PROTECTIVE LIFE CORP
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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)

(205) 268-1000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of April 25, 2012: 81,005,509

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED MARCH 31, 2012

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended March 31,			
	2012		2011(2)	
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$	696,305	$	666,343
Reinsurance ceded		(304,558)		(331,808)
Net of reinsurance ceded		391,747		334,535
Net investment income		462,121		444,213
Realized investment gains (losses):				
Derivative financial instruments		(29,909)		(12,686)
All other investments		35,726		4,472
Other-than-temporary impairment losses		(34,420)		(16,021)
Portion recognized in other comprehensive income (before taxes)		15,656		10,358
Net impairment losses recognized in earnings		(18,764)		(5,663)
Other income		111,260		72,209
Total revenues		952,181		837,080
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2012 - $281,807; 2011 - $313,106)		589,629		536,369
Amortization of deferred policy acquisition costs and value of business acquired		56,836		65,226
Other operating expenses, net of reinsurance ceded: (three months: 2012 - $46,631; 2011 - $45,260)		155,137		144,771
Total benefits and expenses		801,602		746,366
Income before income tax		150,579		90,714
Income tax expense		51,558		31,887
Net income		99,021		58,827
Less: Net income (loss) attributable to noncontrolling interests				(51)
Net income available to PLC s common shareowners(1)	$	99,021	$	58,878
Net income available to PLC s common shareowners - basic	$	1.20	$	0.68
Net income available to PLC s common shareowners - diluted	$	1.18	$	0.67
Cash dividends paid per share	$	0.16	$	0.14
Average shares outstanding - basic		82,330,330		86,603,228
Average shares outstanding - diluted		83,921,135		87,820,085

(1) Protective Life Corporation (PLC)

(2) Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	For The Three Months Ended March 31, 2012	2011(1)
	(Dollars In Thousands)	
Net income	$ 99,021	$ 58,827
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of income tax: (2012 - $5,308; 2011 - $18,443)	9,856	34,258
Reclassification adjustment for investment amounts included in net income, net of income tax: (2012 - $(449); 2011 - $(3,054))	(833)	(5,678)
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: (2012 - $1,571; 2011 - $(3,608))	2,917	(6,700)
Change in accumulated gain - derivatives, net of income tax: (2012 - $3,408; 2011 - $3,621)	6,330	6,724
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2012 - $(301); 2011 - $(361))	(559)	(671)
Change in postretirement benefits liability adjustment, net of income tax: (2012 - $(728); 2011 - $(451))	(1,352)	(838)
Total other comprehensive income	16,359	27,095
Comprehensive income	115,380	85,922
Comprehensive income attributable to noncontrolling interests		51
Total comprehensive income attributable to Protective Life Corporation	$ 115,380	$ 85,973

(1) Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	March 31, 2012	**December 31, 2011(1)**
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2012 - $26,314,339; 2011 - $26,137,960)	$ 28,189,744	$ 27,983,446
Equity securities, at fair value (cost: 2012 - $363,315; 2011 - $345,874)	360,527	335,232
Mortgage loans (includes amounts related to securitizations of: 2012 - $842,994; 2011 - $858,139)	5,314,496	5,353,481
Investment real estate, net of accumulated depreciation (2012 - $1,644; 2011 - $1,547)	31,527	29,899
Policy loans	877,850	879,819
Other long-term investments	324,001	257,714
Short-term investments	110,194	101,489
Total investments	35,208,339	34,941,080
Cash	175,353	267,298
Accrued investment income	362,837	350,580
Accounts and premiums receivable, net of allowance for uncollectible amounts (2012 - $3,866; 2011 - $3,899)	90,372	84,754
Reinsurance receivables	5,674,662	5,645,471
Deferred policy acquisition costs and value of business acquired	3,234,596	3,248,041
Goodwill	110,884	111,659
Property and equipment, net of accumulated depreciation (2012 - $136,620; 2011 - $134,924)	48,596	48,578
Other assets	163,360	150,549
Income tax receivable		50,783
Assets related to separate accounts		
Variable annuity	7,698,456	6,741,959
Variable universal life	554,817	502,617
Total assets	$ 53,322,272	$ 52,143,369
Liabilities		
Policy liabilities and accruals	$ 22,265,424	$ 22,126,774
Stable value product account balances	2,772,378	2,769,510
Annuity account balances	10,856,119	10,946,848
Other policyholders funds	537,909	546,516
Other liabilities	1,055,568	1,065,451
Mortgage loan backed certificates	8,834	19,755
Deferred income taxes	1,241,670	1,260,629
Income tax payable	22,725	
Non-recourse funding obligations	297,000	407,800
Repurchase program borrowings	221,569	
Debt	1,480,000	1,520,000
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	7,698,456	6,741,959
Variable universal life	554,817	502,617
Total liabilities	49,537,212	48,432,602
Commitments and contingencies - Note 9		

Shareowners equity				
Preferred Stock, $1 par value, shares authorized: 4,000,000; Issued: None				
Common Stock, $.50 par value, shares authorized: 2012 and 2011 - 160,000,000; shares issued: 2012 and 2011 - 88,776,960		44,388		44,388
Additional paid-in-capital		593,930		598,106
Treasury stock, at cost (2012 - 7,778,530 shares; 2011 - 7,107,765 shares)		(131,578)		(107,740)
Retained earnings		2,277,267		2,191,319
Accumulated other comprehensive income (loss):				
Net unrealized gains (losses) on investments, net of income tax: (2012 -$593,991; 2011 - $589,132)		1,103,126		1,094,103
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2012 - $(16,857); 2011 - $(18,428))		(31,307)		(34,224)
Accumulated loss - derivatives, net of income tax: (2012 - $(1,004); 2011 - $(4,111))		(1,863)		(7,634)
Postretirement benefits liability adjustment, net of income tax: (2012 -$(36,698); 2011 - $(35,970))		(68,153)		(66,801)
Total Protective Life Corporation s shareowners equity		3,785,810		3,711,517
Noncontrolling interest		(750)		(750)
Total equity		3,785,060		3,710,767
Total liabilities and shareowners equity	$	53,322,272	$	52,143,369

(1)Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings(1)	Accumulated Other Comprehensive Income (Loss)(1)	Total Protective Life Corporation s shareowners equity(1)	Non controlling Interest	Total Equity(1)
				(Dollars In Thousands)				
Balance, December 31, 2011	$ 44,388	$ 598,106	$ (107,740)	$ 2,191,319	$ 985,444	$ 3,711,517	$ (750)	$ 3,710,767
Net income for the three months ended March 31, 2012				99,021		99,021		99,021
Other comprehensive income					16,359	16,359		16,359
Comprehensive income for the three months ended March 31, 2012						115,380		115,380
Cash dividends ($0.16 per share)				(13,073)		(13,073)		(13,073)
Repurchase of common stock			(25,977)			(25,977)		(25,977)
Stock-based compensation		(4,176)	2,139			(2,037)		(2,037)
Balance, March 31, 2012	$ 44,388	$ 593,930	$ (131,578)	$ 2,277,267	$ 1,001,803	$ 3,785,810	$ (750)	$ 3,785,060

(1) Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Three Months Ended March 31, 2012	For The Three Months Ended March 31, 2011(1)
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 99,021	$ 58,827
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	12,947	13,877
Amortization of deferred policy acquisition costs and value of business acquired	56,836	65,226
Capitalization of deferred policy acquisition costs	(63,971)	(95,560)
Depreciation expense	2,326	1,650
Deferred income tax	(23,126)	18,573
Accrued income tax	73,508	16,160
Interest credited to universal life and investment products	243,608	237,391
Policy fees assessed on universal life and investment products	(188,790)	(165,564)
Change in reinsurance receivables	(29,191)	(51,162)
Change in accrued investment income and other receivables	(9,776)	(15,220)
Change in policy liabilities and other policyholders funds of traditional life and health products	(11,714)	(14,041)
Trading securities:		
Maturities and principal reductions of investments	98,457	105,170
Sale of investments	273,030	300,010
Cost of investments acquired	(371,030)	(275,880)
Other net change in trading securities	17,623	(36,908)
Change in other liabilities	(117,178)	(26,873)
Other income - surplus note repurchase	(35,456)	(10,095)
Other, net	4,899	(15,289)
Net cash provided by operating activities	32,023	110,292
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	314,920	653,265
Sale of investments, available-for-sale	719,031	284,567
Cost of investments acquired, available-for sale	(1,198,459)	(998,309)
Mortgage loans:		
New lendings	(81,226)	(128,640)
Repayments	117,107	136,969
Change in investment real estate, net	(1,754)	2,508
Change in policy loans, net	1,969	9,128
Change in other long-term investments, net	(83,836)	(35,051)
Change in short-term investments, net	(30,950)	(19,961)
Net unsettled security transactions	93,942	152,168
Purchase of property and equipment	(1,824)	(4,847)
Payments for business acquisitions		(20,418)
Net cash (used in) provided by investing activities	(151,080)	31,379
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	25,000	
Principal payments on line of credit arrangement and debt	(65,000)	(17,000)
Issuance (repayment) of non-recourse funding obligations	(110,800)	(35,700)

Repurchase program borrowings	221,569	
Dividends to shareowners	(13,073)	(11,994)
Repurchase of common stock	(25,977)	
Investment product deposits and change in universal life deposits	894,572	996,367
Investment product withdrawals	(895,493)	(1,081,920)
Other financing activities, net	(3,686)	(24,911)
Net cash provided by (used in) financing activities	27,112	(175,158)
Change in cash	(91,945)	(33,487)
Cash at beginning of period	267,298	264,425
Cash at end of period	$ 175,353	$ 230,938

(1) Recast from previously reported information

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three month period ended March 31, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The year-end consolidated condensed balance sheet data was derived from audited financial statements, after the retrospective application of the matter discussed in Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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.

In January of 2012, the Company adopted ASU No. 2010-26 which changed how the Company accounts for its deferred acquisition costs. See Note 2, *Summary of Significant Policies* and Note 5, *Deferred Acquisition Costs and Value of Business Acquired*.

Reclassifications and Accounting Changes

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income or shareowners equity. Current and prior period operating income results within the Annuities segment have been updated to reflect the revised definition of operating income (loss) as it relates to embedded derivatives on our variable annuity contracts and related hedging activities. This change did not impact its comparable GAAP measure income before income tax. See Note 16, *Operating Segments* and Item 2. *Management s Discussion and Analysis of Financial Condition and Results of Operations* Results of Operations for additional information.

In January of 2012, the Company adopted ASU No. 2010-26 which changed certain previously reported items within the Company s financial statements and accompanying notes. The changes affected previously reported amounts in Note 3, *Significant Acquisitions*, Note 5, *Deferred Acquisition Costs and Value of Business Acquired*, Note 12, *Earnings Per Share*, Note 13, *Income Taxes*, and Note 16, *Operating Segments*.

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Polices

Deferred Policy Acquisition Costs

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts.

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The incremental direct costs associated with successfully acquired insurance policies, are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products. DAC is subject to recoverability testing at the end of each accounting period. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization.

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

Accounting Pronouncements Recently Adopted

Accounting Standard Update (ASU or Update) No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. For additional information on the effect this Update had on the Company, see Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired*.

ASU No. 2011-03 Transfers and Servicing - Reconsideration of Effective Control for Repurchase Agreements This Update amends the assessment of effective control for repurchase agreements to remove 1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and 2) the collateral maintenance implementation guidance related to the criterion. The Boards determined that these criterion should not be a determining factor of effective control. This Update is effective for the first interim or annual period beginning on or after December 15, 2011. For the Company, the Update will be applied to all repurchase agreements beginning January 1, 2012. The Company has modified its policies and procedures to ensure compliance with the updated guidance.

ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRSs). The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update did modify requirements for disclosing information about fair value measurements. These changes were effective for

interim and annual periods beginning after December 15, 2011. The Company has included the required additional disclosures in Note 14, *Fair Value of Financial Instruments*, and has modified its policies and processes to ensure compliance with the updated guidance.

ASU No. 2011-05 Comprehensive Income Presentation of Comprehensive Income. In this Update, a company has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in 1) a single continuous statement of comprehensive income, or 2) in two separate but consecutive statements. In both choices, a company is required to present each component of

net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this Update do not change the items that must be reported in other comprehensive income, or the timing of its subsequent reclassification to net income. This Update was effective January 1, 2012. The Company has implemented the two-page report format beginning in the first quarter of 2012.

ASU No. 2011-12 Comprehensive Income Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. This Update defers certain provisions of ASU No. 2011-05, notably those provisions which require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). These requirements were indefinitely deferred by ASU No. 2011-12 and will be further deliberated by the FASB at a future date. The FASB also decided that during the deferral period, entities would be required to comply with all existing requirements for reclassification adjustments in ASC 220, which indicates that [a]n entity may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements . This Update was effective January 1, 2012. In accordance with this Update, the Company will defer the portion of the guidance in this Update that requires the presentation of reclassification adjustments on the Company s Statements of Net Income. In accordance with those portions of ASU 2011-05 that were not deferred by ASU 2011-12, the Company has displayed adjustments for reclassifications out of other comprehensive income on the Company s Statement of Comprehensive Income.

Accounting Pronouncements Not Yet Adopted

ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This Update contains new disclosure requirements regarding the nature of an entity s rights of offset and related arrangements associated with its financial and derivative instruments. The new disclosures are designed to make financial statements that are prepared under GAAP more comparable to those prepared under IFRSs. Generally, it is more difficult to qualify for offsetting under IFRSs than it is under GAAP. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with GAAP. To facilitate comparison between financial statements prepared under GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. This Update is effective January 1, 2013. This Update will not have an impact on the Company s results of operations or financial position.

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. There were no significant changes to the Company s accounting policies during the three months ended March 31, 2012, except as noted above. See Note 5, *Deferred Policy Acquisition Costs and Value of Business Acquired* for additional information on the accounting policies.

3. SIGNIFICANT ACQUISITIONS

On April 29, 2011, PLICO closed a previously announced reinsurance transaction with Liberty Life Insurance Company (Liberty Life) under the terms of which PLICO reinsured substantially all of the life and health business of Liberty Life. The transaction closed in conjunction with Athene Holding Ltd s acquisition of Liberty Life from an affiliate of Royal Bank of Canada. The capital invested by PLICO in the transaction at closing was $321 million, including a $225 million ceding commission. In conjunction with the closing, PLICO invested $40 million in a surplus note issued by Athene Life Re. The Company accounted for this transaction in a manner consistent with the purchase method of accounting as required by FASB guidance under the ASC Business Combinations topic. This guidance requires that the total consideration paid be allocated to the assets acquired and liabilities assumed based on their fair values at the transaction date.

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The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned transaction with Liberty Life was completed as of January 1, 2010:

	For The Three Months Ended March 31, 2011 (Dollars In Thousands)
Revenue	$ 899,267
Net income	$ 59,273
EPS - basic	$ 0.68
EPS - diluted	$ 0.67

4. INVESTMENT OPERATIONS

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

	For The Three Months Ended March 31, 2012	2011
	(Dollars In Thousands)	
Fixed maturities	$ 20,046	$ 5,295
Equity securities		9,100
Impairments on fixed maturity securities	(18,740)	(5,663)
Impairments on equity securities	(24)	
Modco trading portfolio	18,099	(5,649)
Other investments	(2,419)	(4,274)
Total realized gains (losses) - investments	$ 16,962	$ (1,191)

For the three months ended March 31, 2012, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $23.2 million and gross realized losses were $21.8 million, including $18.7 million of impairment losses. The $18.7 million excludes $0.1 million of impairment losses in the trading portfolio.

For the three months ended March 31, 2011, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $14.6 million and gross realized losses were $5.8 million, including $5.6 million of impairment losses. The $5.6 million excludes $0.1 million of impairment losses in the trading portfolio.

For the three months ended March 31, 2012, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $499.4 million. The gain realized on the sale of these securities was $23.2 million. For the three months ended March 31, 2011, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $236.0 million. The gain realized on the sale of these securities was $14.6

million.

For the three months ended March 31, 2012, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $17.2 million. The loss realized on the sale of these securities was $3.1 million. For the three months ended March 31, 2011, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $20.0 million. The loss realized on the sale of these securities was $0.2 million.

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Certain European countries have experienced varying degrees of financial stress. Risks from the continued debt crisis in Europe could continue to disrupt the financial markets which could have a detrimental impact on global economic conditions and on sovereign and non-sovereign obligations. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on financial markets. The chart shown below includes the Company s non-sovereign fair value exposures in these countries as of March 31, 2012. As of March 31, 2012, the Company had no unfunded exposure and had no direct sovereign fair value exposure.

Financial Instrument and Country	Non-sovereign Debt Financial	Non-sovereign Debt Non-financial	Total Gross Funded Exposure
		(Dollars In Millions)	
Securities:			
United Kingdom	$ 437.0	$ 377.8	$ 814.8
Switzerland	121.7	214.2	335.9
France	117.1	86.9	204.0
Sweden	157.5		157.5
Netherlands	93.5	84.2	177.7
Spain	41.6	96.4	138.0
Belgium		99.7	99.7
Germany	25.7	56.9	82.6
Ireland	5.5	81.2	86.7
Luxembourg		58.4	58.4
Italy		45.6	45.6
Norway		13.3	13.3
Total securities	999.6	1,214.6	2,214.2
Derivatives:			
Germany	13.3		13.3
	$ 1,012.9	$ 1,214.6	$ 2,227.5

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The amortized cost and fair value of the Company s investments classified as available-for-sale as of March 31, 2012 and December 31, 2011, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI(1)
		(Dollars In Thousands)			
2012					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 2,251,056	$ 83,880	$ (64,910)	$ 2,270,026	$ (27,934)
Commercial mortgage-backed securities	559,859	32,023	(332)	591,550	
Other asset-backed securities	965,151	5,616	(97,589)	873,178	(6,557)
U.S. government-related securities	1,303,537	50,412	(8,862)	1,345,087	
Other government-related securities	119,163	4,848	(167)	123,844	
States, municipals, and political subdivisions	1,158,496	193,675		1,352,171	
Corporate bonds	16,980,176	1,808,806	(131,995)	18,656,987	(13,673)
	23,337,438	2,179,260	(303,855)	25,212,843	(48,164)
Equity securities	345,007	9,227	(12,014)	342,220	
Short-term investments	46,593			46,593	
	$ 23,729,038	$ 2,188,487	$ (315,869)	$ 25,601,656	$ (48,164)
2011					
Fixed maturities:					
Bonds					
Residential mortgage-backed securities	$ 2,345,578	$ 82,594	$ (86,042)	$ 2,342,130	$ (47,806)
Commercial mortgage-backed securities	531,322	24,466	(4,229)	551,559	
Other asset-backed securities	997,398	6,529	(90,898)	913,029	(6,559)
U.S. government-related securities	1,150,525	65,212	(58)	1,215,679	
Other government-related securities	88,058	4,959		93,017	
States, municipals, and political subdivisions	1,154,374	173,408		1,327,782	
Corporate bonds	16,910,738	1,920,142	(250,595)	18,580,285	1,787
	23,177,993	2,277,310	(431,822)	25,023,481	(52,578)
Equity securities	328,833	5,993	(16,635)	318,191	(74)
Short-term investments	15,649			15,649	
	$ 23,522,475	$ 2,283,303	$ (448,457)	$ 25,357,321	$ (52,652)

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

As of March 31, 2012 and December 31, 2011, respectively, the Company had an additional $3.0 billion and $3.0 billion of fixed maturities, $18.3 million and $17.0 million of equity securities, and $63.6 million and $85.8 million of short-term investments classified as trading securities.

The amortized cost and fair value of available-for-sale fixed maturities as of March 31, 2012, 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.

	Amortized Cost	Fair Value
	(Dollars In Thousands)	
Due in one year or less	$ 518,042	$ 524,831
Due after one year through five years	4,487,082	4,735,006
Due after five years through ten years	6,163,622	6,657,322
Due after ten years	12,168,692	13,295,684
	$ 23,337,438	$ 25,212,843

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of the Company s intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the security s amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a

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security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the issuer are significant measures considered, and in some cases, an analysis regarding the Company s expectations for recovery of the security s entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security s basis is adjusted and an other-than-temporary impairment is recognized. Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security s amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income (loss) as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities (collectively referred to as asset-backed securities or ABS), the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

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

During the three months ended March 31, 2011, the Company recorded other-than-temporary impairments on investments of $16.0 million related to debt securities. Of the $16.0 million of impairments for the three months ended March 31, 2011, $5.7 million was recorded in earnings and $10.3 million was recorded in other comprehensive income (loss). For the three months ended March 31, 2011, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intended to sell or expected to be required to sell. For the three months ended March 31, 2011, the $5.7 million of pre-tax other-than-temporary impairments were related to debt securities.

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

	For The Three Months Ended March 31,			
	2012		2011	
	(Dollars In Thousands)			
Beginning balance	$	69,719	$	39,427
Additions for newly impaired securities		15,854		3,609
Additions for previously impaired securities		2,779		668
Reductions for previously impaired securities due to a change in expected cash flows				
Reductions for previously impaired securities that were sold in the current period				(3,089)
Ending balance	$	88,352	$	40,615

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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 March 31, 2012:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$ 191,695	$ (2,974)	$ 524,291	$ (61,936)	$ 715,986	$ (64,910)
Commercial mortgage-backed securities	35,439	(332)			35,439	(332)
Other asset-backed securities	494,648	(43,339)	211,283	(54,250)	705,931	(97,589)
U.S. government-related securities	605,267	(8,862)			605,267	(8,862)
Other government-related securities	49,855	(167)			49,855	(167)
States, municipals, and political subdivisions						
Corporate bonds	1,331,892	(63,198)	538,903	(68,797)	1,870,795	(131,995)
Equities	17,808	(6,315)	24,556	(5,699)	42,364	(12,014)
	$ 2,726,604	$ (125,187)	$ 1,299,033	$ (190,682)	$ 4,025,637	$ (315,869)

The RMBS have a gross unrealized loss greater than twelve months of $61.9 million as of March 31, 2012. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $54.3 million as of March 31, 2012. This category predominately includes student-loan backed auction rate securities, the underlying collateral, of which is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These unrealized losses have occurred within the Company s auction rate securities (ARS) portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company has the ability and intent to hold these securities until their values recover or until maturity.

The corporate bonds category has gross unrealized losses greater than twelve months of $68.8 million as of March 31, 2012. These losses relate primarily to fluctuations in credit spreads. 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 including the Company s ability and intent to hold these securities to recovery.

The equities category has a gross unrealized loss greater than twelve months of $5.7 million as of March 31, 2012. These losses primarily relate to fluctuations in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery.

The Company does not consider these unrealized loss positions to be other-than-temporary, based on the factors discussed and because the Company has the ability and intent to hold these investments until the fair values recover, and does not intend to sell or expect to be required to sell the securities before recovering the Company s amortized cost of these 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, 2011:

	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	$ 277,858	$ (15,447)	$ 527,120	$ (70,595)	$ 804,978	$ (86,042)
Commercial mortgage-backed securities	78,892	(4,229)			78,892	(4,229)
Other asset-backed securities	531,653	(32,074)	190,639	(58,824)	722,292	(90,898)
U.S. government-related securities	21,311	(58)			21,311	(58)
Other government-related securities						
States, municipals, and political subdivisions						
Corporate bonds	1,880,931	(132,297)	526,333	(118,298)	2,407,264	(250,595)
Equities	50,638	(8,436)	22,295	(8,199)	72,933	(16,635)
	$ 2,841,283	$ (192,541)	$ 1,266,387	$ (255,916)	$ 4,107,670	$ (448,457)

The RMBS have a gross unrealized loss greater than twelve months of $70.6 million as of December 31, 2011. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $58.8 million as of December 31, 2011. This category predominately includes student-loan backed auction rate securities, the underlying collateral of which is at least 97% guaranteed by the FFELP. These unrealized losses have occurred within the Company s ARS portfolio since the market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company has the ability and intent to hold these securities until their values recover or until maturity.

The corporate bonds category has gross unrealized losses greater than twelve months of $118.3 million as of December 31, 2011. These losses relate primarily to fluctuations in credit spreads. 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 including the Company s ability and intent to hold these securities to recovery.

The equities category has a gross unrealized loss greater than twelve months of $8.2 million as of December 31, 2011. These losses primarily relate to a widening in credit spreads on perpetual preferred stock holdings. The aggregate decline in market value of these securities was deemed temporary due to factors supporting the recoverability of the respective investments. Positive factors include credit ratings, the financial health of the issuer, the continued access of the issuer to the capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery.

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

As of March 31, 2012, 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 $357.9 million of securities which were rated below investment grade. Approximately $433.4 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended March 31,	
	2012	2011
	(Dollars In Thousands)	
Fixed maturities	$ 19,446	$ 27,960
Equity securities	5,106	(416)

Securities Lending

In prior periods, the Company participated in securities lending, primarily as an enhancement to its investment yield. Securities that the Company held as investments were loaned to third parties for short periods of time. The Company required initial collateral, in the form of short-term investments, which equaled 102% of the market value of the loaned securities.

During the second quarter of 2011, the Company discontinued this program. Certain collateral assets, which the Company previously intended to ultimately dispose of and on which it recorded an other-than-temporary impairment of $1.3 million, were instead retained by the Company and are included in its fixed maturities as of March 31, 2012. The Company currently does not have any intent to sell these securities, and do not anticipate being required to sell them.

Mortgage Loans

Refer to Note 8, *Mortgage Loans* for information on the Company s mortgage loan portfolio.

5. DEFERRED POLICY ACQUISITION COSTS AND VALUE OF BUSINESS ACQUIRED

In the first quarter of 2012, the Company adopted ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update was effective for the Company on January 1, 2012. The Company retrospectively adopted this Update, which resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers.

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The chart shown below summarizes the effect of these adjustments on the Company s balance sheet (only balances impacted by the Update are presented).

	As of December 31, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Assets:			
Deferred policy acquisition costs and value of business acquired	$ 4,036,757	$ 3,248,041	$ (788,716)
Total Assets	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**
Liabilities:			
Deferred income taxes	$ 1,540,397	$ 1,260,629	$ (279,768)
Total liabilities	**$ 48,712,370**	**$ 48,432,602**	**$ (279,768)**
Equity:			
Retained earnings	$ 2,719,492	$ 2,191,319	$ (528,173)
Accumulated other comprehensive income (loss):			
Net unrealized gain (losses) on investments, net of income tax	1,074,878	1,094,103	19,225
Total Equity	**$ 4,219,715**	**$ 3,710,767**	**$ (508,948)**
Total liabilities and shareowners equity	**$ 52,932,085**	**$ 52,143,369**	**$ (788,716)**

The chart shown below summarizes the effect of the adjustments on the Company s income statement (only balances impacted by the Update are presented).

	For The Three Months Ended March 31, 2011		
	As originally reported	As adjusted	Effect of Change
	(Dollars In Thousands)		
Expenses:			
Amortization of deferred policy acquisition costs and value of business acquired	$ 74,363	$ 65,226	$ (9,137)
Other operating expenses	122,253	144,771	22,518
Total benefits and expenses	732,985	746,366	13,381
Income before income tax	104,095	90,714	(13,381)
Income tax (benefit) expense	36,629	31,887	(4,742)
Net income	**$ 67,466**	**$ 58,827**	**$ (8,639)**
Less: Net loss attributable to noncontrolling interests	(51)	(51)	
Net Income available to PLC s common shareowners	**$ 67,517**	**$ 58,878**	**$ (8,639)**
Net income available to PLC s common shareowners - basic	$ 0.78	$ 0.68	$ (0.10)

Net income available to PLC s common shareowners - diluted	$ 0.77	$ 0.67	$ (0.10)

The chart shown below summarizes the effect of the adjustments on the Company s cash flow statement (only balances impacted by the Update are presented).

	For The Three Months Ended March 31, 2011		
	As originally reported	As adjusted	Effect of Change
		(Dollars In Thousands)	
Cash flows from operating activities			
Net income	$ 67,466	$ 58,827	$ (8,639)
Amortization of deferred policy acquisition costs and value of business acquired	74,363	65,226	(9,137)
Capitalization of deferred policy acquisition costs	(118,078)	(95,560)	22,518
Deferred income tax	23,314	18,573	(4,741)
Other, net	(15,288)	(15,289)	(1)
Change to net cash (used in) provided by operating activities	$ 31,777	$ 31,777	$

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Deferred policy acquisition costs

The balances and changes in DAC are as follows:

	As of	
	March 31, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 2,219,901	$ 2,124,329
Capitalization of commissions, sales, and issue expenses	65,369	370,830
Amortization	(45,556)	(215,600)
Change in unrealized investment gains and losses	(10,338)	(59,658)
Balance, end of period	$ 2,229,384	$ 2,219,901

Value of business acquired

The balances and changes in VOBA are as follows:

	As of	
	March 31, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 1,028,140	$ 968,253
Acquisitions		137,418
Amortization	(12,692)	(66,163)
Change in unrealized gains and losses	(10,236)	(21,907)
Other		10,539
Balance, end of period	$ 1,005,212	$ 1,028,140

6. GOODWILL

During the three months ended March 31, 2012, the Company decreased its goodwill balance by approximately $0.8 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2012 on the portion of tax goodwill in excess of GAAP basis goodwill. As of March 31, 2012, the Company had an aggregate goodwill balance of $110.9 million.

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

than not that segment goodwill balances are impaired as of the testing date. If it is determined that it is more likely than not that impairment exists, the Company compares its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company s material goodwill balances are attributable to certain of its operating segments (which are each considered to be reporting units). The cash flows used to determine the fair value of the Company s reporting units are dependent on a number of significant assumptions. The Company s estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company s judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2011, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary. During the three months ended March 31, 2012, no triggering or impairment event occurred.

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7. DEBT AND OTHER OBLIGATIONS

Under a revolving line of credit arrangement, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $500 million (the Credit Facility). The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $600 million. Balances outstanding under the Credit Facility accrue interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date on the Credit Facility is April 16, 2013. There was an outstanding balance of $130.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of March 31, 2012.

The Company has a repurchase program, in which it may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities. As of March 31, 2012, the fair value of securities pledged under the repurchase program was $245.6 million and the repurchase obligation of $221.6 million was included in other liabilities in the consolidated condensed balance sheets. As of December 31, 2011, the Company did not have a balance for its repurchase program.

Non-Recourse Funding Obligations

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had $575 million of outstanding non-recourse funding obligations as of March 31, 2012. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of the Company s affiliates purchased a portion of these securities during 2012, 2011, and 2010. As a result of these purchases, as of March 31, 2012, securities related to $297.0 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $278.0 million of the non-recourse funding obligations were held by affiliates.

Non-recourse funding obligations outstanding as of March 31, 2012, on a consolidated basis, are shown in the following table:

Issuer	Balance	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
	(Dollars In Thousands)		
Golden Gate II Captive Insurance Company	$ 297,000	2052	1.22%

During the three months ended March 31, 2012, the Company repurchased $110.8 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $35.5 million pre-tax gain for the Company. During the three months ended March 31, 2011, the Company repurchased $35.7 million of its outstanding non-recourse funding obligations, at a discount, which resulted in a $10.1 million gain.

8. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of March 31, 2012, the Company s mortgage loan holdings were approximately $5.3 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company s underwriting procedures relative to its commercial loan portfolio are based, in the Company s view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, professional office buildings, and warehouses). The Company believes these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history.

The Company s commercial mortgage loans are stated at unpaid principal balance, adjusted for any unamortized premium or discount, and net of valuation allowances. Interest income is accrued on the principal

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amount of the loan based on the loan s contractual interest rate. Amortization of premiums and discounts is recorded using the effective yield method. Interest income, amortization of premiums and discounts and prepayment fees are reported in net investment income.

Many of the mortgage loans have call options or interest rate reset options between 3 and 10 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options or increase the interest rates on our existing mortgage loans commensurate with the significantly increased market rates. Assuming the loans are called at their next call dates, approximately $91.3 million would become due for the remainder of 2012, $1.4 billion in 2013 through 2017, $779.2 million in 2018 through 2022, and $271.5 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2012 and December 31, 2011, approximately $901.1 million and $876.8 million, respectively, of the Company s mortgage loans have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income.

As of March 31, 2012, less than $13.6 million, or 0.04%, of invested assets consisted of nonperforming, restructured or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. The Company s mortgage loan portfolio consists of two categories of loans: (1) those not subject to a pooling and servicing agreement and (2) those subject to a contractual pooling and servicing agreement.

As of March 31, 2012, $8.6 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the three month period ending March 31, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $2.2 million of real estate properties during the three months ending March 31, 2012.

As of March 31, 2012, $2.3 million of loans subject to a pooling and servicing agreement were nonperforming. None of these nonperforming loans have been restructured during the three months ending March 31, 2012. In addition, the Company foreclosed on certain nonperforming loans and converted them to $0.5 million of real estate properties during the three months ending March 31, 2012.

As of March 31, 2012 and December 31, 2011, the Company had an allowance for mortgage loan credit losses of $5.0 million and $6.5 million, respectively. Over the past ten years, the Company s commercial mortgage loan portfolio has experienced an average credit loss factor of approximately 0.02%. Due to such low historical losses, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in ASC Subtopic 310. Since the Company uses the specific identification method for calculating the allowance, it is necessary to review the economic situation of each borrower to determine those that have higher risk of credit impairment. The Company has a team of professionals that monitors borrower conditions such as payment practices, borrower credit, operating performance, and property conditions, as well as ensuring the timely payment of property taxes and insurance. Through this monitoring process, the Company assesses the risk of each loan. When issues are identified, the severity of the issues are assessed and reviewed for possible credit impairment. If a loss is probable, an expected loss calculation is performed and an allowance is established for that loan based on the expected loss. The expected loss is calculated as the excess carrying value of a loan over either the present value of expected future cash flows discounted at the loan s original effective interest rate, or the current estimated fair value of the loan s underlying collateral. A loan may be subsequently charged off at such point that the Company no longer expects to receive cash payments, the present value of future expected payments of the renegotiated loan is less than the current principal balance, or at such time that the Company is party to foreclosure or bankruptcy proceedings associated with the borrower and does not expect to recover the principal balance of the loan.

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

	As of March 31, 2012	As of December 31, 2011
	(Dollars In Thousands)	
Beginning balance	$ 6,475	$ 11,650
Charge offs	(1,500)	(16,278)
Recoveries		(2,471)
Provision		13,574
Ending balance	$ 4,975	$ 6,475

It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of March 31, 2012:

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$ 47,944	$ 5,278	$ 5,624	$ 58,846
Number of delinquent commercial mortgage loans	8	2	3	13

The Company s commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of March 31, 2012 and December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
2012						
Commercial mortgage loans:						
With no related allowance recorded	$ 5,652	$ 7,713	$	$ 1,413	$ 34	$ 34
With an allowance recorded	14,020	13,997	4,975	4,673	85	149
2011						
Commercial mortgage loans:						
With no related allowance recorded	$ 7,917	$ 10,926	$	$ 1,979	$ 34	$ 34
With an allowance recorded	15,521	15,521	6,475	5,174	117	181

9. COMMITMENTS AND CONTINGENCIES

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

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. In addition, from time to

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time, companies may be asked to contribute amounts beyond prescribed limits. Most insurance guaranty fund laws provide that an assessment may be excused or deferred if it would threaten an insurer s own financial strength. The Company does not believe its insurance guaranty fund assessments will be materially different from amounts already provided for in the financial statements.

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

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

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

As a result of an audit, the IRS has proposed adjustments to the Company s 2006 and 2007 taxable income. The Company intends to protest these adjustments and then seek resolution at the IRS Appeals Division. The Company is uncertain but believes that the Appeals conference will not occur within the next 12 months. An unfavorable outcome would cause the Company to make additional income tax cash payments of approximately $12.2 million. However, if these payments were to occur, they would not have a material impact to the Company or to its effective income tax rate.

10. STOCK-BASED COMPENSATION

During the three months ended March 31, 2012, 306,100 performance shares with an estimated fair value of $8.6 million were awarded. The criteria for payment of the 2012 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 10.0%, no award is earned. If the Company s ROE is at or above 11.2%, the award maximum is earned. Awards are paid in shares of the Company s common stock.

Restricted stock units are awarded to participants and include certain restrictions relating to vesting periods. The Company issued 143,900 restricted stock units for the three months ended March 31, 2012. These awards had a total fair value at grant date of $4.0 million. Approximately half of these restricted stock units vest in 2015, and the remainder vest in 2016. These awards have been recorded as liability-classified awards for the period ended March 31, 2012.

During the first quarter of 2012, the Company changed its intention to pay certain of its previously issued restricted stock units and performance share awards in cash. As a result, these portions of the awards have been recorded as liability-classified awards as of March 31, 2012. The impact of this change was to reclassify $3.6 million from additional paid in capital to other liabilities. The change had an immaterial impact to current year net income.

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

		Weighted-Average Base Price per share	No. of SARs
Balance as of December 31, 2011	$	22.27	2,274,229
SARs granted			
SARs exercised / forfeited / expired		26.57	452,116
Balance as of March 31, 2012	$	21.21	1,822,113

There were no SARs issued for the three months ended March 31, 2012. The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR.

11. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended March 31,			
	2012		2011	
	(Dollars In Thousands)			
Service cost benefits earned during the period	$	2,561	$	2,194
Interest cost on projected benefit obligation		2,604		2,508
Expected return on plan assets		(2,673)		(2,512)
Amortization of prior service cost		(95)		(98)
Amortization of actuarial losses		2,175		1,388
Total benefit cost	$	4,572	$	3,480

During the three months ended March 31, 2012, the Company contributed $7.3 million to its defined benefit pension plan for the 2011 plan year. In addition, during April of 2012, the Company contributed $3.3 million to the defined benefit pension plan for the 2012 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the three months ended March 31, 2012, was immaterial to the Company s financial statements.

12. EARNINGS PER SHARE

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

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

	For The Three Months Ended March 31,			
	2012		2011	
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income available to PLC s common shareowners	$	99,021	$	58,878
Average shares issued and outstanding		81,449,315		85,679,753
Issuable under various deferred compensation plans		881,015		923,475
Weighted shares outstanding - basic		82,330,330		86,603,228
Per share:				
Net income available to PLC s common shareowners - basic	$	1.20	$	0.68
Calculation of diluted earnings per share:				
Net income available to PLC s common shareowners	$	99,021	$	58,878
Weighted shares outstanding - basic		82,330,330		86,603,228
Stock appreciation rights (SARs)(1)		457,514		499,453
Issuable under various other stock-based compensation plans		435,381		140,937
Restricted stock units		697,910		576,467
Weighted shares outstanding - diluted		83,921,135		87,820,085
Per share:				
Net income available to PLC s common shareowners - diluted	$	1.18	$	0.67

(1) Excludes 689,545 and 1,452,030 SARs as of March 31, 2012 and 2011, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding for applicable periods.

13. INCOME TAXES

There have been no material changes to the balance of unrecognized tax benefits, where such benefits impacted earnings, for the three months ended March 31, 2012. However, during the first quarter of 2012, there was an $18.5 million increase in total unrecognized tax benefits. This increase related to items for which the ultimate deductibility is highly certain but for which there is uncertainty about the year in which such items should be deducted. Other than interest or penalties, a disallowance of the shorter deductibility period would not affect the annual effective tax rate. However, such disallowance would accelerate the payment date of cash to the taxing authority. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of March 31, 2012 and December 31, 2011 were $2.9 million and $2.9 million, respectively.

During the first quarter of 2012, the Internal Revenue Service proposed adjustments to the Company s 2006 and 2007 taxable income. The Company intends to protest these adjustments during the second quarter of 2012 and then seek resolution at the IRS Appeals Division. If the IRS prevails, then such acceleration of tax payments will occur.

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

	As of	
	March 31, 2012	December 31, 2011
	(Dollars In Thousands)	
Balance, beginning of period	$ 4,840	$ 13,181
Additions for tax positions of the current year		
Additions for tax positions of prior years	18,490	106
Reductions of tax positions of prior years:		
Changes in judgment		(8,447)
Settlements during the period		
Lapses of applicable statute of limitations		
Balance, end of period	$ 23,330	$ 4,840

Using the information that is available as of March 31, 2012, the Company believes that in the next 12 months there are not any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease. However, this viewpoint could change if the Company receives an earlier than expected Appeals conference date on the aforementioned issues. During 2011, there was an $8.4 million reduction in the amount of unrecognized tax benefits due to a change in the Company s judgment regarding the probability of realizing such unrecognized tax benefits. This was caused by new technical guidance and other developments which caused the Company to conclude that the full amount of the associated tax benefits was more than 50 percent likely to be realized. These issues were almost entirely related to timing issues. Therefore, aside from the cost of interest, such reduction did not result in a decrease in the Company s effective tax rate. In general, the Company is not subject to adjustments to its current tax expense by any taxing authority for any tax year prior to 2003.

The Company has computed its effective income tax rate for the three months ended March 31, 2012 and 2011, based upon its estimate of its annual 2012 and 2011 income. The effective tax rate for the three months ended March 31, 2012 and 2011 was 34.2% and 35.2%, respectively.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of March 31, 2012.

In the first quarter of 2012, the Company retrospectively adopted ASU No. 2010-26. The Company s retrospective adoption of this Update resulted in a reduction in its deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There was also a reduction in the level of costs the Company defers. The retrospective adoption of this Update reduced the opening balance of the Company s shareowners equity, the deferred acquisition costs asset balance, and the deferred income tax liability balance as of the adoption date. The Company had an adjustment of approximately $279.8 million to its deferred income tax liability balance and a $4.7 million adjustment to the Company s income tax expense.

14. 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.

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In the first quarter of 2012, the Company adopted ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and IFRSs. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update modified several principles or requirements for measuring fair value or for disclosing information about fair value measurements.

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 condensed 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 March 31, 2012:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,270,022	$ 4	$ 2,270,026
Commercial mortgage-backed securities		591,550		591,550
Other asset-backed securities		285,565	587,613	873,178
U.S. government-related securities	746,295	598,792		1,345,087
States, municipals, and political subdivisions		1,347,827	4,344	1,352,171
Other government-related securities		103,838	20,006	123,844
Corporate bonds	204	18,518,807	137,976	18,656,987
Total fixed maturity securities - available-for-sale	746,499	23,716,401	749,943	25,212,843
Fixed maturity securities - trading				
Residential mortgage-backed securities		394,474		394,474
Commercial mortgage-backed securities		193,580		193,580
Other asset-backed securities		68,637	54,961	123,598
U.S. government-related securities	299,805	253		300,058
States, municipals, and political subdivisions		244,279		244,279
Other government-related securities		56,129		56,129
Corporate bonds		1,664,782	1	1,664,783
Total fixed maturity securities - trading	299,805	2,622,134	54,962	2,976,901
Total fixed maturity securities	1,046,304	26,338,535	804,905	28,189,744
Equity securities	256,750	22,553	81,224	360,527
Other long-term investments (1)	17,693	39,730	25,776	83,199
Short-term investments	110,194			110,194
Total investments	1,430,941	26,400,818	911,905	28,743,664
Cash	175,353			175,353
Other assets	7,991			7,991
Assets related to separate accounts				
Variable annuity	7,698,456			7,698,456
Variable universal life	554,817			554,817
Total assets measured at fair value on a recurring basis	$ 9,867,558	$ 26,400,818	$ 911,905	$ 37,180,281
Liabilities:				
Annuity account balances (2)	$	$	$ 137,238	$ 137,238
Other liabilities (1)	25,648	5,654	389,812	421,114
Total liabilities measured at fair value on a recurring basis	$ 25,648	$ 5,654	$ 527,050	$ 558,352

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity 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, 2011:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,342,123	$ 7	$ 2,342,130
Commercial mortgage-backed securities		551,559		551,559
Other asset-backed securities		298,216	614,813	913,029
U.S. government-related securities	664,506	536,173	15,000	1,215,679
States, municipals, and political subdivisions		1,327,713	69	1,327,782
Other government-related securities		93,017		93,017
Corporate bonds	204	18,460,480	119,601	18,580,285
Total fixed maturity securities - available-for-sale	664,710	23,609,281	749,490	25,023,481
Fixed maturity securities - trading				
Residential mortgage-backed securities		313,963		313,963
Commercial mortgage-backed securities		190,247		190,247
Other asset-backed securities		29,585	28,343	57,928
U.S. government-related securities	555,601	255		555,856
States, municipals, and political subdivisions		229,032		229,032
Other government-related securities		44,845		44,845
Corporate bonds		1,568,094		1,568,094
Total fixed maturity securities - trading	555,601	2,376,021	28,343	2,959,965
Total fixed maturity securities	1,220,311	25,985,302	777,833	27,983,446
Equity securities	243,336	11,310	80,586	335,232
Other long-term investments (1)	27,757	7,785	12,703	48,245
Short-term investments	101,489			101,489
Total investments	1,592,893	26,004,397	871,122	28,468,412
Cash	267,298			267,298
Other assets	6,960			6,960
Assets related to separate accounts				
Variable annuity	6,741,959			6,741,959
Variable universal life	502,617			502,617
Total assets measured at fair value on a recurring basis	$ 9,111,727	$ 26,004,397	$ 871,122	$ 35,987,246
Liabilities:				
Annuity account balances (2)	$	$	$ 136,462	$ 136,462
Other liabilities (1)	2,727	15,370	437,613	455,710
Total liabilities measured at fair value on a recurring basis	$ 2,727	$ 15,370	$ 574,075	$ 592,172

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Determination of fair values

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

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the three months ended March 31, 2012.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or ABS). As of March 31, 2012, the Company held $3.8 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

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the underlying assets, 2) average life of the security, 3) prepayment speeds, 4) credit spreads, 5) treasury and swap yield curves, and 6) discount margin.

As of March 31, 2012, the Company held $642.6 million of Level 3 ABS, which included $55.0 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

The fair value calculation of available-for-sale ABSs classified as Level 3 had, but were not limited to, the following inputs:

Investment grade credit rating	100.0%
Weighted-average yield	1.7%
Par value	$669.8 million
Weighted-average life	14.8 years

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

As of March 31, 2012, the Company classified approximately $22.5 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of March 31, 2012, the Company classified approximately $162.3 million of bonds and securities as Level 3 valuations. The fair value of the Level 3 bonds and securities are derived from an internal pricing model that utilizes a hybrid market/income approach to valuation. The Company reviews the following characteristics of the bonds and securities to determine the relevant inputs to use in the pricing model: 1) coupon rate, 2) years to maturity, 3) seniority, 4) embedded options, 5) trading volume, and 6) credit ratings.

Level 3 bonds and securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard

pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spreads, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

The fair value calculation of bonds and securities classified as Level 3 had, but were not limited to, the following weighted-average inputs:

Investment grade credit rating	62.2%
Weighted-average yield	4.8%
Weighted-average coupon	5.4%
Par value	$233.3 million
Weighted-average stated maturity	6.5 years

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Equities

As of March 31, 2012, the Company held approximately $103.8 million of equity securities classified as Level 2 and Level 3. Of this total, $64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 15, *Derivative Financial Instruments* for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of March 31, 2012, 95.8% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

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

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

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

The guaranteed minimum withdrawal benefits (GMWB) embedded derivative is carried at fair value in other long-term investments and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) Derivative financial instruments . Refer to Note 15, *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The

projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality that is consistent with 58% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company s non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in their fair value are also reported in earnings. The fair value of the embedded derivative is the difference between the policy liabilities (net of policy loans) of $2.7 billion and the fair value of the trading securities of $3.0 billion. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the

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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 equity indexed annuity (EIA) 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 equity indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for March 31, 2012, ranged from a one month rate of 0.71%, a 5 year rate of 2.66%, and a 30 year rate of 4.56%. 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.

Valuation of Level 3 Financial Instruments

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

		Fair Value As of March 31, 2012 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Other asset-backed securities	$	587,613	Discounted cash flow	Liquidity premium Paydown rate	0.59% - 1.14% (0.86%) 7.20% - 11.08% (8.70%)
Other government-related securities		20,006	Discounted cash flow	Spread over treasury	0.20%
Corporate bonds		97,941	Discounted cash flow	Spread over treasury	0.20% - 4.5% (0.98%)
Liabilities:					
Embedded derivatives - GMWB(1)	$	96,847	Actuarial cash flow model	Mortality Lapse	58% of 1994 GMDB table 0% - 16%, depending on product/duration/fundedness of guarantee

			Utilization	92% - 100%
			Nonperformance risk	0.47% - 1.52%
Annuity account balances(2)	137,238	Actuarial cash flow model	Asset earned rate	5.89%
			Expenses	$78 - $93 per policy
			Withdrawal rate	2.20%
			Mortality	65% of 1994 GMDB table
			Lapse	2.2% - 55.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85 % depending on surrender charge period
			Nonperformance risk	0.47% - 1.52%

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

(2) Represents liabilities related to equity indexed annuities.

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The chart above excludes Level 3 financial instruments that are valued using broker quotes and those which book value approximates fair value of $61.1 million and $119.5 million, respectively. The valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. In such cases the Company has made a determination to classify these financial instruments as Level 3. Of the $119.5 million, where book value approximates fair value, $64.6 million is FHLB stock and a $40 million surplus note that PLICO acquired as part of the reinsurance transaction with Liberty Life.

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

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

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

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

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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 March 31, 2012, for which the Company has used significant unobservable inputs (Level 3):

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