	$3	$1,941,684
Commercial mortgage-backed securities	—	1,596,760	—	1,596,760
Other asset-backed securities	—	587,501	533,141	1,120,642
U.S. government-related securities	1,108,503	263,293	—	1,371,796
State, municipalities, and political subdivisions	—	1,737,499	—	1,737,499
Other government-related securities	—	18,680	—	18,680
Corporate securities	—	27,427,803	783,143	28,210,946
Preferred stock	45,155	19,272	—	64,427
Total fixed maturity securities - available-for-sale	1,153,658	33,592,489	1,316,287	36,062,434
Fixed maturity securities - trading				
Residential mortgage-backed securities	—	271,994	—	271,994
Commercial mortgage-backed securities	—	157,176	—	157,176
Other asset-backed securities	—	123,076	151,964	275,040
U.S. government-related securities	41,639	4,868	—	46,507
State, municipalities, and political subdivisions	—	362,504	—	362,504
Other government-related securities	—	60,261	—	60,261
Corporate securities	—	1,595,943	16,587	1,612,530
Preferred stock	3,432	147	—	3,579
Total fixed maturity securities - trading	45,071	2,575,969	168,551	2,789,591
Total fixed maturity securities	1,198,729	36,168,458	1,484,838	38,852,025
Equity securities	669,924	35	69,750	739,709
Other long-term investments(1)	311,141	266,478	48,999	626,618
Short-term investments	279,453	6,748	—	286,201
Total investments	2,459,247	36,441,719	1,603,587	40,504,553
Cash	428,519	—	—	428,519
Other assets	19,171	—	—	19,171
Assets related to separate accounts				
Variable annuity	12,891,214	—	—	12,891,214
Variable universal life	831,818	—	—	831,818
Total assets measured at fair value on a recurring basis	$16,629,969	$36,441,719	$1,603,587	$54,675,275
Liabilities:				
Annuity account balances(2)	$—	$—	$88,820	$88,820
Other liabilities (1)	59,711	13,321	972,084	1,045,116
Total liabilities measured at fair value on a recurring basis	$59,711	$13,321	$1,060,904	$1,133,936

(1)Includes certain freestanding and embedded derivatives.
(2)Represents liabilities related to fixed indexed annuities.

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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, 2015 (Successor Company):

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$—	$1,765,270	$3	$1,765,273
Commercial mortgage-backed securities	—	1,286,887	—	1,286,887
Other asset-backed securities	—	210,020	587,031	797,051
U.S. government-related securities	1,054,353	477,824	—	1,532,177
State, municipalities, and political subdivisions	—	1,603,600	—	1,603,600
Other government-related securities	—	17,740	—	17,740
Corporate securities	83	24,941,584	902,119	25,843,786
Preferred stock	43,073	19,614	—	62,687
Total fixed maturity securities - available-for-sale	1,097,509	30,322,539	1,489,153	32,909,201
Fixed maturity securities - trading				
Residential mortgage-backed securities	—	286,658	—	286,658
Commercial mortgage-backed securities	—	146,743	—	146,743
Other asset-backed securities	—	122,511	152,912	275,423
U.S. government-related securities	233,592	4,755	—	238,347
State, municipalities, and political subdivisions	—	313,354	—	313,354
Other government-related securities	—	58,827	—	58,827
Corporate securities	—	1,322,276	18,225	1,340,501
Preferred stock	2,794	1,402	—	4,196
Total fixed maturity securities - trading	236,386	2,256,526	171,137	2,664,049
Total fixed maturity securities	1,333,895	32,579,065	1,660,290	35,573,250
Equity securities	656,437	13,063	69,763	739,263
Other long-term investments (1)	113,699	141,487	96,830	352,016
Short-term investments	261,947	6,771	—	268,718
Total investments	2,365,978	32,740,386	1,826,883	36,933,247
Cash	396,072	—	—	396,072
Other assets	19,099	—	—	19,099
Assets related to separate accounts				
Variable annuity	12,829,188	—	—	12,829,188
Variable universal life	827,610	—	—	827,610
Total assets measured at fair value on a recurring basis	$16,437,947	$32,740,386	$1,826,883	$51,005,216
Liabilities:				
Annuity account balances (2)	$—	$—	$92,512	$92,512
Other liabilities (1)	40,067	3,932	585,556	629,555
Total liabilities measured at fair value on a recurring basis	$40,067	$3,932	$678,068	$722,067

(1)Includes certain freestanding and embedded derivatives.
(2)Represents liabilities related to fixed indexed annuities.

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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 six months ended June 30, 2016 (Successor Company).

The Company has analyzed the third party pricing services' valuation methodologies and related inputs and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs that is in accordance with the Fair Value

Measurements and Disclosures Topic of the ASC. Based on this evaluation and investment class analysis, each price was classified into Level 1, 2, or 3. Most prices provided by third party pricing services are classified into Level 2 because the significant inputs used in pricing the securities are market observable and the observable inputs are corroborated by the Company. Since the matrix pricing of certain debt securities includes significant non-observable inputs, they are classified as Level 3.

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”). As of June 30, 2016 (Successor Company), the Company held $4.7 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs:
1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets,
4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

As of June 30, 2016 (Successor Company), the Company held $685.1 million of Level 3 ABS, which included $533.1 million of other asset-backed securities classified as available-for-sale and $152.0 million of other asset-backed securities classified

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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 Securities, U.S. Government-Related Securities, States, Municipals, and Political Subdivisions, and Other Government Related Securities

As of June 30, 2016 (Successor Company), the Company classified approximately $31.5 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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

As of June 30, 2016 (Successor Company), the Company classified approximately $799.7 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of June 30, 2016 (Successor Company), the Company held approximately $69.8 million of equity securities classified as Level 2 and Level 3. Of this total, $65.7 million represents Federal Home Loan Bank (“FHLB”) stock. The Company believes that the cost of the FHLB stock approximates fair value.

Other Long-Term Investments and Other Liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 8, 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 June 30, 2016 (Successor Company), 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

Derivative instruments classified as Level 2 primarily include 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 condensed balance sheet. The changes in fair value are recorded in earnings as “Realized investment gains (losses)—Derivative financial instruments”. Refer to Note 8, Derivative Financial Instruments for more information related to each embedded derivatives gains and losses.

The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions.

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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 with company experience, with attained age factors varying from 44.5% - 100%. 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 FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 49% - 80%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ("IUL") embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 38% - 153%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as "trading securities"; therefore changes in their fair value are also reported in earnings. As of June 30, 2016 (Successor Company), the fair value of the embedded derivative is based upon the relationship between the statutory policy liabilities (net of policy loans) of $2.4 billion and the statutory unrealized gain (loss) of the securities of $253.2 million. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity Account Balances

The Company records 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 June 30, 2016 (Successor Company), ranged from a one month rate of 0.68%, a 5 year rate of 1.82%, and a 30 year rate of 3.03%. 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.

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Valuation of Level 3 Financial Instruments

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

	Successor Company Fair Value As of June 30, 2016 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 524,166	Discounted cash flow	Liquidity premium	0.24% - 1.14% (0.55%)
			Paydown rate	9.37% - 11.91% (10.16%)
Corporate securities	758,312	Discounted cash flow	Spread over Treasury	0.70% - 6.25% (2.45%)
Liabilities:				
Embedded derivatives - GMWB(1)	$ 518,871	Actuarial cash flow model	Mortality	1994 MGDB table with company experience
			Lapse	0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.22% - 1.20%
Annuity account balances(2)	88,820	Actuarial cash flow model	Asset earned rate	4.53% - 5.67%
			Expenses	$83 per policy
			Withdrawal rate	2.20%
			Mortality	1994 MGDB table with company experience
			Lapse	2.2% - 33.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on duration/surrender charge period
			Nonperformance risk	0.22% - 1.20%
Embedded derivative - FIA	119,997	Actuarial cash flow model	Expenses	$83 per policy
			Withdrawal rate	1.1% - 4.5% depending on

				duration and tax qualification
			Mortality	1994 MGDB table with company experience
			Lapse	2.5% - 40.0%, depending on duration/surrender charge period
			Nonperformance risk	0.22% - 1.20%
Embedded derivative - IUL	46,711	Actuarial cash flow model	Mortality	38% — 153% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.22% - 1.20%

(1)The fair value for the GMWB embedded derivative is presented as a net liability for the purposes of this chart. Excludes modified coinsurance arrangements.
(2)Represents liabilities related to fixed indexed annuities.

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

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The Company has considered all reasonably available quantitative inputs as of June 30, 2016 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $205.4 million of financial instruments being classified as Level 3 as of June 30, 2016 (Successor Company). Of the $205.4 million, $160.9 million are other asset-backed securities, $41.4 million are corporate securities, and $3.1 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of June 30, 2016 (Successor Company), the Company held $66.7 million of financial instruments where book value approximates fair value which was predominantly FHLB stock.

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

	Successor Company Fair Value As of December 31, 2015 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 587,031	Discounted cash flow	Liquidity premium	0.27% - 1.49% (0.42%)
			Paydown rate	10.20% - 14.72% (13.11%)
Corporate securities	875,810	Discounted cash flow	Spread over treasury	0.10% - 19.00% (2.61%)
Liabilities:				
Embedded derivatives - GMWB(1)	$ 181,612	Actuarial cash flow model	Mortality	1994 MGDB table with company experience
			Lapse	0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.18% - 1.04%
Annuity account balances(2)	92,512	Actuarial cash flow model	Asset earned rate	4.53% - 5.67%
			Expenses	$81 per policy
			Withdrawal rate	2.20%
			Mortality	1994 MGDB table with company experience
			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	0.18% - 1.04%
Embedded derivative - FIA	100,329	Actuarial cash flow model	Expenses	$81.50 per policy
			Withdrawal rate	1.1% - 4.5% depending on duration and tax qualification
			Mortality	1994 MGDB table with company experience
			Lapse	2.5% - 40.0%, depending on duration/surrender

				charge period
			Nonperformance risk	0.18% - 1.04%
Embedded derivative - IUL	29,629	Actuarial cash flow model	Mortality	38% - 153% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.18% - 1.04%

(1)The fair value for the GMWB embedded derivative is presented as a net liability for the purposes of this chart. Excludes modified coinsurance arrangements.
(2)Represents liabilities related to fixed indexed annuities.

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

The Company has considered all reasonably available quantitative inputs as of December 31, 2015 (Successor Company), but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the

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Company. This resulted in $200.5 million of financial instruments being classified as Level 3 as of December 31, 2015 (Successor Company). Of the $200.5 million, $152.9 million are other asset-backed securities, $44.5 million are corporate securities, and $3.1 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2015 (Successor Company), the Company held $66.7 million of financial instruments where book value approximates fair value which are predominantly FHLB stock.

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

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

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

The fair value of the FIA account balance liability 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 discount rate and non-performance risk and decreases with increases in the discount rate and non-performance risk. The value of the liability increases with increases in equity returns and the liability decreases with a decrease in equity returns.

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

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

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2016 (Successor Company), 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
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Other asset-backed securities	537,831	—	769	—	(8,350)	9,597	(7,629)	—	—	—	923
Corporate securities	833,737	925	16,189	—	(694)	9,558	(57,123)	—	—	(16,773)	(2,676)
Total fixed maturity securities - available-for-sale	1,371,571	925	16,958	—	(9,044)	19,155	(64,752)	—	—	(16,773)	(1,753)
Fixed maturity securities - trading											
Other asset-backed securities	150,683	1,822	—	(8)	—	—	(609)	—	—	—	76
Corporate securities	5,677	24	—	—	—	10,908	1	—	—	—	(23)
Total fixed maturity securities - trading	156,360	1,846	—	(8)	—	10,908	(608)	—	—	—	53
Total fixed maturity securities	1,527,931	2,771	16,958	(8)	(9,044)	30,063	(65,360)	—	—	(16,773)	(1,700)
Equity securities	69,728	—	—	—	—	22	—	—	—	—	—
Other long-term investments[1]	66,696	1,568	—	(19,265)	—	—	—	—	—	—	—

Total investments	1,664,355	4,339	16,958	(19,273)	(9,044)	30,085	(65,360)	—	—	(16,773)	(1,700)
Total assets measured at fair value on a recurring basis	$1,664,355	$4,339	$16,958	$(19,273)	$(9,044)	$30,085	$(65,360)	$—	$—	$(16,773)	$(1,700)
Liabilities:											
Annuity account balances[2]	$90,123	$—	$—	$(530)	$—	$—	$—	$63	$1,896	$—	$—
Other liabilities[1]	801,781	15,217	—	(185,520)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$891,904	$15,217	$—	$(186,050)	$—	$—	$—	$63	$1,896	$—	$—