PROTECTIVE LIFE CORP
Form 10-Q
November 06, 2015
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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 September 30, 2015

or

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

For the transition period from to

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION

(Exact name of registrant as specified in its charter)

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

2801 HIGHWAY 280 SOUTH

BIRMINGHAM, ALABAMA 35223

(Address of principal executive offices and zip code)

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

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

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

Indicate by check mark 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 small reporting company 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, $0.01 Par Value, outstanding as of October 29, 2015: 1,000

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Successor Company		Predecessor Company		
	For The Three Months Ended September 30, 2015	February 1, 2015 to September 30, 2015	January 1, 2015 to January 31, 2015	For The Three Months Ended September 30, 2014	For The Nine Months Ended September 30, 2014
	(Dollars In Thousands)		(Dollars In Thousands, Except Per Share Amounts)		
Revenues					
Premiums and policy fees	$ 797,741	$ 2,138,837	$ 261,866	$ 759,038	$ 2,426,736
Reinsurance ceded	(306,774)	(793,419)	(89,956)	(277,136)	(947,817)
Net of reinsurance ceded	490,967	1,345,418	171,910	481,902	1,478,919
Net investment income	440,620	1,165,783	175,180	558,174	1,647,153
Realized investment gains (losses):					
Derivative financial instruments	(74,590)	53,654	(123,274)	3,781	(191,495)
All other investments	5,348	(132,045)	81,153	1,194	153,456
Other-than-temporary impairment losses	(14,906)	(28,301)	(636)	(1,142)	(2,026)
Portion recognized in other comprehensive income (before taxes)	4,842	12,503	155	(1,212)	(3,379)
Net impairment losses recognized in earnings	(10,064)	(15,798)	(481)	(2,354)	(5,405)
Other income	108,312	284,669	36,421	105,389	311,359
Total revenues	960,593	2,701,681	340,909	1,148,086	3,393,987
Benefits and expenses					
Benefits and settlement expenses, net of reinsurance ceded: (2015 Successor - $266,287 and $687,238); (2015 Predecessor - $87,674; 2014 Predecessor - three months: $217,641; nine months: $851,028)	676,181	1,857,086	267,287	630,285	2,106,620
Amortization of deferred policy acquisition costs and value of business acquired	8,722	76,713	4,072	134,918	242,031
Other operating expenses, net of reinsurance ceded: (2015 Successor - $49,717 and $134,494) (2015 Predecessor - $35,036; 2014 Predecessor - three months: $49,196; nine months: $139,507)	188,430	490,885	68,368	198,000	573,038
Total benefits and expenses	873,333	2,424,684	339,727	963,203	2,921,689
Income before income tax	87,260	276,997	1,182	184,883	472,298
Income tax expense (benefit)	26,853	89,889	(327)	65,974	161,773
Net income	$ 60,407	$ 187,108	$ 1,509	$ 118,909	$ 310,525
Net income - basic			$ 0.02	$ 1.48	$ 3.88
Net income - diluted			$ 0.02	$ 1.46	$ 3.82
Cash dividends paid per share			$	$ 0.24	$ 0.68
Average shares outstanding - basic			80,452,848	80,231,591	79,942,018
			81,759,287	81,458,870	81,261,249

Average shares outstanding - diluted

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Successor Company For The Three Months Ended September 30, 2015	February 1, 2015 to September 30, 2015	Predecessor Company January 1, 2015 to January 31, 2015	For The Three Months Ended September 30, 2014	For The Nine Months Ended September 30, 2014
	(Dollars In Thousands)		(Dollars In Thousands)		
Net income	$ 60,407	$ 187,108	$ 1,509	$ 118,909	$ 310,525
Other comprehensive income (loss):					
Change in net unrealized gains (losses) on investments, net of income tax: (2015 Successor - $(25,289) and $(506,947)); (2015 Predecessor - $259,738; 2014 Predecessor - three months: $(44,766); nine months: $431,299)	(46,966)	(941,473)	482,370	(83,138)	800,982
Reclassification adjustment for investment amounts included in net income, net of income tax: (2015 Successor - $3,961 and $4,661); (2015 Predecessor - $(2,244); 2014 Predecessor - three months: $(7,446); nine months: $(16,027))	7,356	8,657	(4,166)	(13,827)	(29,763)
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: (2015 Successor - $781 and $(1,677)); (2015 Predecessor - $(131); 2014 Predecessor - three months: $561; nine months: $2,419)	1,451	(3,115)	(243)	1,044	4,494
Change in accumulated (loss) gain - derivatives, net of income tax: (2015 Successor - $0 and $(45)); (2015 Predecessor - $5; 2014 Predecessor - three months: $(22); nine months: $(31))		(86)	9	(41)	(58)
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2015 Successor - $0 and $45); (2015 Predecessor - $13; 2014 Predecessor - three months: $103; nine months: $552)		86	23	190	1,025
Change in postretirement benefits liability adjustment, net of income tax: (2015 Successor - $0 and $0); (2015 Predecessor - $(6,475); 2014 Predecessor - three months: $631; nine months: $1,895)			(12,025)	1,173	3,520

Total other comprehensive income (loss)	(38,159)	(935,931)	465,968	(94,599)	780,200
Total comprehensive income (loss)	$ 22,248	$ (748,823)	$ 467,477	$ 24,310	$ 1,090,725

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	Successor Company As of September 30, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
Assets		
Fixed maturities, at fair value (amortized cost: 2015 Successor - $37,851,257; 2014 Predecessor - $33,738,242)	$ 35,639,529	$ 36,775,989
Fixed maturities, at amortized cost (fair value: 2015 Successor - $518,363; 2014 Predecessor - $485,422)	579,329	435,000
Equity securities, at fair value (cost: 2015 Successor - $732,403; 2014 Predecessor - $778,744)	724,477	803,230
Mortgage loans (related to securitizations: 2015 Successor - $382,738; 2014 Predecessor - $455,250)	5,728,237	5,133,780
Investment real estate, net of accumulated depreciation (2015 Successor - $86; 2014 Predecessor - $246)	7,515	5,918
Policy loans	1,706,402	1,758,237
Other long-term investments	661,779	514,639
Short-term investments	238,658	250,645
Total investments	45,285,926	45,677,438
Cash	663,313	379,411
Accrued investment income	483,720	474,522
Accounts and premiums receivable	69,398	84,458
Reinsurance receivables	5,581,753	6,106,113
Deferred policy acquisition costs and value of business acquired	1,466,342	3,294,570
Goodwill	735,712	102,365
Other intangibles, net of accumulated amortization (2015 Successor - $27,541)	655,459	
Property and equipment, net of accumulated depreciation (2015 Successor - $5,930; 2014 Predecessor - $118,487)	104,089	52,853
Other assets	144,862	316,207
Assets related to separate accounts		
Variable annuity	12,646,751	13,157,429
Variable universal life	792,800	834,940
Total assets	$ 68,630,125	$ 70,480,306

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(continued)

(Unaudited)

	Successor Company As of September 30, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
Liabilities		
Future policy benefits and claims	$ 29,734,838	$ 29,944,890
Unearned premiums	735,215	1,574,077
Total policy liabilities and accruals	30,470,053	31,518,967
Stable value product account balances	1,914,093	1,959,488
Annuity account balances	10,754,799	10,950,729
Other policyholders funds	1,128,486	1,430,325
Other liabilities	1,768,049	1,621,168
Income tax payable	48,887	23,901
Deferred income taxes	1,117,860	1,545,478
Non-recourse funding obligations	670,994	582,404
Repurchase program borrowings	455,718	50,000
Debt	1,605,796	1,300,000
Subordinated debt securities	450,603	540,593
Liabilities related to separate accounts		
Variable annuity	12,646,751	13,157,429
Variable universal life	792,800	834,940
Total liabilities	63,824,889	65,515,422
Commitments and contingencies - Note 11		
Shareowner s equity		
Preferred Stock; (Predecessor) $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, 2015 (Successor) and 2014 (Predecessor) - $.01 par value and $.50 par value; shares authorized: 5,000 and 160,000,000; shares issued: 1,000 and 88,776,960, respectively		44,388
Additional paid-in-capital	5,554,059	606,125
Treasury stock, at cost (2014 Predecessor - 9,435,255 shares)		(185,705)
Retained earnings	187,108	3,082,000
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2015 Successor - $(502,286); 2014 Predecessor - $796,960)	(932,816)	1,480,068
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2015 Successor - $(1,677); 2014 Predecessor - $2,208)	(3,115)	4,101
Accumulated loss - derivatives, net of income tax: (2015 Successor - $0; 2014 Predecessor - $(45))		(82)
Postretirement benefits liability adjustment, net of income tax: (2015 Successor - $0; 2014 Predecessor - $(35,545))		(66,011)
Total shareowner s equity	4,805,236	4,964,884
Total liabilities and shareowner s equity	$ 68,630,125	$ 70,480,306

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNER S EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareowner s equity
			(Dollars In Thousands)			
Predecessor Company						
Balance, December 31, 2014	$ 44,388	$ 606,125	$ (185,705)	$ 3,082,000	$ 1,418,076	$ 4,964,884
Net income for the period of January 1, 2015 to January 31, 2015				1,509		1,509
Other comprehensive income					465,968	465,968
Comprehensive income for the period of January 1, 2015 to January 31, 2015						467,477
Stock-based compensation		1,550				1,550
Balance, January 31, 2015	$ 44,388	$ 607,675	$ (185,705)	$ 3,083,509	$ 1,884,044	$ 5,433,911

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner s equity
			(Dollars In Thousands)			
Successor Company						
Balance, February 1, 2015	$	$ 5,554,059	$	$	$	$ 5,554,059
Net income for the period of February 1, 2015 to September 30, 2015				187,108		187,108
Other comprehensive loss					(935,931)	(935,931)
Comprehensive loss for the period of February 1, 2015 to September 30, 2015						(748,823)
Balance, September 30, 2015	$	$ 5,554,059	$	$ 187,108	$ (935,931)	$ 4,805,236

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Successor Company February 1, 2015 to September 30, 2015 (Dollars In Thousands)	Predecessor Company January 1, 2015 to January 31, 2015	For The Nine Months Ended September 30, 2014 (Dollars In Thousands)
Cash flows from operating activities			
Net income	$ 187,108	$ 1,509	$ 310,525
Adjustments to reconcile net income to net cash provided by operating activities:			
Realized investment losses (gains)	94,189	42,602	43,444
Amortization of DAC and VOBA	76,713	4,072	242,031
Capitalization of deferred policy acquisition costs	(207,309)	(22,489)	(215,616)
Depreciation and amortization expense	35,194	820	5,687
Deferred income tax	86,315	30,791	8,390
Accrued income tax	64,345	(32,803)	(11,220)
Interest credited to universal life and investment products	521,760	79,088	663,117
Policy fees assessed on universal life and investment products	(756,276)	(90,288)	(729,929)
Change in reinsurance receivables	142,267	(85,081)	42,565
Change in accrued investment income and other receivables	11,103	(5,789)	(28,297)
Change in policy liabilities and other policyholders funds of traditional life and health products	(147,891)	176,980	12,184
Trading securities:			
Maturities and principal reductions of investments	90,548	17,946	71,646
Sale of investments	107,035	26,422	187,829
Cost of investments acquired	(174,455)	(27,289)	(160,134)
Other net change in trading securities	66,189	(26,901)	(43,699)
Amortization of premiums and accretion of discounts on investments and mortgage loans	288,181	12,930	64,549
Change in other liabilities	(182,029)	238,592	220,160
Other income - gains on repurchase of non-recourse funding obligations			(4,587)
Other, net	(58,886)	(149,889)	(73,142)
Net cash provided by operating activities	244,101	191,223	605,503
Cash flows from investing activities			
Maturities and principal reductions of investments, available-for-sale	756,207	59,028	941,989
Sale of investments, available-for-sale	1,154,825	191,062	1,465,632
Cost of investments acquired, available-for-sale	(2,337,182)	(149,887)	(3,056,904)
Change in investments, held-to-maturity	(50,000)		(50,000)
Mortgage loans:			
New lendings	(1,101,820)	(100,530)	(649,125)
Repayments	894,164	45,741	908,364
Change in investment real estate, net	(59)	7	6,048
Change in policy loans, net	45,470	6,365	48,516

Change in other long-term investments, net	(79,030)	(25,339)	(69,778)
Change in short-term investments, net	22,313	(40,314)	(26,392)
Net unsettled security transactions	(30,877)	37,510	8,243
Purchase of property and equipment	(5,855)	(649)	(6,223)
Payments for business acquisitions			(906)
Net cash (used in) provided by investing activities	(731,844)	22,994	(480,536)
Cash flows from financing activities			
Borrowings under line of credit arrangements and debt	195,000		190,000
Principal payments on line of credit arrangement and debt	(193,093)	(60,000)	(395,000)
Issuance (repayment) of non-recourse funding obligations	50,000		31,651
Repurchase program borrowings	405,718		9,804
Dividends to shareowners			(53,668)
Investment product deposits and change in universal life deposits	1,951,647	169,233	2,415,424
Investment product withdrawals	(1,720,926)	(240,147)	(2,461,200)
Other financing activities, net		(4)	(33)
Net cash provided by (used in) financing activities	688,346	(130,918)	(263,022)
Change in cash	200,603	83,299	(138,055)
Cash at beginning of period	462,710	379,411	466,542
Cash at end of period	$ 663,313	$ 462,710	$ 328,487

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

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

The Merger was accounted for by the Company under the acquisition method of accounting under ASC Topic 805 *Business Combinations*. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. The Company elected to apply pushdown accounting by applying the guidance allowed by ASC Topic 805, *Business Combinations*, including the initial recognition of most of the Company s assets and liabilities at fair value as of the acquisition date, and similarly recognizing goodwill calculated based on the terms of the transaction and the fair value of the new basis of net assets of the Company. The new basis of accounting will be the basis of the accounting records in the preparation of future financial statements and related disclosures after the Merger date. Goodwill of $735.7 million was recorded as of the acquisition date which represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company s assembled workforce, future growth potential and other sources of value not associated with identifiable assets.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for the interim periods presented herein. Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three months ended September 30, 2015 (Successor Company), the period of February 1, 2015 to September 30, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2015 (Successor Company). The year-end consolidated condensed financial data included herein was derived from audited financial statements but does not include all disclosures required by GAAP within this report. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (Predecessor Company).

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

Reclassifications

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

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Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014 (Predecessor Company). Other than the accounting matters resulting from the application of pushdown accounting in connection with ASC Topic 805, the Company did not make significant changes to accounting policies during the period of February 1, 2015 to September 30, 2015 (Successor Company) except as noted below.

Intangible Assets

Intangible assets with definite lives are amortized over the estimated useful life of the asset and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Amortizable intangible assets primarily consist of distribution relationships, trade names, and technology. Intangible assets with indefinite lives, primarily insurance licenses, are not amortized, but are reviewed for impairment on an annual basis or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Value of Business Acquired

In conjunction with the Merger, a portion of the purchase price was allocated to the right to receive future gross profits from cash flows and earnings of the Company s insurance policies and investment contracts as of the date of the Merger. This intangible asset, called value of business acquired (VOBA), is based on the actuarially estimated present value of future cash flows from the Company s insurance policies and investment contracts in-force on the date of the Merger. The estimated present value of future cash flows used in the calculation of the VOBA is based on certain assumptions, including mortality, persistency, expenses, and interest rates that the Company expects to experience in future years. The Company amortizes VOBA in proportion to gross premiums for traditional life products, or estimated gross margins (EGMs) for participating traditional life products within the MONY block. For interest sensitive products, the Company uses various amortization bases including expected gross profits (EGPs), revenues, or insurance in-force.

Goodwill

Goodwill of $735.7 million was recognized in conjunction with the Merger as the excess of the purchase considerations over the fair value of identifiable assets acquired and liabilities assumed. The balance recognized as goodwill is not amortized, but is reviewed for impairment on an annual basis, or more frequently as events or circumstances may warrant, including those circumstances which would more likely than not reduce the fair value of the Company s reporting units below its carrying amount.

Property and Equipment

In conjunction with the Merger, property and equipment was recorded at fair value and will be depreciated from this basis in future periods based on the respective estimated useful lives. Real estate assets were recorded at appraised values as of the acquisition date. The Company has estimated the remaining useful life of the home office building to be 25 years. Land is not depreciated.

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The carrying amounts of the Company s fixed assets are as follows:

	Successor Company As of September 30, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
Home office building	$ 65,342	$ 75,109
Land	24,920	
Data processing equipment	14,213	40,919
Other, principally furniture and equipment	5,544	55,312
Total property and equipment	110,019	171,340
Less: accumulated depreciation	5,930	118,487
Net property and equipment	$ 104,089	$ 52,853

Guaranteed Minimum Withdrawal Benefits

The Company also establishes reserves for guaranteed minimum withdrawal benefits (GMWB) on its variable annuity (VA) products. The GMWB is valued in accordance with FASB guidance under the ASC Derivatives and Hedging Topic which utilizes the valuation technique prescribed by the ASC Fair Value Measurements and Disclosures Topic, which requires the embedded derivative to be recorded at fair value using current implied volatilities for the equity indices. The fair value of the GMWB is impacted by equity market conditions and can result in the GMWB embedded derivative being in an overall net asset or net liability position. In times of favorable equity market conditions the likelihood and severity of claims is reduced and expected fee income increases. Since claims are generally expected later than fees, these favorable equity market conditions can result in the present value of fees being greater than the present value of claims, which results in a net GMWB embedded derivative asset. In times of unfavorable equity market conditions the likelihood and severity of claims is increased and expected fee income decreases and can result in the present value of claims exceeding the present value of fees resulting in a net GMWB embedded derivative liability. The methods used to estimate the embedded derivatives employ assumptions about mortality, lapses, policyholder behavior, equity market returns, interest rates, and market volatility. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. In conjunction with the Merger, the Company updated the fair value of the GMWB reserves to reflect current assumptions as of February 1, 2015 (Successor Company). As a result of the application of ASC Topic 805, the Company reset the hedge premium rates utilized in the valuation for all policies to be equal to the present value of future claims with the reset hedge premium rates being capped at the actual charges to the policyholder. This update resulted in a decrease in the net liability of approximately $266.1 million on the Merger date. As of September 30, 2015 (Successor Company), the net GMWB liability held was approximately $193.7 million.

Policyholder Liabilities

Insurance Liabilities and Reserves

In conjunction with the Merger and in accordance with ASC 805, insurance liabilities and reserves were recorded at fair value and the underlying contracts were considered to be new contracts, for measurement and reporting purposes as of the acquisition date. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency, and other assumptions based on the Company s historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Determining liabilities for the Company s property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices, the frequency and severity of claims, and the effectiveness of internal processes designed to reduce the level of claims. The Company s results depend significantly upon the extent to which its actual claims experience is consistent with the assumptions the Company used in determining its reserves and pricing its products. The Company s reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that it will pay for actual claims or the timing of those payments. As such, at the acquisition date, the Company updated the assumptions described above to reflect current best estimates

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and reserves were calculated in accordance with the methodology described below. VOBA was recorded to reflect the difference between the fair value of the contractual insurance liability and the reserve established.

Traditional Life, Health, and Credit Insurance Products

Traditional life insurance products consist principally of those products with fixed and guaranteed premiums and benefits, and they include whole life insurance policies, term and term-like life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies. In accordance with ASC 805, the liabilities for future policy benefits on traditional life insurance products, when combined with the associated VOBA, were recorded at fair value. These values were computed using assumptions that include interest rates, mortality, lapse rates, expenses estimates, and other assumptions based on the Company s experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to us and claims incurred but not yet reported.

Universal Life and Investment Products

Universal life and investment products include universal life insurance, guaranteed investment contracts, guaranteed funding agreements, deferred annuities, and annuities without life contingencies. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances.

The Company establishes liabilities for fixed indexed annuity (FIA) products. These products are deferred fixed annuities with a guaranteed minimum interest rate plus a contingent return based on equity market performance. The FIA product is considered a hybrid financial instrument under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification) Topic 815 *Derivatives and Hedging* which allows the Company to make the election to value the liabilities of these FIA products at fair value. This election was made for the FIA products issued prior to 2010 as the policies were issued. These products are no longer being marketed. The future changes in the fair value of the liability for these FIA products will be recorded in *Benefit and settlement expenses* with the liability being recorded in *Annuity account balances*. For more information regarding the determination of fair value of annuity account balances please refer to Note 16, *Fair Value of Financial Instruments*. *Premiums and policy fees* for these FIA products consist of fees that have been assessed against the policy account balances for surrenders. Such fees are recognized when assessed and earned.

The Company currently markets a deferred fixed annuity with a guaranteed minimum interest rate plus a contingent return based on equity market performance and the products are considered hybrid financial instruments under the FASB s ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these FIA products at fair value prior to the Merger date. As a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services Insurance* and is recorded in *Annuity account balances* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

The Company markets universal life products with a guaranteed minimum interest rate plus a contingent return based on equity market performance and are considered hybrid financial instruments under the FASB s ASC Topic 815 *Derivatives and Hedging*. The Company did not elect to value these IUL products at fair value prior to the Merger date. As a result the Company accounts for the provision that provides for a contingent return based on equity market performance as an embedded derivative. The embedded derivative is bifurcated from the host contract and recorded at fair value in *Other liabilities*. Changes in the fair value of the embedded derivative are recorded in *Realized investment gains (losses) Derivative financial instruments*. For more information regarding the determination of fair value of the IUL embedded derivative refer to Note 16, *Fair Value of Financial Instruments*. The host contract is accounted for as a debt instrument in accordance with ASC Topic 944 *Financial Services Insurance* and is recorded

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in *Future policy benefits and claims* with any discount to the minimum account value being accreted using the effective yield method. *Benefits and settlement expenses* include accreted interest and benefit claims incurred during the period.

The Company s accounting policies with respect to variable universal life (VUL) and VA are identical except that policy account balances (excluding account balances that earn a fixed rate) are valued at fair value and reported as components of assets and liabilities related to separate accounts.

The Company establishes liabilities for guaranteed minimum death benefits (GMDB) on its VA products. The methods used to estimate the liabilities employ assumptions about mortality and the performance of equity markets. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table for company experience. Future declines in the equity market would increase the Company s GMDB liability. Differences between the actual experience and the assumptions used result in variances in profit and could result in losses. Our GMDB, as of September 30, 2015 (Successor Company), are subject to a dollar-for-dollar reduction upon withdrawal of related annuity deposits on contracts issued prior to January 1, 2003. As of September 30, 2015 (Successor Company), the GMDB reserve was $35.6 million.

Property and Casualty Insurance Products

Property and casualty insurance products include service contract business, surety bonds, and guaranteed asset protection (GAP). Unearned premium reserves are maintained for the portion of the premiums that is related to the unexpired period of the policy. Benefit reserves are recorded when insured events occur. Benefit reserves include case basis reserves for known but unpaid claims as of the balance sheet date as well as incurred but not reported (IBNR) reserves for claims where the insured event has occurred but has not been reported to the Company as of the balance sheet date. The case basis reserves and IBNR are calculated based on historical experience and on assumptions relating to claim severity and frequency, the level of used vehicle prices, and other factors. These assumptions are modified as necessary to reflect anticipated trends.

Reinsurance

The Company uses reinsurance extensively in certain of its segments and accounts for reinsurance and the recognition of the impact of reinsurance costs in accordance with the ASC Financial Services Insurance Topic. The following summarizes some of the key aspects of the Company s accounting policies for reinsurance.

Reinsurance Assets and Liabilities Claim liabilities and policy benefits are calculated consistently for all policies, regardless of whether or not the policy is reinsured. Once the claim liabilities and policy benefits for the underlying policies are estimated, the amounts recoverable from the reinsurers are estimated based on a number of factors including the terms of the reinsurance contracts, historical payment patterns of reinsurance partners, and the financial strength and credit worthiness of reinsurance partners and recorded as *Reinsurance receivables* on the balance sheet. The reinsurance receivables were recorded in the balance sheet using current accounting policies and the most current assumptions as of the merger date. As of the merger date, the Company also calculated the ceded VOBA associated with the reinsured policies. The reinsurance receivables combined with the associated ceded VOBA represent the fair value of the reinsurance assets. Liabilities for unpaid reinsurance claims are produced from claims and reinsurance system records, which contain the relevant terms of the individual reinsurance contracts. The Company monitors claims due from reinsurers to ensure that balances are settled on a timely basis. Incurred but not reported claims are reviewed by the Company s actuarial staff to ensure that appropriate amounts are ceded.

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

Accounting Pronouncements Recently Adopted

Accounting Standards Update (ASU) No. 2014-08 Reporting Discontinued Operations and Disclosure of Disposals of Components of an Entity. This Update changes the requirements for reporting discontinued operations and related disclosures. The Update limits the definition of a discontinued operation to disposals that represent strategic shifts that will have a major effect on an entity s operation and financial results.

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Additionally, the Update requires enhanced disclosures about the components of discontinued operations and the financial effects of the disposal. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2014. The Company has reviewed the additional disclosures required by the Update, and will apply the revised guidance to any disposals occurring after the effective date.

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

ASU No. 2014-17 Business Combinations (Topic 805). This Update relates to pushdown accounting , which refers to pushing down the acquirer s accounting and reporting basis (which is recognized in conjunction with its accounting for a business combination) to the acquiree s standalone financial statements. The new guidance makes pushdown accounting optional for an acquiree that is a business or nonprofit activity when there is a change-in- control event (e.g., the acquirer in a business combination obtains control over the acquiree). In addition, the staff of the SEC released Staff Accounting Bulletin (SAB) No. 115, which rescinds SAB Topic 5J, New Basis of Accounting Required in Certain Circumstances (the SEC staff s pre-existing guidance on pushdown accounting) and conforms SEC guidance on pushdown accounting to the FASB s new guidance. Revised SEC guidance was codified in ASU No. 2015-08, issued in May 2015. The new pushdown accounting guidance became effective upon its issuance on November 18, 2014. Although now optional, the Company has applied pushdown accounting to its standalone financial statements effective with the Company becoming a wholly owned subsidiary of Dai-ichi Life on February 1, 2015. The presentation within this report for predecessor and successor periods is consistent with this Update.

Accounting Pronouncements Not Yet Adopted

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

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

ASU No. 2015-02 Consolidation Amendments to the Consolidation Analysis. This Update makes several targeted changes to generally accepted accounting principles, including a) eliminating the presumption that a general partner should consolidate a limited partnership and b) eliminating the consolidation model specific to limited partnerships. The amendments also clarify when fees and related party relationships should be considered in the consolidation of variable interest entities. The amendments in this Update are effective for annual and interim periods

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beginning after December 15, 2015. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

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

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

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

ASU No. 2015-12 - Plan Accounting - (Topics 960, 962 and 965). This Update is a three-part standard that provides guidance on certain aspects of the accounting related to employee benefit plans. Part I requires an employee benefit plan to use contract value as the only measurement amount for fully-benefit responsive investment contracts. Part II simplifies and increases the effectiveness of plan investment disclosure requirements for employee benefit plans by eliminating certain disclosures related to individual investments over 5 percent and by eliminating the need to disaggregate investments in multiple ways. Part III provides a measurement-date practical expedient for plan investments when the fiscal year-end of a plan does not coincide with a month-end. The guidance is effective for fiscal years beginning after

December 15, 2015 for all three parts and early adoption is permitted. For parts I and II, amendments should be applied retrospectively to all financial statements presented, while part III should be applied prospectively. The Company is reviewing its policies and procedures to ensure compliance with the revised guidance.

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

ASU No. 2015-16 - Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments. This Update provides that an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period following a business combination in the reporting period in which the adjustment amounts are determined. This Update is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in the Update are to be applied prospectively for

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adjustments that occur after the effective date, with early adoption permitted for financial statements that have not been issued. The Company is prepared to comply with the revised guidance.

3. RECENTLY ANNOUNCED REINSURANCE TRANSACTION

On September 30, 2015, PLICO entered into a Master Agreement (the Master Agreement) with Genworth Life and Annuity Insurance Company (GLAIC). Pursuant to the Master Agreement, PLICO agreed to enter into a reinsurance agreement (the Reinsurance Agreement) pursuant to which PLICO will coinsure certain term life insurance business of GLAIC. In connection with the reinsurance transaction, PLICO intends to enter into a financing transaction with a term of up to 20 years involving, among other parties, its indirect wholly owned subsidiary, Golden Gate Captive Insurance Company (Golden Gate), and a syndicate of third-party risk takers, to finance up to $2.2 billion of XXX reserves related to the GLAIC business to be reinsured and the other term life insurance business currently reinsured by Golden Gate. Although PLICO intends to execute the financing transaction concurrently with its entry into the Reinsurance Agreement, the closing of the transactions contemplated by the Master Agreement is not conditioned upon the consummation of the financing transaction.

4. DAI-ICHI MERGER

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

The Merger was accounted for under the acquisition method of accounting under ASC Topic 805. In accordance with ASC Topic 805-20-30, all identifiable assets acquired and liabilities assumed were measured at fair value as of the acquisition date. Goodwill of $735.7 million represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in the Merger, and reflects the Company s assembled workforce, future growth potential and other sources of value not associated with identifiable assets. None of the goodwill is tax deductible.

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

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

As of the acquisition date, all contractual cash flows related to the Company s historical and acquired receivables (as presented within this consolidated balance sheet) are expected to be collected.

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Intangible assets recognized by the Company included the following (excluding goodwill):

		Estimated Fair Value on Acquisition Date (Dollars In Thousands)	Estimated Useful Life (In Years)
Distribution relationships	$	405,000	14-22
Trade names		103,000	13-17
Technology		143,000	7-14
Total intangible assets subject to amortization		651,000	
Insurance licenses		32,000	Indefinite
Total intangible assets	$	683,000	

Identified intangible assets were valued using the excess earnings method, relief from royalty method or cost approach, as appropriate.

Amortizable intangible assets will be amortized straight line over their assigned useful lives. The following is a schedule of future estimated aggregate amortization expense:

Year		Amount (Dollars In Thousands)
2015	$	10,328
2016		41,313
2017		41,313
2018		41,313
2019		41,313

All tangible and intangible assets of the Company were allocated to applicable operating segments in connection with the recording of pushdown accounting. The purchase price was also allocated to each operating segment in accordance with the determined fair value of the operating segments, such that the total reconciled with the total consideration paid in the merger. Subtraction of the fair value of the tangible and intangible assets for each operating segment from the allocated purchase price of that operating segment resulted in the goodwill allocated to each operating segment. The amount of goodwill allocated to each operating segment is reflected in Note 19, *Operating Segments*.

Treatment of certain acquisition related costs

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

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

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

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Treatment of Benefit Plans

At or immediately prior to the Merger, each stock appreciation right with respect to shares of Common Stock granted under any Stock Plan (each, a SAR) that were outstanding and unexercised immediately prior to the Merger and that had a base price per share of Common Stock underlying such SAR (the Base Price) that was less than the Per Share Merger Consideration (each such SAR, an In-the-Money SAR), whether or not exercisable or vested, was cancelled and converted into the right to receive an amount in cash less any applicable withholding taxes, determined by multiplying (i) the excess of the Per Share Merger Consideration over the Base Price of such In-the-Money SAR by (ii) the number of shares of Common Stock subject to such In-the-Money SAR (such amount, the SAR Consideration).

At or immediately prior to the effective time of the Merger, each restricted stock unit with respect to a share of Common Stock granted under any Stock Plan (each, a RSU) that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of RSUs.

The number of performance shares earned for each award of performance shares granted under any Stock Plan was calculated by determining the number of performance shares that would have been paid if the subject award period had ended on the December 31 immediately preceding the Merger (based on the conditions set for payment of performance share awards for the subject award period), provided that the number of performance shares earned for each award were not less than the aggregate number of performance shares at the target performance level. Each performance share earned that was outstanding immediately prior to the Merger, whether or not vested, was cancelled and converted into the right to receive an amount in cash, without interest, less any applicable withholding taxes, determined by multiplying (i) the Per Share Merger Consideration by (ii) the number of Performance Shares.

5. MONY CLOSED BLOCK OF BUSINESS

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

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

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

If the actual cumulative earnings from the Closed Block are greater than the expected cumulative earnings, only the expected earnings will be recognized in the Company s net income. Actual cumulative earnings in excess of expected cumulative earnings at any point in time are recorded as a policyholder dividend obligation because they will ultimately be paid to Closed Block policyholders as an additional policyholder dividend unless offset by future performance that is less favorable than originally expected. If a policyholder dividend obligation has been previously

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established and the actual Closed Block earnings in a subsequent period are less than the expected earnings for that period, the policyholder dividend obligation would be reduced (but not below zero). If, over the period the policies and contracts in the Closed Block remain in force, the actual cumulative earnings of the Closed Block are less than the expected cumulative earnings, only actual earnings would be recognized in income from continuing operations. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside the Closed Block.

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

Summarized financial information for the Closed Block as of September 30, 2015 (Successor Company) and December 31, 2014 (Predecessor Company) is as follows.

	Successor Company As of September 30, 2015 (Dollars In Thousands)	Predecessor Company As of December 31, 2014 (Dollars In Thousands)
Closed block liabilities		
Future policy benefits, policyholders account balances and other policyholder liabilities	$ 6,036,312	$ 6,138,505
Policyholder dividend obligation	58,435	366,745
Other liabilities	33,706	53,838
Total closed block liabilities	6,128,453	6,559,088
Closed block assets		
Fixed maturities, available-for-sale, at fair value	$ 4,426,194	$ 4,524,037
Equity securities, available-for-sale, at fair value		5,387
Mortgage loans on real estate	247,797	448,855
Policy loans	749,908	771,120
Cash and other invested assets	131,183	30,984
Other assets	161,407	221,270
Total closed block assets	5,716,489	6,001,653
Excess of reported closed block liabilities over closed block assets	411,964	557,435
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses) net of policyholder dividend obligation of $(154,143) (Successor) and $106,886 (Predecessor)		
Future earnings to be recognized from closed block assets and closed block liabilities	$ 411,964	$ 557,435

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Reconciliation of the policyholder dividend obligation is as follows:

	Successor Company	Predecessor Company	
	February 1, 2015 to September 30, 2015	January 1, 2015 to January 31, 2015	For The Nine Months Ended September 30, 2014
	(Dollars In Thousands)	(Dollars In Thousands)	
Policyholder dividend obligation, beginning of period	$ 323,432	$ 366,745	$ 190,494