PROTECTIVE LIFE CORP
Form 10-Q
November 14, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from to

Commission File Number 001-11339

PROTECTIVE LIFE CORPORATION
(Exact name of registrant as specified in its charter)

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

2801 HIGHWAY 280 SOUTH
BIRMINGHAM, ALABAMA 35223
(Address of principal executive offices and zip code)

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

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

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

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

Large accelerated filer o Accelerated Filer o

Non-accelerated filer x Smaller Reporting Company o

Emerging Growth Company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Number of shares of Common Stock, $0.01 Par Value, outstanding as of October 21, 2017: 1,000

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PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Revenues				
Premiums and policy fees	$855,088	$834,544	$2,583,813	$2,545,287
Reinsurance ceded	(325,120)	(322,229)	(984,094)	(969,161)
Net of reinsurance ceded	529,968	512,315	1,599,719	1,576,126
Net investment income	507,914	482,729	1,522,098	1,446,306
Realized investment gains (losses):				
Derivative financial instruments	(82,341)	116	(260,407)	(156,749)
All other investments	18,150	24,152	94,708	194,663
Other-than-temporary impairment losses	(366)	(1,898)	(3,124)	(10,194)
Portion recognized in other comprehensive income (before taxes)	93	(1,410)	(7,765)	3,302
Net impairment losses recognized in earnings	(273)	(3,308)	(10,889)	(6,892)
Other income	110,970	107,642	331,523	313,506
Total revenues	1,084,388	1,123,646	3,276,752	3,366,960
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2017 - $256,703; 2016 - $279,109; nine months: 2017 - $806,314; 2016 - $855,276)	743,934	733,051	2,205,937	2,161,293
Amortization of deferred policy acquisition costs and value of business acquired	3,991	43,392	47,612	94,899
Other operating expenses, net of reinsurance ceded: (three months: 2017 - $57,293; 2016 - $49,073; nine months: 2017 - $161,615; 2016 - $148,334)	225,613	214,124	674,236	637,186
Total benefits and expenses	973,538	990,567	2,927,785	2,893,378
Income before income tax	110,850	133,079	348,967	473,582
Income tax expense	28,308	39,785	106,743	152,820
Net income	$82,542	$93,294	$242,224	$320,762

See Notes to the Consolidated Condensed Financial Statements

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Net income	$82,542	$93,294	$242,224	$320,762
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2017 - $54,464; 2016 - $106,841; nine months: 2017 - $295,743; 2016 - $657,352)	101,148	198,419	549,234	1,220,796
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2017 - $(146); 2016 - $575; nine months: 2017 - $631; 2016 - $(6,041))	(271)	1,068	1,174	(11,219)
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2017 - $452; 2016 - $1,278; nine months: 2017 - $3,837; 2016 - $(106))	839	2,374	7,125	(198)
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2017 - $445; 2016 - $0; nine months: 2017 - $19; 2016 - $0)	828	—	36	—
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2017 - $14; 2016 - $0; nine months: 2017 - $139; 2016 - $0)	24	—	257	—
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2017 - $0; 2016 - $(874); nine months: 2017 - $0; 2016 - $(874))	—	(1,624)	—	(1,624)
Total other comprehensive income	102,568	200,237	557,826	1,207,755
Total comprehensive income	$185,110	$293,531	$800,050	$1,528,517

See Notes to the Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	As of	
	September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2017 - $41,090,638 ; 2016 - $39,832,724)	$40,777,816	$38,183,337
Fixed maturities, at amortized cost (fair value: 2017 - $2,796,603; 2016 - $2,733,340)	2,730,995	2,770,177
Equity securities, at fair value (cost: 2017 - $763,914; 2016 - $768,423)	781,537	754,489
Mortgage loans (related to securitizations: 2017 - $245,202; 2016 - $277,964)	6,528,890	6,132,125
Investment real estate, net of accumulated depreciation (2017 - $113; 2016 - $252)	4,572	8,060
Policy loans	1,625,960	1,650,240
Other long-term investments	1,113,937	865,304
Short-term investments	527,179	332,431
Total investments	54,090,886	50,696,163
Cash	257,562	348,182
Accrued investment income	496,876	482,388
Accounts and premiums receivable	127,007	118,303
Reinsurance receivables	5,191,229	5,323,846
Deferred policy acquisition costs and value of business acquired	2,158,816	2,019,829
Goodwill	793,470	793,470
Other intangibles, net of accumulated amortization (2017 - $126,709; 2016 - $79,226)	673,588	688,083
Property and equipment, net of accumulated depreciation (2017 - $20,185; 2016 - $17,450)	109,671	106,111
Other assets	218,876	170,004
Income tax receivable	99,370	116,823
Assets related to separate accounts		
Variable annuity	13,763,971	13,244,252
Variable universal life	996,375	895,925
Total assets	$78,977,697	$75,003,379

See Notes to the Consolidated Condensed Financial Statements

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

	As of	
	September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$30,801,511	$30,511,085
Unearned premiums	871,591	848,495
Total policy liabilities and accruals	31,673,102	31,359,580
Stable value product account balances	4,793,890	3,501,636
Annuity account balances	10,813,795	10,642,115
Other policyholders' funds	1,265,500	1,165,749
Other liabilities	2,579,308	1,924,155
Deferred income taxes	1,987,582	1,599,764
Non-recourse funding obligations	2,759,640	2,796,474
Secured financing liabilities	599,556	797,721
Debt	1,122,000	1,163,285
Subordinated debt securities	495,255	441,202
Liabilities related to separate accounts		
Variable annuity	13,763,971	13,244,252
Variable universal life	996,375	895,925
Total liabilities	72,849,974	69,531,858
Commitments and contingencies - Note 11		
Shareowner's equity		
Common Stock: 2017 and 2016 - $0.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,554,059	5,554,059
Retained earnings	670,361	571,985
Accumulated other comprehensive income (loss):		
Net unrealized (losses) gains on investments, net of income tax: (2017 - $(53,167); 2016 - $(349,541))	(98,739)	(649,147)
Net unrealized losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2017 - $(27); 2016 - $(3,864))	(50)	(7,175)
Accumulated gain (loss) - derivatives, net of income tax: (2017 - $549; 2016 - $391)	1,020	727
Postretirement benefits liability adjustment, net of income tax: (2017 - $578; 2016 - $578)	1,072	1,072
Total shareowner's equity	6,127,723	5,471,521
Total liabilities and shareowner's equity	$78,977,697	$75,003,379

See Notes to the 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	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareowner's Equity
	(Dollars In Thousands)				
Balance, December 31, 2016	$—	$5,554,059	$571,985	$ (654,523)	$5,471,521
Net income for the nine months ended September 30, 2017			242,224		242,224
Other comprehensive income				557,826	557,826
Comprehensive income for the nine months ended September 30, 2017					800,050
Dividends to parent			(143,848)		(143,848)
Balance, September 30, 2017	$—	$5,554,059	$670,361	$ (96,697)	$6,127,723

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

	For The Nine Months Ended September 30,	
	2017	2016
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$242,224	$320,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses	176,588	(31,022)
Amortization of DAC and VOBA	47,612	94,899
Capitalization of DAC	(249,640)	(244,252)
Depreciation and amortization expense	49,227	42,520
Deferred income tax	86,463	201,466
Accrued income tax	17,453	(152,402)
Interest credited to universal life and investment products	507,229	532,998
Policy fees assessed on universal life and investment products	(1,004,829)	(935,702)
Change in reinsurance receivables	132,617	101,284
Change in accrued investment income and other receivables	(17,550)	(44,655)
Change in policy liabilities and other policyholders' funds of traditional life and health products	(273,640)	(159,533)
Trading securities:		
Maturities and principal reductions of investments	131,563	93,397
Sale of investments	195,733	390,412
Cost of investments acquired	(277,423)	(438,886)
Other net change in trading securities	17,741	47,879
Amortization of premiums and accretion of discounts on investments and mortgage loans	232,939	308,249
Change in other liabilities	36,239	338,199
Other, net	(58,308)	(110,243)
Net cash (used in) provided by operating activities	$(7,762)	$355,370

See Notes to the Consolidated Condensed Financial Statements

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

	For The Nine Months Ended September 30,	
	2017	2016
	(Dollars In Thousands)	
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	$541,155	$984,707
Sale of investments, available-for-sale	1,302,576	1,544,558
Cost of investments acquired, available-for-sale	(3,248,911)	(3,962,879)
Change in investments, held-to-maturity	36,000	(2,185,000)
Mortgage loans:		
New lendings	(1,081,226)	(944,025)
Repayments	644,189	648,109
Change in investment real estate, net	3,679	2,905
Change in policy loans, net	24,280	43,425
Change in other long-term investments, net	(282,506)	(104,543)
Change in short-term investments, net	(203,169)	51,960
Net unsettled security transactions	349,544	52,292
Purchase of property, equipment, and intangibles	(34,229)	(15,607)
Amounts received from reinsurance transaction	—	325,800
Net cash used in investing activities	$(1,948,618)	$(3,558,298)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	$975,000	$220,000
Principal payments on line of credit arrangement and debt	(934,123)	(373,074)
Issuance (repayment) of non-recourse funding obligations	(36,000)	2,098,700
Secured financing liabilities	(198,165)	(218,728)
Dividends to shareowner	(143,848)	(89,343)
Investment product deposits and change in universal life deposits	3,901,051	3,509,315
Investment product withdrawals	(1,698,062)	(1,718,670)
Other financing activities, net	(93)	—
Net cash provided by financing activities	$1,865,760	$3,428,200
Change in cash	(90,620)	225,272
Cash at beginning of period	348,182	396,072
Cash at end of period	$257,562	$621,344

See Notes to the 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 (now known as Dai-ichi Life Holdings, Inc., "Dai-ichi Life"), when DL Investment (Delaware), Inc. a wholly owned subsidiary of Dai-ichi Life, merged with and into the Company. Prior to February 1, 2015, 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.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for the interim periods presented herein. Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2017. 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, 2016.

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

Entities Included

The consolidated condensed financial statements 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, 2016. There were no significant changes to the Company's accounting policies during the nine months ended September 30, 2017.

Accounting Pronouncements Recently Adopted

ASU No. 2017-04-Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This Update simplifies the goodwill impairment test by re-defining the concept of goodwill impairment as the condition that exists when the carrying amount of a reporting unit exceeds its fair value. The Update eliminates "Step 2" of the current goodwill impairment test, which requires entities to determine goodwill impairment by calculating the implied fair value of goodwill by remeasuring to fair value the assets and liabilities of a reporting unit as if that reporting unit had been acquired in a business combination. The Company elected to adopt the amendments in the Update in the first quarter of 2017, and will apply the revised guidance to impairment tests conducted after January 1, 2017. Application of the revised guidance did not impact the Company's financial position or results of operations and will simplify its annual goodwill impairment test, which is generally conducted in the fourth quarter. For more details regarding the

Company’s goodwill assessment process, please refer to Note 9, Goodwill.

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 additional disclosures introduced in this Update have not been provided, as the short-duration lines of business to which they apply are not material to the Company’s financial statements.

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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. The Company will adopt this Update using the modified retrospective approach via a cumulative effect adjustment to retained earnings as of January 1, 2018. The amendments in the Update, along with clarifying updates issued subsequent to ASU 2014-09, will impact some of the Company's smaller lines of business, specifically revenues at the Company's affiliated broker dealers and insurance agency, and certain revenues associated with the Company's Asset Protection products. However, the cumulative effect adjustment related to the Company's adoption of the revised guidance is limited to the Company's Asset Protection segment. Based on its current projections, the Company estimates that the cumulative effect adjustment as of January 1, 2018 will result in a decrease in retained earnings between $72 million and $82 million. Several application questions remain outstanding, most notably interpretive positions regarding the Update's application to certain of the Company's warranty products. The Company will also implement minor changes to its accounting and disclosures with respect to the non-insurance lines of business referenced above to ensure compliance with the revised guidance.

ASU No. 2016-01 - Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most notably, the Update requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) be measured at fair value with changes in fair value recognized in net income. The Update also introduces a single-step impairment model for equity investments without a readily determinable fair value. Additionally, the Update requires changes in instrument-specific credit risk for fair value option liabilities to be recorded in other comprehensive income. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2017 and will be applied on a modified retrospective basis. The Company will record a cumulative-effect adjustment at the date of adoption (January 1, 2018) transferring unrealized gains and losses on available-for-sale equity securities to retained earnings from accumulated other comprehensive income. The impact of this adjustment (had it been recorded on September 30, 2017), net of income tax, would have resulted in a $11.5 million increase to retained earnings. The Company expects to complete its review of applicable policies and procedures to ensure compliance with the revised guidance.

ASU No. 2016-02 - Leases. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of leases. The most significant change will relate to the accounting model used by lessees. The Update will require all leases with terms greater than 12 months to be recorded on the balance sheet in the form of a lease asset and liability. The lease asset and liability will be measured at the present value of the minimum lease payments less any upfront payments or fees. The Update also requires numerous disclosure changes for which the Company is assessing the impact. The amendments in the Update are effective for annual and interim periods beginning after December 15, 2018 on a modified retrospective basis. The Company has completed an inventory of all leases in the organization and is currently assessing the impact of the Update and updating internal processes to ensure compliance with the revised guidance.

ASU No. 2016-13 - Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. The amendments in this Update introduce a new current expected credit loss (“CECL”) model for certain financial assets, including mortgage loans and reinsurance receivables. The new model will not apply to debt securities classified as available-for-sale. For assets within the scope of the new model, an entity will recognize as an allowance

against earnings its estimate of the contractual cash flows not expected to be collected on day one of the asset's acquisition. The allowance may be reversed through earnings if a security recovers in value. This differs from the current impairment model, which requires recognition of credit losses when they have been incurred and recognizes a security's subsequent recovery in value in other comprehensive income. The Update also makes targeted changes to the current impairment model for available-for-sale debt securities, which comprise the majority of the Company's invested assets. Similar to the CECL model, credit loss impairments will be recorded in an allowance against earnings that may be reversed for subsequent recoveries in value. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2019 on a modified retrospective basis. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption, and assessing the impact this standard will have on its operations and financial results.

ASU No. 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update are intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Specific transactions addressed in the new guidance include: Debt prepayment/extinguishment costs, contingent consideration payments, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investments. The Update does not introduce any new accounting or financial reporting requirements, and is effective for annual and interim periods beginning after December 15, 2018 using the retrospective method. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

ASU No. 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Task Force). The amendments in this update provide guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows, thereby reducing diversity in practice related to the presentation of these amounts. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Update is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company expects to complete its review of applicable policies and procedures to ensure compliance with the revised guidance.

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ASU No. 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business. The purpose of this update is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in the Update provide a specific test by which an entity may determine whether an acquisition involves a set of assets or a business. The amendments in the Update are to be applied prospectively for periods beginning after December 15, 2017. The Company has reviewed the revised requirements, and does not anticipate that the changes will impact its policies or recent conclusions related to its acquisition activities.

ASU No. 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require entities to disaggregate the current-service-cost component from other components of net benefit cost and present it with other current compensation costs in the income statement. The other components of net benefit cost must be presented outside of income from operations if that subtotal is presented. In addition, the Update requires entities to disclose the income statement lines that contain the other components if they are not presented on appropriately described separate lines. The amendments in this update are effective for interim and annual periods beginning after December 15, 2017. As provided for in the ASU, the Company expects to apply the provisions of the statement retrospectively for components of net periodic pension costs and prospectively for capitalization of the service costs component of net periodic costs and net periodic postretirement benefits. The Update will not impact the Company’s financial position or results of operations. The Company is reviewing its policies and processes to ensure compliance with the requirements in this Update, upon adoption.

ASU No. 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this update require that premiums on callable debt securities be amortized to the first call date. This is a change from current guidance, under which premiums are amortized to the maturity date of the security. The amendments are effective for annual and interim periods beginning after December 31, 2018, and early adoption is permitted. Transition will be through a modified retrospective approach in which the cumulative effect of application is recorded to retained earnings at the beginning of the annual period in which an entity adopts the revised guidance. The Company is currently reviewing its systems and processes to determine whether early adoption of the revised guidance is practicable.

ASU No. 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update are designed to permit hedge accounting to be applied to a broader range of hedging strategies as well as to more closely align hedge accounting and risk management objectives. Specific provisions include requiring changes in the fair value of a hedging instrument be recorded in the same income statement line as the hedged item when it affects earnings. In addition, after a hedge has initially qualified as an effective hedge the Update permits the use of a qualitative hedge effectiveness test in subsequent periods. The amendments in this Update are effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact this standard will have on its operations and financial results.

3. MONY CLOSED BLOCK OF BUSINESS

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

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

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

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

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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, 2017, and December 31, 2016, is as follows:

	As of September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	$5,814,527	$ 5,896,355
Policyholder dividend obligation	136,004	31,932
Other liabilities	76,176	40,007
Total closed block liabilities	6,026,707	5,968,294
Closed block assets		
Fixed maturities, available-for-sale, at fair value	$4,549,322	$ 4,440,105
Mortgage loans on real estate	130,521	201,088
Policy loans	707,293	712,959
Cash	148,612	108,270
Other assets	141,740	135,794
Total closed block assets	5,677,488	5,598,216
Excess of reported closed block liabilities over closed block assets	349,219	370,078
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses) net of policyholder dividend obligation: $(55,231) and $(197,450); and net of income tax: $19,331 and $69,107	—	—
Future earnings to be recognized from closed block assets and closed block liabilities	$349,219	$ 370,078

Reconciliation of the policyholder dividend obligation is as follows:

	For The Nine Months Ended September 30,	
	2017	2016
	(Dollars In Thousands)	
Policyholder dividend obligation, beginning of period	$31,932	$—
Applicable to net revenue (losses)	(38,147)	(36,707)
Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation	142,219	300,814
Policyholder dividend obligation, end of period	$136,004	$264,107

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Closed Block revenues and expenses were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Revenues				
Premiums and other income	$40,962	$44,043	$128,697	$135,282
Net investment income	50,780	53,582	153,481	156,458
Net investment gains	341	326	448	963
Total revenues	92,083	97,951	282,626	292,703
Benefits and other deductions				
Benefits and settlement expenses	81,721	88,143	249,319	260,227
Other operating expenses	621	537	1,216	2,214
Total benefits and other deductions	82,342	88,680	250,535	262,441
Net revenues before income taxes	9,741	9,271	32,091	30,262
Income tax expense	3,409	3,245	11,232	10,591
Net revenues	$6,332	$6,026	$20,859	$19,671

4. INVESTMENT OPERATIONS

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Fixed maturities	$1,042	$1,665	$10,482	$24,116
Equity securities	(352)	—	(1,398)	36
Impairments	(273)	(3,308)	(10,889)	(6,892)
Modco trading portfolio	19,399	23,995	93,181	178,353
Other investments	(1,939)	(1,508)	(7,557)	(7,842)
Total realized gains (losses) - investments	$17,877	$20,844	$83,819	$187,771

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Gross realized gains	$ 1,933	$ 3,223	$14,968	$31,023
Gross realized losses:				
Impairment losses	$ (273)	$ (3,308)	$(10,889)	$(6,892)
Other realized losses	$ (1,243)	$ (1,558)	$(5,884)	$(6,871)

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Securities in an unrealized gain position:				
Fair value (proceeds)	$121,459	$167,272	$566,064	$990,066
Gains realized	$1,933	$3,223	$14,967	$31,023
Securities in an unrealized loss position[(1)]:				
Fair value (proceeds)	$37,186	$7,105	$121,450	$67,688
Losses realized	$(1,243)	$(1,558)	$(5,884)	$(6,871)

(1) The Company made the decision to exit these holdings in conjunction with its overall asset liability management process.

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The amortized cost and fair value of the Company's investments classified as available-for-sale are as follows:

As of September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI[1]
	(Dollars In Thousands)				
Fixed maturities:					
Residential mortgage-backed securities	$2,187,460	$22,141	$(17,347)	$2,192,254	$16
Commercial mortgage-backed securities	1,939,832	6,167	(24,570)	1,921,429	—
Other asset-backed securities	1,186,463	17,692	(13,488)	1,190,667	—
U.S. government-related securities	1,317,910	1,256	(26,333)	1,292,833	—
Other government-related securities	253,026	8,145	(6,835)	254,336	—
States, municipals, and political subdivisions	1,756,865	6,416	(59,272)	1,704,009	(93)
Corporate securities	29,673,641	480,875	(705,147)	29,449,369	—
Preferred stock	94,362	376	(2,898)	91,840	—
	38,409,559	543,068	(855,890)	38,096,737	(77)
Equity securities	758,804	24,914	(7,291)	776,427	—
Short-term investments	482,923	—	—	482,923	—
	$39,651,286	$567,982	$(863,181)	$39,356,087	$(77)

As of December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI[1]
	(Dollars In Thousands)				
Fixed maturities:					
Residential mortgage-backed securities	$1,913,413	$10,737	$(25,667)	$1,898,483	$(9)
Commercial mortgage-backed securities	1,850,620	2,528	(41,678)	1,811,470	—
Other asset-backed securities	1,210,490	21,741	(20,698)	1,211,533	—
U.S. government-related securities	1,308,192	422	(40,455)	1,268,159	—
Other government-related securities	253,182	1,536	(14,797)	239,921	—
States, municipals, and political subdivisions	1,760,837	1,224	(105,558)	1,656,503	—
Corporate securities	28,801,768	153,715	(1,583,918)	27,371,565	(11,030)
Preferred stock	94,362	—	(8,519)	85,843	—
	37,192,864	191,903	(1,841,290)	35,543,477	(11,039)
Equity securities	761,340	7,751	(21,685)	747,406	—
Short-term investments	279,782	—	—	279,782	—
	$38,233,986	$199,654	$(1,862,975)	$36,570,665	$(11,039)

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

As of September 30, 2017 and December 31, 2016, the Company had an additional $2.7 billion and $2.6 billion of fixed maturities, $5.1 million and $7.1 million of equity securities, and $44.3 million and $52.6 million of short-term investments classified as trading securities, respectively.

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The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of September 30, 2017, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)			
Due in one year or less	$777,460	$778,156	$—	$—
Due after one year through five years	6,292,741	6,325,294	—	—
Due after five years through ten years	7,685,870	7,718,256	—	—
Due after ten years	23,653,488	23,275,031	2,730,995	2,796,603
	$38,409,559	$38,096,737	$2,730,995	$2,796,603

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

	For The Three Months Ended September 30, 2017			For The Nine Months Ended September 30, 2017		
	Fixed Maturities	Equity Securities	Total Securities	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)					
Other-than-temporary impairments	$(366)	$—	$(366)	$(494)	$(2,630)	$(3,124)
Non-credit impairment losses recorded in other comprehensive income	93	—	93	(7,765)	—	$(7,765)
Net impairment losses recognized in earnings	$(273)	$—	$(273)	$(8,259)	$(2,630)	$(10,889)

	For The Three Months Ended September 30, 2016			For The Nine Months Ended September 30, 2016		
	Fixed Maturities	Equity Securities	Total Securities	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)					
Other-than-temporary impairments	$(1,898)	$—	$(1,898)	$(10,194)	$—	$(10,194)
Non-credit impairment losses recorded in other comprehensive income	(1,410)	—	(1,410)	3,302	—	3,302
Net impairment losses recognized in earnings	$(3,308)	$—	$(3,308)	$(6,892)	$—	$(6,892)

There were no other-than-temporary impairments related to fixed maturities or equity securities that the Company intended to sell or expected to be required to sell for the three and nine months ended September 30, 2017 and 2016.

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

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	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Beginning balance	$2,783	$964	$12,685	$22,761
Additions for newly impaired securities	266	1,721	266	4,777
Additions for previously impaired securities	6	1,521	2,791	2,046
Reductions for previously impaired securities due to a change in expected cash flows	(37)	(4)	(12,724)	(22,763)
Reductions for previously impaired securities that were sold in the current period	(600)	—	(600)	(2,619)
Ending balance	$2,418	$4,202	$2,418	$4,202

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2017:

	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	$1,044,494	$(15,210)	$88,573	$(2,137)	$1,133,067	$(17,347)
Commercial mortgage-backed securities	1,282,643	(19,936)	159,684	(4,634)	1,442,327	(24,570)
Other asset-backed securities	202,097	(5,064)	170,747	(8,424)	372,844	(13,488)
U.S. government-related securities	1,090,531	(21,099)	85,948	(5,234)	1,176,479	(26,333)
Other government-related securities	44,015	(287)	84,524	(6,548)	128,539	(6,835)
States, municipalities, and political subdivisions	819,311	(22,392)	615,181	(36,880)	1,434,492	(59,272)
Corporate securities	7,825,478	(151,509)	8,487,852	(553,638)	16,313,330	(705,147)
Preferred stock	52,294	(806)	28,846	(2,092)	81,140	(2,898)
Equities	108,502	(2,245)	55,006	(5,046)	163,508	(7,291)
	$12,469,365	$(238,548)	$9,776,361	$(624,633)	$22,245,726	$(863,181)

RMBS and CMBS had gross unrealized losses greater than twelve months of $2.1 million and $4.6 million, respectively, as of September 30, 2017. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of $8.4 million as of September 30, 2017. This category predominately includes student loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The other government-related securities had gross unrealized losses greater than twelve months of $6.5 million as of September 30, 2017. These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions category had gross unrealized losses greater than twelve months of $36.9 million as of September 30, 2017. These declines were related to changes in interest rates.

The corporate securities category had gross unrealized losses greater than twelve months of $553.6 million as of September 30, 2017. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of September 30, 2017, the Company had a total of 1,742 positions that were in an unrealized loss position, but the Company does not consider these unrealized loss positions to be other-than-temporary. This is based on the aggregate factors discussed previously and because the Company has the ability and intent to hold these investments until the fair values recover, and the Company does not intend to sell or expect to be required to sell the securities before recovering the Company's amortized cost of the securities.

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The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2016:

	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	$1,060,569	$(21,550)	$170,826	$(4,117)	$1,231,395	$(25,667)
Commercial mortgage-backed securities	1,452,146	(37,665)	100,475	(4,013)	1,552,621	(41,678)
Other asset-backed securities	323,706	(9,291)	176,792	(11,407)	500,498	(20,698)
U.S. government-related securities	1,237,942	(40,454)	3	(1)	1,237,945	(40,455)
Other government-related securities	98,412	(2,907)	79,393	(11,890)	177,805	(14,797)
States, municipalities, and political subdivisions	1,062,368	(63,809)	548,254	(41,749)	1,610,622	(105,558)
Corporate securities	12,553,514	(469,189)	9,793,579	(1,114,729)	22,347,093	(1,583,918)
Preferred stock	66,781	(6,642)	19,062	(1,877)	85,843	(8,519)
Equities	411,845	(15,273)	69,497	(6,412)	481,342	(21,685)
	$18,267,283	$(666,780)	$10,957,881	$(1,196,195)	$29,225,164	$(1,862,975)

RMBS and CMBS had gross unrealized losses greater than twelve months of $4.1 million and $4.0 million, respectively, as of December 31, 2016. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities had a gross unrealized loss greater than twelve months of $11.4 million as of December 31, 2016. This category predominately includes student loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the FFELP. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

The other government-related securities had gross unrealized losses greater than twelve months of $11.9 million as of December 31, 2016. These declines were related to changes in interest rates.

The states, municipalities, and political subdivisions category had gross unrealized losses greater than twelve months of $41.7 million as of December 31, 2016. These declines were related to changes in interest rates.

The corporate securities category had gross unrealized losses greater than twelve months of $1.1 billion as of December 31, 2016. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information.

As of September 30, 2017, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.9 billion and had an amortized cost of $1.9 billion. In addition, included in the Company's trading portfolio, the Company held $240.7 million of securities which were rated below investment grade. Approximately $338.4 million of the available-for-sale and trading securities that were below investment grade were not publicly traded.

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Fixed maturities	$168,062	$295,651	$868,767	$1,777,330
Equity securities	(891)	(1,691)	20,512	7,749

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The amortized cost and fair value of the Company's investments classified as held-to-maturity as of September 30, 2017 and December 31, 2016, are as follows:

As of September 30, 2017	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value	Total OTTI Recognized in OCI
	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	$690,995	$ —	$ (17,305)	$673,690	$ —
Steel City LLC	2,040,000	82,913	—	2,122,913	—
	$2,730,995	$ 82,913	$ (17,305)	$2,796,603	$ —

As of December 31, 2016	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Fair Value	Total OTTI Recognized in OCI
	(Dollars In Thousands)				
Fixed maturities:					
Securities issued by affiliates:					
Red Mountain LLC	$654,177	$ —	$ (67,222)	$586,955	$ —
Steel City LLC	2,116,000	30,385	—	2,146,385	—
	$2,770,177	$ 30,385	$ (67,222)	$2,733,340	$ —

During the three and nine months ended September 30, 2017 and 2016, the Company recorded no other-than-temporary impairments on held-to-maturity securities.

The Company's held-to-maturity securities had $82.9 million of gross unrecognized holding gains and $17.3 million of gross unrecognized holding losses by maturity as of September 30, 2017. The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information. These held-to-maturity securities are issued by affiliates of the Company which are considered variable interest entities ("VIE's"). The Company is not the primary beneficiary of these entities and thus the securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding obligations issued by captive insurance companies that are affiliates of the Company.

The Company's held-to-maturity securities had $30.4 million of gross unrecognized holding gains and $67.2 million of gross unrecognized holding losses by maturity as of December 31, 2016. The Company does not consider these unrecognized holding losses to be other-than-temporary based on certain positive factors associated with the securities which include credit ratings of the guarantor, financial health of the issuer and guarantor, continued access of the issuer to capital markets and other pertinent information.

Variable Interest Entities

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

the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.
Based on this analysis, the Company had an interest in two subsidiaries as of September 30, 2017 and December 31, 2016, Red Mountain LLC ("Red Mountain") and Steel City LLC ("Steel City"), that were determined to be VIEs. The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company (“Golden Gate V”) in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued a note (the "Red Mountain Note") to Golden Gate V. For details of this transaction, see Note 10, Debt and Other Obligations. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The

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Company's risk of loss related to the VIE is limited to its investment, through an affiliate, of $10,000. Additionally, the Company has guaranteed Red Mountain's payment obligation for the credit enhancement fee to the unrelated third party provider. As of September 30, 2017, no payments have been made or required related to this guarantee.

Steel City, a wholly owned subsidiary of the Company, entered into a financing agreement on January 15, 2016 involving Golden Gate Captive Insurance Company, in which Golden Gate issued non-recourse funding obligations to Steel City and Steel City issued three notes (the "Steel City Notes") to Golden Gate. Credit enhancement on the Steel City Notes is provided by unrelated third parties. For details of the financing transaction, see Note 10, Debt and Other Obligations. The activity most significant to Steel City is the issuance of the Steel City Notes. The Company had the power, via its 100% ownership, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third parties in their function as providers of credit enhancement on the Steel City Notes. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The Company's risk of loss related to the VIE is limited to its investment of $10,000. Additionally, the Company has guaranteed Steel City's payment obligation for the credit enhancement fee to the unrelated third party providers. As of September 30, 2017, no payments have been made or required related to this guarantee.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

a. Quoted prices for similar assets or liabilities in active markets
b. Quoted prices for identical or similar assets or liabilities in non-active markets
c. Inputs other than quoted market prices that are observable
d. Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

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

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$—	$2,192,254	$—	$2,192,254
Commercial mortgage-backed securities	—	1,921,429	—	1,921,429
Other asset-backed securities	—	637,518	553,149	1,190,667
U.S. government-related securities	1,009,225	283,608	—	1,292,833
State, municipalities, and political subdivisions	—	1,704,009	—	1,704,009
Other government-related securities	—	254,336	—	254,336
Corporate securities	—	28,824,816	624,553	29,449,369
Preferred stock	72,942	18,898	—	91,840
Total fixed maturity securities - available-for-sale	1,082,167	35,836,868	1,177,702	38,096,737
Fixed maturity securities - trading				
Residential mortgage-backed securities	—	262,062	—	262,062
Commercial mortgage-backed securities	—	145,653	—	145,653
Other asset-backed securities	—	107,123	35,490	142,613
U.S. government-related securities	21,589	6,125	—	27,714
State, municipalities, and political subdivisions	—	321,001	—	321,001
Other government-related securities	—	64,067	—	64,067
Corporate securities	—	1,709,216	5,524	1,714,740
Preferred stock	3,229	—	—	3,229
Total fixed maturity securities - trading	24,818	2,615,247	41,014	2,681,079
Total fixed maturity securities	1,106,985	38,452,115	1,218,716	40,777,816
Equity securities	715,339	36	66,162	781,537
Other long-term investments[1]	61,072	380,512	130,352	571,936
Short-term investments	421,408	105,771	—	527,179
Total investments	2,304,804	38,938,434	1,415,230	42,658,468
Cash	257,562	—	—	257,562
Other assets	29,927	—	—	29,927
Assets related to separate accounts				
Variable annuity	13,763,971	—	—	13,763,971
Variable universal life	996,375	—	—	996,375
Total assets measured at fair value on a recurring basis	$17,352,639	$38,938,434	$1,415,230	$57,706,303
Liabilities:				
Annuity account balances [2]	$—	$—	$85,028	$85,028
Other liabilities[1]	23,775	206,307	736,413	966,495
Total liabilities measured at fair value on a recurring basis	$23,775	$206,307	$821,441	$1,051,523

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

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$—	$1,898,480	$3	$1,898,483
Commercial mortgage-backed securities	—	1,811,470	—	1,811,470
Other asset-backed securities	—	648,929	562,604	1,211,533
U.S. government-related securities	1,002,020	266,139	—	1,268,159
State, municipalities, and political subdivisions	—	1,656,503	—	1,656,503
Other government-related securities	—	239,921	—	239,921
Corporate securities	—	26,707,519	664,046	27,371,565
Preferred stock	66,781	19,062	—	85,843
Total fixed maturity securities - available-for-sale	1,068,801	33,248,023	1,226,653	35,543,477
Fixed maturity securities - trading				
Residential mortgage-backed securities	—	255,027	—	255,027
Commercial mortgage-backed securities	—	149,683	—	149,683
Other asset-backed securities	—	115,521	84,563	200,084
U.S. government-related securities	22,424	4,537	—	26,961
State, municipalities, and political subdivisions	—	316,519	—	316,519
Other government-related securities	—	63,012	—	63,012
Corporate securities	—	1,619,097	5,492	1,624,589
Preferred stock	3,985	—	—	3,985
Total fixed maturity securities - trading	26,409	2,523,396	90,055	2,639,860
Total fixed maturity securities	1,095,210	35,771,419	1,316,708	38,183,337
Equity securities	685,443	36	69,010	754,489
Other long-term investments[1]	82,420	335,498	124,325	542,243
Short-term investments	328,829	3,602	—	332,431
Total investments	2,191,902	36,110,555	1,510,043	39,812,500
Cash	348,182	—	—	348,182
Other assets	23,830	—	—	23,830
Assets related to separate accounts				
Variable annuity	13,244,252	—	—	13,244,252
Variable universal life	895,925	—	—	895,925
Total assets measured at fair value on a recurring basis	$16,704,091	$36,110,555	$1,510,043	$54,324,689
Liabilities:				
Annuity account balances[2]	$—	$—	$87,616	$87,616
Other liabilities[1]	13,004	163,974	571,843	748,821
Total liabilities measured at fair value on a recurring basis	$13,004	$163,974	$659,459	$836,437

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

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Determination of fair values

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

The fair value of fixed maturity, short-term, and equity securities is determined by management after considering one of three primary sources of information: third party pricing services, non-binding independent broker quotations, or pricing matrices. Security pricing is applied using a "waterfall" approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for non-binding prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

Third party pricing services price approximately 91% of the Company's available-for-sale and trading fixed maturity securities. Based on the typical trading volumes and the lack of quoted market prices for available-for-sale and trading fixed maturities, third party pricing services derive the majority of security prices from observable market inputs such as recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Certain securities are priced via independent non-binding broker quotations, which are considered to have no significant unobservable inputs. When using non-binding independent broker quotations, the Company obtains one quote per security, typically from the broker from which we purchased the security. A pricing matrix is used to price securities for which the Company is unable to obtain or effectively rely on either a price from a third party pricing service or an independent broker quotation.

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the nine months ended September 30, 2017.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or "ABS"). As of September 30, 2017, the Company held $5.3 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

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

As of September 30, 2017, the Company held $588.6 million of Level 3 ABS, which included $553.1 million of other asset-backed securities classified as available-for-sale and $35.5 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

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process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate. In periods where market activity increases and there are transactions at a price that is not the result of a distressed or forced sale we consider those prices as part of our valuation. If the market activity during a period is solely the result of the issuer redeeming positions we consider those transactions in our valuation, but still consider them to be level three measurements due to the nature of the transaction.

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

As of September 30, 2017, the Company classified approximately $33.2 billion of corporate securities, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the securities are considered to be the primary relevant inputs to the valuation: 1) weighted- average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings. The Company reviews the methodologies and valuation techniques (including the ability to observe inputs) in assessing the information received from external pricing services and in consideration of the fair value presentation.

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

As of September 30, 2017, the Company classified approximately $630.1 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of September 30, 2017, the Company held approximately $66.2 million of equity securities classified as Level 2 and Level 3. Of this total, $65.5 million represents Federal Home Loan Bank (“FHLB”) stock. The Company believes that the cost of the FHLB stock approximates fair value.

Other Long-term Investments and Other Liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 6, Derivative Financial Instruments for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of September 30, 2017, 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

Derivative instruments classified as Level 2 primarily include swaps, options, and swaptions, which are traded over-the-counter. Level 2 also includes certain centrally cleared derivatives. These derivative valuations are determined using independent broker quotations, which are corroborated with observable market inputs.

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

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

The embedded derivatives are carried at fair value in “other long-term investments” and “other liabilities” on the Company’s consolidated condensed balance sheet. The changes in fair value are recorded in earnings as “Realized investment gains (losses) - Derivative financial instruments”. Refer to Note 6, Derivative Financial Instruments for more information related to each embedded derivatives gains and losses.

The fair value of the GLWB 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 along with 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

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equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the Ruark 2015 ALB table with attained age factors varying from 91.1% - 106.6%. 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 GLWB embedded derivative is categorized as Level 3. Policyholder assumptions are reviewed on an annual basis.

The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 46% - 113%. 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). Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life ("IUL") embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 34% - 152%. 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). Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as "trading securities"; therefore changes in their fair value are also reported in earnings. As of September 30, 2017, the fair value of the embedded derivative is based upon the relationship between the statutory policy liabilities (net of policy loans) of $2.4 billion and the statutory unrealized gain (loss) of the securities of $218.8 million. As a result, changes in the fair value of the embedded derivatives are largely offset by the changes in fair value of the related investments and each are reported in earnings. The fair value of the embedded derivative is considered a Level 3 valuation due to the unobservable nature of the policy liabilities.

Annuity Account Balances

The Company records a certain legacy block of FIA reserves at fair value. Based on the characteristics of these reserves, the Company believes that the fund value approximates fair value. The fair value measurement of these reserves is considered a Level 3 valuation due to the unobservable nature of the fund values. The Level 3 fair value as of September 30, 2017 is $85.0 million.

Separate Accounts

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

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Valuation of Level 3 Financial Instruments

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

	Fair Value As of September 30, 2017 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 553,005	Liquidation	Liquidation value	$90 - $97 ($95.02)
		Discounted cash flow	Liquidity premium	0.51% - 1.29% (0.96%)
			Paydown rate	10.75% - 12.75% (11.34%)
Corporate securities	615,576	Discounted cash flow	Spread over treasury	0.35% - 4.35% (1.57%)
Liabilities:[1]				
Embedded derivatives - GLWB[2]	$ 131,276	Actuarial cash flow model	Mortality	91.1% to 106.6%
			Lapse	Ruark 2015 ALB table 0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.12% - 0.86%
Embedded derivative - FIA	197,378	Actuarial cash flow model	Expenses	$146 per policy
			Asset Earned Rate	4.08% - 4.66%
			Withdrawal rate	1.5% prior to age 70, 100% of the RMD for ages 70+
			Mortality	1994 MGDB table with company experience
			Lapse	1.0% - 30.0%, depending on duration/surrender charge period
			Nonperformance risk	0.12% - 0.86%
Embedded derivative - IUL	69,081	Actuarial cash flow model	Mortality	34% - 152% of 2015 VBT Primary Tables
			Lapse	0.5% - 10%, depending on duration/distribution channel and smoking class
				0.12% - 0.86%

	Nonperformance risk

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

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

The Company has considered all reasonably available quantitative inputs as of September 30, 2017, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $50.6 million of financial instruments being classified as Level 3 as of September 30, 2017. Of the $50.6 million, $35.6 million are other asset-backed securities, $14.5 million are corporate securities, and $0.5 million are equity securities.

In certain cases, the Company has determined that book value materially approximates fair value. As of September 30, 2017, the Company held $65.7 million of financial instruments where book value approximates fair value which was predominantly FHLB stock.

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

	Fair Value As of December 31, 2016 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 553,308	Liquidation	Liquidation value	$88 - $97.25 ($95.04)
Corporate securities	638,279	Discounted cash flow	Spread over treasury	0.31% - 4.50% (2.04%)
Liabilities:[1]				
Embedded derivatives - GLWB[2]	$ 115,370	Actuarial cash flow model	Mortality	91.1% to 106.6% of Ruark 2015 ALB table
			Lapse	0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.18% - 1.09%
Embedded derivative - FIA	147,368	Actuarial cash flow model	Expenses	$126 per policy
			Asset Earned Rate	4.08% - 4.66%
			Withdrawal rate	1% prior to age 70, 100% of the RMD for ages 70+
			Mortality	1994 MGDB table with company experience
			Lapse	2.0% - 40.0%, depending on duration/surrender charge period
			Nonperformance risk	0.18% - 1.09%
Embedded derivative - IUL	46,051	Actuarial cash flow model	Mortality	38% - 153% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.18% - 1.09%

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

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

The Company had considered all reasonably available quantitative inputs as of December 31, 2016, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $128.2 million of financial instruments being classified as Level 3 as of December 31, 2016. Of the $128.2 million, $93.9 million are other asset-backed securities, $31.3 million are corporate securities, and $3.1 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2016, the Company held $65.9 million of financial instruments where book value approximates fair value which were predominantly FHLB stock.

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

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

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holding the treasury rate constant, the fair value of corporate bonds increases when spreads decrease, and decreases when spreads increase.

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

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

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

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

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended September 30, 2017, 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
	(Dollars In Thousands)											
Assets:												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	$11,862	$—	$83	$—	$—	$—	$—	$—	$—	$(11,944)	$(1)	$—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	552,963	—	1,682	—	(2,285)	100	(109)	—	—	—	798	553,1
Corporate securities	662,654	—	8,301	—	(2,222)	5,071	(42,242)	—	—	(5,486)	(1,523)	624,5
Total fixed maturity securities - available-for-sale	1,227,479	—	10,066	—	(4,507)	5,171	(42,351)	—	—	(17,430)	(726)	1,177
Fixed maturity securities - trading												
Other asset-backed securities	54,923	—	—	(353)	—	—	(19,188)	—	—	—	108	35,49
Corporate securities	5,520	27	—	—	—	—	—	—	—	—	(23)	5,524
Total fixed maturity securities - trading	60,443	27	—	(353)	—	—	(19,188)	—	—	—	85	41,01
Total fixed maturity securities	1,287,922	27	10,066	(353)	(4,507)	5,171	(61,539)	—	—	(17,430)	(641)	1,218

Equity securities	66,300	—	31	—	—	—	(169)	—	—	—	—	66,16
Other long-term investments[1]	120,023	10,331	—	(2)	—	—	—	—	—	—	—	130,3
Total investments	1,474,245	10,358	10,097	(355)	(4,507)	5,171	(61,708)	—	—	(17,430)	(641)	1,415
Total assets measured at fair value on a recurring basis	$1,474,245	$10,358	$10,097	$(355)	$(4,507)	$5,171	$(61,708)	$—	$—	$(17,430)	$(641)	$1,4
Liabilities:												
Annuity account balances[2]	$86,094	$—	$—	$(977)	$—	$—	$—	$9	$2,052	$—	$—	$85,0
Other liabilities[1]	702,218	12,201	—	(46,396)	—	—	—	—	—	—	—	736,4
Total liabilities measured at fair value on a recurring basis	$788,312	$12,201	$—	$(47,373)	$—	$—	$—	$9	$2,052	$—	$—	$821

(1) Represents certain freestanding and embedded derivatives.
(2) Represents liabilities related to fixed indexed annuities.
For the three months ended September 30, 2017, there were no securities transferred into Level 3.
For the three months ended September 30, 2017, $17.4 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of September 30, 2017.
For the three months ended September 30, 2017, there were no securities transferred from Level 2 to Level 1.
For the three months ended September 30, 2017, there were no securities transferred from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2017, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$83	$—	$—	$11,862	$(3)	$—	$—	$(11,944)	$(1
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	562,604	—	5,212	—	(7,373)	100	(2,136)	—	—	(6,643)	1,385
Corporate securities	664,046	—	26,099	—	(2,764)	85,822	(135,192)	—	—	(10,353)	(3,10
Total fixed maturity securities - available-for-sale	1,226,653	—	31,394	—	(10,137)	97,784	(137,331)	—	—	(28,940)	(1,72
Fixed maturity securities - trading											
Other asset-backed securities	84,563	3,679	—	(1,154)	—	—	(52,516)	—	—	—	918
Corporate securities	5,492	101	—	—	—	—	—	—	—	—	(69
Total fixed maturity securities - trading	90,055	3,780	—	(1,154)	—	—	(52,516)	—	—	—	849
Total fixed maturity securities	1,316,708	3,780	31,394	(1,154)	(10,137)	97,784	(189,847)	—	—	(28,940)	(872
Equity securities	69,010	—	52	(2,630)	—	—	(273)	—	—	3	—

Other long-term investments[1]	124,325	21,452	—	(15,425)	—	—	—	—	—	—	—
Total investments	1,510,043	25,232	31,446	(19,209)	(10,137)	97,784	(190,120)	—	—	(28,937)	(872
Total assets measured at fair value on a recurring basis	$1,510,043	$25,232	$31,446	$(19,209)	$(10,137)	$97,784	$(190,120)	$—	$—	$(28,937)	$(872
Liabilities:											
Annuity account balances[2]	$87,616	$—	$—	$(2,973)	$—	$—	$—	$402	$5,963	$—	$—
Other liabilities[1]	571,843	56,464	—	(221,034)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$659,459	$56,464	$—	$(224,007)	$—	$—	$—	$402	$5,963	$—	$—

(1) Represents certain freestanding and embedded derivatives.
(2) Represents liabilities related to fixed indexed annuities.
For the nine months ended September 30, 2017, there were an immaterial amount of securities transferred into Level 3.
For the nine months ended September 30, 2017, $28.9 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in the previous periods but were priced by independent pricing services or brokers as of September 30, 2017.
For the nine months ended September 30, 2017, there were no securities transferred from Level 2 to Level 1.
For the nine months ended September 30, 2017, there were no securities transferred from Level 1.

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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 September 30, 2016, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Commercial mortgage-backed securities	—	—	7	—	—	25,607	—	—	—	—	(7)
Other asset-backed securities	533,141	—	23,350	—	(19)	—	(12)	—	—	—	(3,231)
Corporate securities	783,143	—	9,324	—	(3,335)	28,327	(26,001)	—	—	(36,237)	(1,825)
Total fixed maturity securities - available-for-sale	1,316,287	—	32,681	—	(3,354)	53,934	(26,013)	—	—	(36,237)	(5,063)
Fixed maturity securities - trading											
Other asset-backed securities	151,964	3,260	—	(71)	—	—	(9,366)	—	—	—	46
Corporate securities	16,587	381	—	—	—	—	—	—	—	(11,243)	(26)
Total fixed maturity securities - trading	168,551	3,641	—	(71)	—	—	(9,366)	—	—	(11,243)	20
Total fixed maturity	1,484,838	3,641	32,681	(71)	(3,354)	53,934	(35,379)	—	—	(47,480)	(5,043)

securities											
Equity securities	69,750	—	—	—	—	—	—	—	—	—	—
Other long-term investments[1]	48,999	21,052	—	—	—	—	—	—	—	—	—
Total investments	1,603,587	24,693	32,681	(71)	(3,354)	53,934	(35,379)	—	—	(47,480)	(5,043)
Total assets measured at fair value on a recurring basis	$1,603,587	$24,693	$32,681	$(71)	$(3,354)	$53,934	$(35,379)	$—	$—	$(47,480)	$(5,043)
Liabilities:											
Annuity account balances[2]	$88,820	$—	$—	$(735)	$—	$—	$—	$279	$2,226	$—	$1,249
Other liabilities[1]	972,084	90,166	—	(57,353)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$1,060,904	$90,166	$—	$(58,088)	$—	$—	$—	$279	$2,226	$—	$1,249

(1) Represents certain freestanding and embedded derivatives.
(2) Represents liabilities related to fixed indexed annuities.
For the three months ended September 30, 2016, there were no securities transferred into Level 3.
For the three months ended September 30, 2016, there were $47.5 million of securities transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of September 30, 2016.
For the three months ended September 30, 2016, there were no securities transferred from Level 2 to Level 1.
For the three months ended September 30, 2016, there were no securities transferred from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the nine months ended September 30, 2016, 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	O
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$-
Commercial mortgage-backed securities	—	—	7	—	—	25,607	—	—	—	—	(7
Other asset-backed securities	587,031	6,859	24,119	—	(21,426)	9,597	(58,461)	—	—	7,457	(1
Corporate securities	902,119	925	40,435	(4,135)	(10,316)	53,885	(107,866)	—	—	(114,189)	(7
Total fixed maturity securities - available-for-sale	1,489,153	7,784	64,561	(4,135)	(31,742)	89,089	(166,327)	—	—	(106,732)	(9
Fixed maturity securities - trading											
Other asset-backed securities	152,912	5,310	—	(1,013)	—	—	(11,578)	—	—	172	30
Corporate securities	18,225	713	—	(259)	—	10,908	(4,071)	—	—	(19,722)	(9
Total fixed maturity securities - trading	171,137	6,023	—	(1,272)	—	10,908	(15,649)	—	—	(19,550)	(6
Total fixed maturity securities	1,660,290	13,807	64,561	(5,407)	(31,742)	99,997	(181,976)	—	—	(126,282)	(9
Equity securities	69,763	—	—	—	—	22	—	—	—	(36)	1

Other long-term investments[1]	96,830	22,620	—	(49,399)	—	—	—	—	—	—	—
Total investments	1,826,883	36,427	64,561	(54,806)	(31,742)	100,019	(181,976)	—	—	(126,318)	(9
Total assets measured at fair value on a recurring basis	$1,826,883	$36,427	$64,561	$(54,806)	$(31,742)	$100,019	$(181,976)	$—	$—	$(126,318)	$(
Liabilities:											
Annuity account balances[2]	$92,512	$—	$—	$(1,831)	$—	$—	$—	$529	$7,264	$—	$
Other liabilities[1]	585,556	105,751	—	(459,466)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$678,068	$105,751	$—	$(461,297)	$—	$—	$—	$529	$7,264	$—	$

(1) Represents certain freestanding and embedded derivatives.
(2) Represents liabilities related to fixed indexed annuities.
For the nine months ended September 30, 2016, there were $71.3 million of securities transferred into Level 3.
For the nine months ended September 30, 2016, $197.7 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of September 30, 2016.
For the nine months ended September 30, 2016, $12.2 million of securities were transferred from Level 2 to Level 1.
For the nine months ended September 30, 2016, $0.1 million of securities were transferred from Level 1.
Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the consolidated condensed statements of income (loss) or other comprehensive income (loss) within shareowner’s equity based on the appropriate accounting treatment for the item.
Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturity securities and issuances and settlements of fixed indexed annuities.

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The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. The asset transfers in the table(s) above primarily related to positions moved from Level 3 to Level 2 as the Company determined that certain inputs were observable.

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

Estimated Fair Value of Financial Instruments

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

		As of September 30, 2017		December 31, 2016	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$6,528,890	$6,486,449	$6,132,125	$5,930,992
Policy loans	3	1,625,960	1,625,960	1,650,240	1,650,240
Fixed maturities, held-to-maturity[1]	3	2,730,995	2,796,603	2,770,177	2,733,340
Liabilities:					
Stable value product account balances	3	$4,793,890	$4,816,919	$3,501,636	$3,488,877
Future policy benefits and claims[2]	3	222,079	222,079	221,634	221,658
Other policyholders' funds[3]	3	132,565	133,347	135,367	136,127
Debt:[4]					
Bank borrowings	3	$170,000	$170,000	$170,000	$170,000
Senior Notes	2	950,505	936,497	993,285	937,074
Subordinated debt securities	2	495,255	496,065	441,202	443,355
Non-recourse funding obligations[5]	3	2,759,640	2,824,782	2,796,474	2,765,558

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

(1) Securities purchased from unconsolidated affiliates, Red Mountain LLC and Steel City LLC.

(2) Single premium immediate annuity without life contingencies.

(3) Supplementary contracts without life contingencies.

(4) Excludes capital lease obligations of $1.5 million.

(5) As of September 30, 2017, $2.7 billion in carrying amount and fair value related to non-recourse funding obligations issued by Golden Gate and Golden Gate V. As of December 31, 2016, $2.7 billion in carrying amount and fair value related to non-recourse funding obligations issued by Golden Gate and Golden Gate V.

Fair Value Measurements

Mortgage loans on real estate

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

Policy loans

The Company believes the fair value of policy loans approximates book value. Policy loans are funds provided to policy holders in return for a claim on the policy. The funds provided are limited to the cash surrender value of the underlying policy. The nature of policy loans is to have a negligible default risk as the loans are fully collateralized by

the value of the policy. Policy loans do not have a stated maturity and the balances and accrued interest are repaid either by the policyholder or with proceeds from the policy. Due to the collateralized nature of policy loans and unpredictable timing of repayments, the Company believes the fair value of policy loans approximates carrying value.

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Fixed maturities, held-to-maturity

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

Stable value product and other investment contract balances

The Company estimates the fair value of stable value product account balances and other investment contract balances (included in Future policy benefits and claims as well as Other policyholder funds line items on our balance sheet) using models based on discounted expected cash flows. The discount rates used in the models are based on a current market rate for similar financial instruments.

Debt

Bank borrowings

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

Non-recourse funding obligations

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

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

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

Derivatives Related to Interest Rate Risk Management

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate swaptions.

Derivatives Related to Foreign Currency Exchange Risk Management

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

Derivatives Related to Risk Mitigation of Certain Annuity Contracts

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

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

•Total Return Swaps

Accounting for Derivative Instruments

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

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income or in other comprehensive income (loss), depending upon whether it qualified for and also has been properly identified as being part of a hedging relationship, and also on the type of hedging relationship that exists.

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

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

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

- To hedge a fixed rate note denominated in a foreign currency, the Company entered into a fixed-to-fixed foreign currency swap in order to hedge the foreign currency exchange risk associated with the note. The cash flows received on the swap are identical to the cash flow paid on the note.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Derivatives Related to Variable Annuity Contracts

- The Company uses equity futures, equity options, total return swaps, interest rate futures, interest rate swaps, interest rate swaptions, currency futures, volatility futures, volatility options, and variance swaps to mitigate the risk related to certain guaranteed minimum benefits, including GLWB, within its VA products. In general, the cost of such benefits varies with the level of equity and interest rate markets, foreign currency levels, and overall volatility.
- The Company markets certain VA products with a GLWB rider. The GLWB component is considered an embedded derivative, not considered to be clearly and closely related to the host contract.

Derivatives Related to Fixed Annuity Contracts

- The Company uses equity futures and options to mitigate the risk within its fixed indexed annuity products. In general, the cost of such benefits varies with the level of equity markets and overall volatility.
- The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative as it is, not considered to be clearly and closely related to the host contract.

Derivatives Related to Indexed Universal Life Contracts

- The Company uses equity futures and options to mitigate the risk within its indexed universal life products. In general, the cost of such benefits varies with the level of equity markets.
- The Company markets certain IUL products. The IUL component is considered an embedded derivative as it is, not considered to be clearly and closely related to the host contract.

Other Derivatives

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

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

Realized investment gains (losses) - derivative financial instruments

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Derivatives related to VA contracts:				
Interest rate futures - VA	$549	$(7,002)	$16,746	$62,065
Equity futures - VA	(25,959)	(41,836)	(75,389)	(66,392)
Currency futures - VA	(6,092)	934	(22,366)	5,888
Equity options - VA	(23,307)	(36,482)	(76,376)	(23,410)
Interest rate swaptions - VA	(292)	(229)	(2,423)	(3,212)
Interest rate swaps - VA	5,342	14,737	31,331	221,884
Total return swaps - VA	(8,057)	—	(9,675)	—
Embedded derivative - GLWB	740	90,954	(15,904)	(246,299)
Total derivatives related to VA contracts	(57,076)	21,076	(154,056)	(49,476)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(18,606)	(14,486)	(40,351)	(15,938)
Equity futures - FIA	66	2,236	161	4,269
Volatility futures - FIA	—	—	—	—
Equity options - FIA	11,242	6,583	29,511	1,756
Total derivatives related to FIA contracts	(7,298)	(5,667)	(10,679)	(9,913)
Derivatives related to IUL contracts:				
Embedded derivative - IUL	(297)	7,136	(10,958)	6,302
Equity futures - IUL	58	101	(878)	(71)
Equity options - IUL	1,975	1,607	6,437	1,821
Total derivatives related to IUL contracts	1,736	8,844	(5,399)	8,052
Embedded derivative - Modco reinsurance treaties	(19,746)	(24,187)	(90,314)	(105,362)
Other derivatives	43	50	41	(50)
Total realized gains (losses) - derivatives	$(82,341)	$116	$(260,407)	$(156,749)

The following table presents the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship. The Company did not have any derivatives that qualified as a cash flow hedging relationships for the three and nine months ended September 30, 2016:

Gain (Loss) on Derivatives in Cash Flow Hedging Relationship

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives (Effective Portion)	Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss) (Effective Portion) Benefits and settlement expenses	Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives (Ineffective Portion) Realized investment gains (losses)
		(Dollars In Thousands)	
For The Three Months Ended September 30, 2017			
Foreign currency swaps	$ 1,273	$ (38)	$ —

Total	$ 1,273	$ (38)	$ —

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For The Nine Months Ended September 30, 2017	0	0	0
Foreign currency swaps	$55	$(396)	$—
Total	$55	$(396)	$—

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify $0.5 million out of accumulated other comprehensive income into earnings during the next twelve months.

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

	As of			
	September 30, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Foreign currency swaps	$117,178	$10,125	$117,178	$132
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,365,000	59,641	1,135,000	71,644
Total return swaps	—	—	—	—
Embedded derivative - Modco reinsurance treaties	64,444	1,008	64,123	2,573
Embedded derivative - GLWB	4,710,781	129,344	4,601,633	121,752
Interest rate futures	531,447	2,267	102,587	894
Equity futures	46,334	333	654,113	5,805
Currency futures	186,047	4,010	340,058	7,883
Equity options	4,846,984	364,936	3,944,444	328,908
Interest rate swaptions	225,000	81	225,000	2,503
Other	157	191	212	149
	$12,093,372	$571,936	$11,184,348	$542,243
Other liabilities				
Cash flow hedges:				
Foreign currency swaps	$—	$—	$—	$—
Derivatives not designated as hedging instruments:				
Interest rate swaps	497,500	267	575,000	10,208
Total return swaps	347,330	3,151	—	—
Embedded derivative - Modco reinsurance treaties	2,408,832	209,334	2,450,692	141,301
Embedded derivative - GLWB	4,855,482	260,620	5,962,044	237,122
Embedded derivative - FIA	1,845,942	197,378	1,496,346	147,368
Embedded derivative - IUL	150,277	69,081	103,838	46,051
Interest rate futures	606,501	6,401	993,842	6,611
Equity futures	340,041	14,854	102,667	2,907
Currency futures	115,382	1,958	—	—
Equity options	3,055,206	203,451	2,590,160	157,253
	$14,222,493	$966,495	$14,274,589	$748,821

7. OFFSETTING OF ASSETS AND LIABILITIES

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum

thresholds, or in certain cases ratings levels, have

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been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 10, Debt and Other Obligations for details of the Company's repurchase agreement programs.

The tables below present the assets and liabilities subject to master netting agreements as of September 30, 2017:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Collateral Received	Net Amount
	(Dollars In Thousands)					
Offsetting of Assets						
Derivatives:						
Free-Standing derivatives	$441,393	$ —	$ 441,393	$ 211,435	$ 102,913	$ 127,045
Total derivatives, subject to a master netting arrangement or similar arrangement	441,393	—	441,393	211,435	102,913	127,045
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,008	—	1,008	—	—	1,008
Embedded derivative - GLWB	129,344	—	129,344	—	—	129,344
Other	191	—	191	—	—	191
Total derivatives, not subject to a master netting arrangement or similar arrangement	130,543	—	130,543	—	—	130,543
Total derivatives	571,936	—	571,936	211,435	102,913	257,588
Total Assets	$571,936	$ —	$ 571,936	$ 211,435	$ 102,913	$ 257,588

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Collateral Posted	Net Amount
	(Dollars In Thousands)					
Offsetting of Liabilities						
Derivatives:						
Free-Standing derivatives	$230,082	$ —	$ 230,082	$ 211,435	$ 18,647	$ —
Total derivatives, subject to a master netting arrangement or similar arrangement	230,082	—	230,082	211,435	18,647	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	209,334	—	209,334	—	—	209,334
Embedded derivative - GLWB	260,620	—	260,620	—	—	260,620
Embedded derivative - FIA	197,378	—	197,378	—	—	197,378
Embedded derivative - IUL	69,081	—	69,081	—	—	69,081
Total derivatives, not subject to a master netting arrangement or similar arrangement	736,413	—	736,413	—	—	736,413

Total derivatives	966,495	—	966,495	211,435	18,647	736,413
Repurchase agreements[(1)]	493,785	—	493,785	—	—	493,785
Total Liabilities	$1,460,280	$	—$1,460,280	$ 211,435	$ 18,647	$1,230,198

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

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The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2016:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Collateral Received	Net Amount
	(Dollars In Thousands)					
Offsetting of Assets						
Derivatives:						
Free-Standing derivatives	$417,769	$ —	$ 417,769	$ 171,384	$ 100,890	$ 145,495
Total derivatives, subject to a master netting arrangement or similar arrangement	417,769	—	417,769	171,384	100,890	145,495
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	2,573	—	2,573	—	—	2,573
Embedded derivative - GLWB	121,752	—	121,752	—	—	121,752
Other	149	—	149	—	—	149
Total derivatives, not subject to a master netting arrangement or similar arrangement	124,474	—	124,474	—	—	124,474
Total derivatives	542,243	—	542,243	171,384	100,890	269,969
Total Assets	$542,243	$ —	$ 542,243	$ 171,384	$ 100,890	$ 269,969

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Liabilities Presented in the Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		
				Financial Instruments	Collateral Posted	Net Amount
	(Dollars In Thousands)					
Offsetting of Liabilities						
Derivatives:						
Free-Standing derivatives	$176,979	$ —	$ 176,979	$ 171,384	$ 5,595	$ —
Total derivatives, subject to a master netting arrangement or similar arrangement	176,979	—	176,979	171,384	5,595	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	141,301	—	141,301	—	—	141,301
Embedded derivative - GLWB	237,122	—	237,122	—	—	237,122
Embedded derivative - FIA	147,368	—	147,368	—	—	147,368
Embedded derivative - IUL	46,051	—	46,051	—	—	46,051
Total derivatives, not subject to a master netting arrangement or similar arrangement	571,842	—	571,842	—	—	571,842
Total derivatives	748,821	—	748,821	171,384	5,595	571,842

Repurchase agreements[1]	797,721	—	797,721	—	—	797,721
Total Liabilities	$1,546,542	$ —	$1,546,542	$ 171,384	$ 5,595	$1,369,563

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

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8. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of September 30, 2017, the Company's mortgage loan holdings were approximately $6.5 billion. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, senior living facilities, 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, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

Certain of the mortgage loans have call options that occur within the next 12 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options on its existing mortgage loans commensurate with the significantly increased market rates. As of September 30, 2017, assuming the loans are called at their next call dates, approximately $54.7 million of principal would become due for the remainder of 2017, $976.2 million in 2018 through 2022, $124.6 million in 2023 through 2027, and $9.9 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of September 30, 2017 and December 31, 2016, approximately $715.2 million and $595.2 million, respectively, of the Company's total mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and nine months ended September 30, 2017 and 2016, the Company recognized $14.2 million, $25.7 million, $3.3 million, and $15.8 million, respectively, of participating mortgage loan income.

As of September 30, 2017, approximately $3.1 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the nine months ended September 30, 2017, the Company recognized two troubled debt restructurings as a result of the Company granting a concession to a borrower which included loan terms unavailable from other lenders. These concessions were the result of agreements between the creditor and the debtor. The Company did not identify any loans whose principal was permanently impaired during the nine months ended September 30, 2017.

The Company's mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of September 30, 2017, $3.1 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming mortgage loans, restructured, or mortgage loans that were foreclosed and were converted to real estate properties. The Company did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the nine months ended September 30, 2017.

As of September 30, 2017, none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. The Company did not foreclose on any nonperforming loans subject to a pooling and servicing agreement during the nine months ended September 30, 2017.

As of September 30, 2017 and December 31, 2016, the Company had an allowance for mortgage loan credit losses of $1.1 million and $0.7 million, respectively. Due to the Company's loss experience and nature of the loan portfolio, the

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

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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:

	For The Nine Months Ended September 30, 2017
	(Dollars In Thousands)
Beginning balance, December 31, 2016	$ 724
Charge offs	(5,653)
Recoveries	(731)
Provision	6,715
Ending balance, September 30, 2017	$ 1,055

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

As of September 30, 2017	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$2,293	$ —	$ 869	$ 3,162
Number of delinquent commercial mortgage loans	2	—	1	3
As of December 31, 2016				
Commercial mortgage loans	$3,669	$ —	$ —	$ 3,669
Number of delinquent commercial mortgage loans	4	—	—	4

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

As of September 30, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
Commercial mortgage loans:						
With no related allowance recorded	$ —	$ —	$ —	$ —	$ —	$ —
With an allowance recorded	1,924	1,924	1,055	1,924	18	27
As of December 31, 2016						
Commercial mortgage loans:						
With no related allowance recorded	$ —	$ —	$ —	$ —	$ —	$ —
With an allowance recorded	1,819	1,819	724	1,819	96	96

Mortgage loans that were modified in a troubled debt restructuring as of September 30, 2017 and December 31, 2016 were as follows:

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	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars In Thousands)		
As of September 30, 2017			
Troubled debt restructuring:			
Commercial mortgage loans	2	$ 1,134	$ 1,134
As of December 31, 2016			
Troubled debt restructuring:			
Commercial mortgage loans	1	$ 468	$ 468

9. GOODWILL

The balance of goodwill for the Company as of September 30, 2017 was $793.5 million. There has been no change to goodwill during the nine months ended September 30, 2017.

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.

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. During the fourth quarter of 2016, the Company performed its annual evaluation of goodwill based on information as of October 1, 2016, and determined that no adjustment to impair goodwill was necessary. During the nine months ended September 30, 2017, the Company did not identify any events or circumstances which would indicate that the fair value of its operating segments would have declined below their book value, either individually or in the aggregate.

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10. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

	As of			
	September 30, 2017		December 31, 2016	
	Outstanding Principal	Carrying Amounts	Outstanding Principal	Carrying Amounts
	(Dollars In Thousands)			
Debt (year of issue):				
Revolving Line of Credit	$170,000	$170,000	$170,000	$170,000
Capital lease obligation	1,495	1,495	—	—
6.40% Senior Notes (2007), due 2018	150,000	152,067	150,000	156,663
7.375% Senior Notes (2009), due 2019	400,000	440,569	400,000	454,688
8.45% Senior Notes (2009), due 2039	232,928	357,869	246,926	381,934
	$954,423	$1,122,000	$966,926	$1,163,285
Subordinated debt securities (year of issue):				
6.25% Subordinated Debentures (2012), due 2042, callable 2017	$—	$—	$287,500	$290,002
6.00% Subordinated Debentures (2012), due 2042, callable 2017	—	—	150,000	151,200
5.35% Subordinated Debentures (2017), due 2052	500,000	495,255	—	—
	$500,000	$495,255	$437,500	$441,202

During the nine months ended September 30, 2017, the Company repurchased and subsequently extinguished $21.6 million (par value - $14.0 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a $2.0 million pre-tax gain for the Company. The gain is recorded in other income in the consolidated condensed statements of income.

During 2017, the Company issued $500.0 million of its Subordinated Debentures due 2052. These Subordinated Debentures are carried on the Company's balance sheet net of the associated deferred issuance expenses of $4.8 million. The Company used the net proceeds from the offering to call and redeem, at par, the entire $150.0 million of Subordinated Debentures due 2042 and $287.5 million of Subordinated Debentures due 2042.

During the year ended December 31, 2016, the Company repurchased and subsequently extinguished $82.7 million (par value - $53.1 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a $9.8 million pre-tax gain for the Company. The gain is recorded in other income in the consolidated condensed statements of income.

The Company has the ability to borrow on an unsecured basis under a Credit Facility up to an aggregate principal amount of $1.0 billion. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $1.25 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company’s Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent’s Prime rate, (y) 0.50% above the Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company's Senior Debt. The Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company’s Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The annual facility fee rate is 0.125% of the aggregate principal amount. The Credit Facility 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 of the Credit Facility is February 2, 2020. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of September 30, 2017. There was an outstanding balance of $170.0 million bearing interest at a rate of LIBOR plus 1.00% as of September 30, 2017.

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Non-Recourse Funding Obligations

Non-recourse funding obligations outstanding as of September 30, 2017, on a consolidated basis, are shown in the following table:

Issuer	Outstanding Principal	Carrying Value[1]	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
	(Dollars In Thousands)			
Golden Gate Captive Insurance Company[2][3]	$2,040,000	$ 2,040,000	2039	4.75 %
Golden Gate II Captive Insurance Company	58,600	50,490	2052	3.84 %
Golden Gate V Vermont Captive Insurance Company[2][3]	605,000	666,729	2037	5.12 %
MONY Life Insurance Company[3]	1,091	2,421	2024	6.19 %
Total	$2,704,691	$ 2,759,640		

(1) Carrying values include premiums and discounts and do not represent unpaid principal balances.
(2) Obligations are issued to non-consolidated subsidiaries of the Company. These obligations collateralize certain held-to-maturity securities issued by wholly owned subsidiaries of PLICO.
(3) Fixed rate obligations

Non-recourse funding obligations outstanding as of December 31, 2016, on a consolidated basis, are shown in the following table:

Issuer	Outstanding Principal	Carrying Value[1]	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
	(Dollars In Thousands)			
Golden Gate Captive Insurance Company[2][3]	$2,116,000	$ 2,116,000	2039	4.75 %
Golden Gate II Captive Insurance Company	58,600	49,983	2052	2.52 %
Golden Gate V Vermont Captive Insurance Company[2][3]	565,000	628,025	2037	5.12 %
MONY Life Insurance Company[3]	1,091	2,466	2024	6.19 %
Total	$2,740,691	$ 2,796,474		

(1) Carrying values include premiums and discounts and do not represent unpaid principal balances.
(2) Obligations are issued to non-consolidated subsidiaries of the Company. These obligations collateralize certain held-to-maturity securities issued by wholly owned subsidiaries of PLICO.
(3) Fixed rate obligations

Secured Financing Transactions

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of September 30, 2017, the fair value of securities pledged under the repurchase program was $549.8 million, and the repurchase obligation of $493.8 million was included in the Company’s consolidated condensed balance sheets (at an average borrowing rate of 118 basis points). During the nine months ended September 30, 2017, the maximum balance outstanding at any one point in time related to these programs was $981.3 million. The average

daily balance was $546.2 million (at an average borrowing rate of 89 basis points) during the nine months ended September 30, 2017. As of December 31, 2016, the fair value of securities pledged under the repurchase program was $861.7 million, and the repurchase obligation of $797.7 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 65 basis points). During 2016, the maximum balance outstanding at any one point in time related to these programs was $1,065.8 million. The average daily balance was $505.4 million (at an average borrowing rate of 44 basis points) during the year ended December 31, 2016.

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Securities Lending

The Company participates in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. The Company requires initial collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis. As of September 30, 2017, securities with a market value of $100.2 million were loaned under this program. As collateral for the loaned securities, the Company receives short-term investments, which are recorded in "short-term investments" with a corresponding liability recorded in "secured financing liabilities" to account for its obligation to return the collateral. As of September 30, 2017, the fair value of the collateral related to this program was $105.8 million and the Company has an obligation to return $105.8 million of collateral to the securities borrowers.

The following table provides the amount by asset class of securities of collateral pledged for repurchase agreements and securities that have been loaned as part of securities lending transactions as of September 30, 2017 and December 31, 2016:

Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

	Remaining Contractual Maturity of the Agreements As of September 30, 2017 (Dollars In Thousands)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	$ 322,986	$ 20,006	$ —	$ —	$ 342,992
Mortgage loans	206,796	—	—	—	206,796
Total repurchase agreements and repurchase-to-maturity transactions	529,782	20,006	—	—	549,788
Securities lending transactions					
Corporate securities	97,385	—	—	—	97,385
Equity securities	2,621	—	—	—	2,621
Preferred stock	174	—	—	—	174
Total securities lending transactions	100,180	—	—	—	100,180
Total securities	$ 629,962	$ 20,006	$ —	$ —	$ 649,968

Repurchase Agreements, Securities Lending Transactions, and Repurchase-to-Maturity Transactions Accounted for as Secured Borrowings

	Remaining Contractual Maturity of the Agreements As of December 31, 2016 (Dollars In Thousands)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	$ 357,705	$ 23,758	$ —	$ —	$ 381,463
Corporate securities	—	—	—	—	—
Mortgage loans	480,269	—	—	—	480,269
Total securities	$ 837,974	$ 23,758	$ —	$ —	$ 861,732

11. COMMITMENTS AND CONTINGENCIES

The Company has entered into indemnity agreements with each of its current directors other than those that are employees of Dai-ichi Life 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 the 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. From time to time, companies may be asked to

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contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In addition, legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long term care insurance and other specialty products, that alters future premium tax offsets received in connection with guaranty fund assessments. The Company cannot predict the amount, nature or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company's financial condition or results of operations.

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 and 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. 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.

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

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

examination fees to the insurance regulators in connection with the settlement or consent agreements. The Company believes that insurance regulators could demand from the Company administrative and/or examination fees relating to the targeted multi-state examination. Based on publicly reported payments by other life insurers, the Company does not believe such fees, if assessed, would have a material effect on its financial statements.

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12. EMPLOYEE BENEFIT PLANS

Components of the net periodic benefit cost of the Company's defined benefit pension plan for the three and nine months ended September 30, 2017 and 2016, are as follows:

	For The Three Months Ended September 30,				For The Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan
	(Dollars In Thousands)							
Service cost — benefits earned during the period	$3,348	$ 334	$2,906	$311	$10,044	$1,002	$8,717	$1,102
Interest cost on projected benefit obligation	2,191	297	2,737	299	6,573	891	8,210	1,054
Expected return on plan assets	(3,352)	—	(3,605)	—	(10,056)	—	(10,816)	—
Amortization of prior service cost	—	—	—	—	—	—	—	—
Amortization of actuarial losses	—	118	—	64	—	354	—	114
Preliminary net periodic benefit cost	2,187	749	2,038	674	6,561	2,247	6,111	2,270
Settlement/curtailment expense	—	—	—	635	—	—	—	2,135
Total net periodic benefit costs	$2,187	$ 749	$2,038	$1,309	$6,561	$2,247	$6,111	$4,405

During the nine months ended September 30, 2017, the Company contributed $43.5 million to its defined benefit pension plan for the 2016 plan year. The Company will make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (“AFTAP”) of at least 80% and to avoid certain Pension Benefit Guaranty Corporation (“PBGC”) reporting triggers.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (“AOCI”) as of September 30, 2017 and December 31, 2016.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments	Accumulated Gain and Loss Derivatives[2]	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2016	$(656,322)	$ 727	$ 1,072	$ (654,523)
Other comprehensive income (loss) before reclassifications	549,234	36	—	549,270
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	1,174	—	—	1,174
Amounts reclassified from accumulated other comprehensive income (loss)[1]	7,125	257	—	7,382
Net current-period other comprehensive income (loss)	557,533	293	—	557,826
Ending Balance, September 30, 2017	$(98,789)	$ 1,020	$ 1,072	$ (96,697)

(1) See Reclassification table below for details.

(2) As of September 30, 2017, net unrealized losses reported in AOCI were offset by $93.6 million due to the impact those net unrealized losses would have had on certain of the Company’s insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments	Accumulated Gain and Loss on Derivatives[2]	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2015	$(1,247,065)	$ —	$ 5,931	$(1,241,134)
Other comprehensive income (loss) before reclassifications	606,985	688	(5,659)	602,014
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	(6,782)	—	—	(6,782)
Amounts reclassified from accumulated other comprehensive income (loss)[1]	(9,460)	39	800	(8,621)
Net current-period other comprehensive income (loss)	590,743	727	(4,859)	586,611
Ending Balance, December 31, 2016	$(656,322)	$ 727	$ 1,072	$(654,523)

(1) See Reclassification table below for details.
(2) As of December 31, 2015 and December 31, 2016, net unrealized losses reported in AOCI were offset by $623.0 million and $424.1 million, respectively, due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

The following tables summarize the reclassifications amounts out of AOCI for the three and nine months ended September 30, 2017 and 2016.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

For The Three Months Ended September 30, 2017	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Gains and losses on derivative instruments		
Net settlement (expense)/benefit[1]	$ (38)	Benefits and settlement expenses, net of reinsurance ceded
	(38)	Total before tax
	14	Tax (expense) or benefit
	$ (24)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 690	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(273)	Net impairment losses recognized in earnings
	417	Total before tax
	(146)	Tax (expense) or benefit
	$ 271	Net of tax

(1) See Note 6, Derivative Financial Instruments for additional information

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

For The Nine Months Ended September 30, 2017	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Gains and losses on derivative instruments		
Net settlement (expense)/benefit[1]	$ (396)	Benefits and settlement expenses, net of reinsurance ceded
	(396)	Total before tax
	139	Tax (expense) or benefit
	$ (257)	Net of tax
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 9,084	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(10,889)	Net impairment losses recognized in earnings
	(1,805)	Total before tax
	631	Tax (expense) or benefit
	$ (1,174)	Net of tax

(1) See Note 6, Derivative Financial Instruments for additional information

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

For The Three Months Ended September 30, 2016	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 1,665	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(3,308)	Net impairment losses recognized in earnings
	(1,643)	Total before tax
	575	Tax (expense) or benefit
	$ (1,068)	Net of tax
Postretirement benefits liability adjustment		
Amortization of net actuarial gain/(loss)	$ (29)	Other operating expenses
Amortization of prior service credit/(cost)	—	Other operating expenses
Amortization of transition asset/(obligation)	—	Other operating expenses
	(29)	Total before tax
	10	Tax (expense) or benefit
	$ (19)	Net of tax

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

For The Nine Months Ended September 30, 2016	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 24,152	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(6,892)	Net impairment losses recognized in earnings
	17,260	Total before tax
	(6,041)	Tax (expense) or benefit
	$ 11,219	Net of tax
Postretirement benefits liability adjustment		
Amortization of net actuarial gain/(loss)	$ (29)	Other operating expenses
Amortization of prior service credit/(cost)	—	Other operating expenses
Amortization of transition asset/(obligation)	—	Other operating expenses
	(29)	Total before tax
	10	Tax (expense) or benefit
	$ (19)	Net of tax

14. INCOME TAXES

In 2012, the IRS proposed favorable and unfavorable adjustments to the Company's 2003 through 2007 reported taxable income. The Company protested certain unfavorable adjustments and sought resolution at the IRS' Appeals Division. In October 2015, Appeals accepted the Company's earlier proposed settlement offer. In September 2015, the IRS proposed favorable and unfavorable adjustments to the Company's 2008 through 2011 reported taxable income. The Company agreed to these adjustments. In April 2017, a routine review by Congress' Joint Committee on Taxation was finalized without change and the Company expects to receive an approximate $6.2 million net refund in a future period.

The resulting net adjustment to the Company's current income taxes for the years 2003 through 2011 will not materially affect the Company or its effective tax rate.

In July 2016, the IRS proposed favorable and unfavorable adjustments to the Company's 2012 and 2013 reported taxable income. The Company agreed to these adjustments. The resulting settlement paid in September 2016 did not materially impact the Company or its effective tax rate.

There have been no material changes to the balance of unrecognized tax benefits, where the changes impact earnings, during the quarter ending September 30, 2017. The Company believes that in the next twelve months, $4.9 million of the unrecognized tax benefits at September 30, 2017 will be reduced due to an expected closure of the statute of limitations for assessment of tax. Due to ongoing examination activity, the statute of limitations period could be extended, however, which would change this twelve month outlook.

In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2014. Nevertheless, certain of these pre-2014 years have pending U.S. tax refunds. Due to their size, these refunds were reviewed by Congress' Joint Committee on Taxation. In April 2017, the Company received notification that the Joint Committee review was complete and that no changes were made. The underlying federal statutes of limitations are expected to close in due course on or before September 30, 2018. Furthermore, due to the

aforementioned IRS adjustments to the Company's pre-2014 taxable income, the Company is amending certain of its 2003 through 2013 state income tax returns. Such amendments will cause such years to remain open, pending the states' acceptances of the returns.

During the year ended December 31, 2016, the Company entered into a reinsurance transaction. This transaction generated an operating loss on the Company’s consolidated 2016 U.S. income tax return. The Company has evaluated its ability to carry this loss back to receive refunds of previously-paid taxes, plus utilize the remaining loss in future years. The Company expects to receive refunds for substantially all of the U.S. income taxes that it paid in 2014 and 2015, as well as fully utilize the remaining operating loss carryforward during the carryforward period. 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

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taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of September 30, 2017 and December 31, 2016.

The Company used its respective estimates of its annual 2017 and 2016 incomes in computing its effective income tax rates for the three and nine months ended September 30, 2017 and 2016. The effective tax rates for the three and nine months ended September 30, 2017 and 2016, were 25.5%, 30.6%, 29.9%, and 32.3% respectively.

15. OPERATING SEGMENTS

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

- The Life Marketing segment markets fixed universal life (“UL”), indexed universal life ("IUL"), variable universal life (“VUL”), bank-owned life insurance (“BOLI”), and level premium term insurance (“traditional”) products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, independent marketing organizations, and affinity groups.

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

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

- The Stable Value Products segment sells fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. This segment also issues funding agreements to the FHLB, and markets guaranteed investment contracts (“GICs”) to 401(k) and other qualified retirement savings plans. The Company also has an unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.

- The Asset Protection segment markets extended service contracts, guaranteed asset protection ("GAP") products, credit life and disability insurance, and other specialized ancillary products to protect consumers’ investments in automobiles, recreational vehicles, watercraft, and powersports. GAP covers the difference between the loan pay-off amount and an asset’s actual cash value in the case of a total loss. Each type of specialized ancillary product protects against damage or other loss to a particular aspect of the underlying asset.

- The Corporate and Other segment primarily consists of net investment income on assets supporting our equity capital, unallocated corporate overhead and expenses not attributable to the segments above (including interest on corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, various financing and investment-related transactions, and the operations of several small subsidiaries.

The Company's management and Board of Directors analyzes and assesses the operating performance of each segment using "pre-tax adjusted operating income (loss)" and "after-tax adjusted operating income (loss)". Consistent with GAAP accounting guidance for segment reporting, pre-tax adjusted operating income (loss) is the Company's measure of segment performance. Pre-tax adjusted operating income (loss) is calculated by adjusting "income (loss) before income tax", by excluding the following items:

- realized gains and losses on investments and derivatives,
- changes in the GLWB embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,
- actual GLWB incurred claims, and
- the amortization of DAC, VOBA, and certain policy liabilities that is impacted by the exclusion of these items.

The items excluded from adjusted operating income (loss) are important to understanding the overall results of operations. Pre-tax adjusted operating income (loss) and after-tax adjusted operating income (loss) are not substitutes for income before income taxes or net income (loss), respectively. These measures may not be comparable to similarly titled measures reported by other companies. The Company believes that pre-tax and after-tax adjusted operating

income (loss) enhances management's and the Board of Directors' understanding of the ongoing operations, the underlying profitability of each segment, and helps facilitate the allocation of resources.

In determining the components of the pre-tax adjusted operating income (loss) for each segment, premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC and VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

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In filings prior to the Company's 2016 Form 10-K, "Pre-tax adjusted operating income (loss)" was referred to as "Pre-tax operating income", "Operating income before tax", or "Segment operating income". In addition, we referred to "After-tax adjusted operating income (loss)" as "After-tax operating income" or "Operating earnings". The definition of these labels remains unchanged, but the Company has modified the labels to provide further clarity that these measures are non-GAAP measures.

There were no significant intersegment transactions during the three and nine months ended September 30, 2017 and 2016.

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The following tables presents a summary of results and reconciles pre-tax adjusted operating income (loss) to consolidated income before income tax and net income:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Revenues				
Life Marketing	$424,165	$409,423	$1,252,603	$1,231,397
Acquisitions	375,819	391,017	1,164,650	1,269,672
Annuities	97,488	174,798	318,452	410,455
Stable Value Products	49,933	27,380	132,863	83,519
Asset Protection	83,597	69,306	246,142	201,041
Corporate and Other	53,386	51,722	162,042	170,876
Total revenues	$1,084,388	$1,123,646	$3,276,752	$3,366,960
Pre-tax Adjusted Operating Income (Loss)				
Life Marketing	$8,969	$(1,306)	$51,157	$36,957
Acquisitions	62,880	70,157	184,825	184,095
Annuities	62,000	53,666	161,585	164,196
Stable Value Products	27,992	14,700	74,258	44,326
Asset Protection	6,963	5,455	19,098	16,216
Corporate and Other	(26,870)	(29,774)	(67,466)	(60,231)
Pre-tax adjusted operating income	141,934	112,898	423,457	385,559
Realized (losses) gains on investments and derivatives	(31,084)	20,181	(74,490)	88,023
Income before income tax	110,850	133,079	348,967	473,582
Income tax expense	(28,308)	(39,785)	(106,743)	(152,820)
Net income	$82,542	$93,294	$242,224	$320,762
Pre-tax adjusted operating income	$141,934	$112,898	$423,457	$385,559
Adjusted operating income tax (expense) benefit	(39,187)	(32,722)	(132,815)	(121,982)
After-tax adjusted operating income	102,747	80,176	290,642	263,577
Realized (losses) gains on investments and derivatives	(31,084)	20,181	(74,490)	88,023
Income tax benefit (expense) on adjustments	10,879	(7,063)	26,072	(30,838)
Net income	$82,542	$93,294	$242,224	$320,762
Realized investment (losses) gains:				
Derivative financial instruments	$(82,341)	$116	$(260,407)	$(156,749)
All other investments	18,150	24,152	94,708	194,663
Net impairment losses recognized in earnings	(273)	(3,308)	(10,889)	(6,892)
Less: related amortization[(1)]	(12,123)	21,532	(38,570)	4,409
Less: VA GLWB economic cost	(21,257)	(20,753)	(63,528)	(61,410)
Realized (losses) gains on investments and derivatives	$(31,084)	$20,181	$(74,490)	$88,023

(1) Includes amortization of DAC/VOBA and benefits and settlement expenses that are impacted by realized gains (losses).

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	Operating Segment Assets As of September 30, 2017 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$14,700,406	$19,681,306	$20,617,917	$4,664,251
DAC and VOBA	1,295,708	77,157	752,540	7,605
Other intangibles	287,120	35,187	173,450	8,222
Goodwill	200,274	14,524	336,677	113,813
Total assets	$16,483,508	$19,808,174	$21,880,584	$4,793,891

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$914,658	$14,773,285	$75,351,823
DAC and VOBA	25,806	—	2,158,816
Other intangibles	135,895	33,714	673,588
Goodwill	128,182	—	793,470
Total assets	$1,204,541	$14,806,999	$78,977,697

	Operating Segment Assets As of December 31, 2016 (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$14,050,170	$19,679,690	$20,243,333	$3,373,646
DAC and VOBA	1,218,944	106,532	655,618	5,455
Other intangibles	301,399	37,103	183,449	8,722
Goodwill	200,274	14,524	336,677	113,813
Total assets	$15,770,787	$19,837,849	$21,419,077	$3,501,636

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$1,013,399	$13,141,759	$71,501,997
DAC and VOBA	33,280	—	2,019,829
Other intangibles	143,865	13,545	688,083
Goodwill	128,182	—	793,470
Total assets	$1,318,726	$13,155,304	$75,003,379

16. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to September 30, 2017, and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1, Financial Statements (Unaudited), of this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2016, included in our Annual Report on Form 10-K.

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

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

FORWARD-LOOKING STATEMENTS — CAUTIONARY LANGUAGE

This report reviews our financial condition and results of operations, including our liquidity and capital resources. Historical information is presented and discussed, and where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements instead of historical facts and may contain words like "believe," "expect," "estimate," "project," "budget," "forecast," "anticipa "plan," "will," "shall," "may," and other words, phrases, or expressions with similar meaning. Forward-looking statements involve risks and uncertainties, which may cause actual results to differ materially from the results contained in the forward-looking statements, and we cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise. For more information about the risks, uncertainties, and other factors that could affect our future results, please refer to Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 1A, Risk Factors, of this report, as well as Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

IMPORTANT INVESTOR INFORMATION

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other reports as required. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer and the SEC maintains an internet site at www.sec.gov that contains these reports and other information filed electronically by us. We make available through our website, www.protective.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. We will furnish such documents to anyone who requests such copies in writing. Requests for copies should be directed to: Financial Information, Protective Life Corporation, P. O. Box 2606, Birmingham, Alabama 35202, Telephone (205) 268-3912, Fax (205) 268-3642.

We also make available to the public current information, including financial information, regarding the Company and our affiliates on the Financial Information page of our website, www.protective.com. We encourage investors, the media and others interested in us and our affiliates to review the information we post on our website. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

OVERVIEW

Our Business

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 (now known as Dai-ichi Life Holdings, Inc., "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, our stock was publicly traded on the

New York Stock Exchange. Subsequent to the Merger, we remain an SEC registrant for financial reporting purposes in the United States. The Company, which is headquartered in Birmingham, Alabama, operates as a holding company for its insurance and other subsidiaries that provide financial services primarily in the United States through the production, distribution, and administration of insurance and investment products. Founded in 1907, Protective Life Insurance Company ("PLICO") is our largest operating subsidiary. Unless the context otherwise requires, the "Company," "we," "us," or "our" refers to the consolidated group of Protective Life Corporation and our subsidiaries.

We have several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. We periodically evaluate our operating segments and make adjustments to our segment reporting as needed.

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

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- Life Marketing—We market fixed universal life ("UL"), indexed universal life ("IUL"), variable universal life ("VUL"), bank-owned life insurance ("BOLI"), and level premium term insurance ("traditional") products on a national basis primarily through networks of independent insurance agents and brokers, broker-dealers, financial institutions, independent marketing organizations, and affinity groups.
- Acquisitions—We focus on acquiring, converting, and/or servicing policies and contracts from other companies. This segment's primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment's acquisition activity is predicated upon many factors, including available capital, operating capacity, potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.
- Annuities—We market fixed and variable annuity ("VA") products. These products are primarily sold through broker-dealers, financial institutions, and independent agents and brokers.
- Stable Value Products—We sell fixed and floating rate funding agreements directly to the trustees of municipal bond proceeds, money market funds, bank trust departments, and other institutional investors. The segment also issues funding agreements to the Federal Home Loan Bank ("FHLB"), and markets guaranteed investment contracts ("GICs") to 401(k) and other qualified retirement savings plans. We also have an unregistered funding agreement-backed notes program which provides for offers of notes to both domestic and international institutional investors.
- Asset Protection—We market extended service contracts, guaranteed asset protection ("GAP") products, credit life and disability insurance, and other specialized ancillary products to protect consumers' investments in automobiles, recreational vehicles, watercraft, and powersports. GAP products are designed to cover the difference between the scheduled loan pay-off amount and an asset's actual cash value in the case of a total loss. Each type of specialized ancillary product protects against damage or other loss to a particular aspect of the underlying asset.
- Corporate and Other—This segment primarily consists of net investment income on assets supporting our equity capital, unallocated corporate overhead, and expenses not attributable to the segments above (including interest on corporate debt). This segment includes earnings from several non-strategic or runoff lines of business, financing and investment related transactions, and the operations of several small subsidiaries.

RISKS AND UNCERTAINTIES

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

General

- we are controlled by Dai-ichi Life, which has the ability to make important decisions affecting our business;
- exposure to risks related to natural and man-made disasters, catastrophes, diseases, epidemics, pandemics, malicious acts, terrorist acts and climate change could adversely affect our operations and results;
- a disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect our business, financial condition and results of operations;
- confidential information maintained in the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- assets allocated to the MONY Closed Block benefit only the holders of certain policies; adverse performance of Closed Block assets or adverse experience of Closed Block liabilities may negatively affect us;
- we are dependent on the performance of others;
- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;
- events that damage our reputation could adversely impact our business, results of operations, or financial condition;

Financial Environment

- interest rate fluctuations or sustained periods of high or low interest rates could negatively affect our interest earnings and spread income, or otherwise impact our business;
- our investments are subject to market and credit risks, which could be heightened during periods of extreme volatility or disruption in financial and credit markets;
- equity market volatility could negatively impact our business;
- our use of derivative financial instruments within our risk management strategy may not be effective or sufficient;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;

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- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult general economic conditions could materially adversely affect our business and results of operations;
- we may be required to establish a valuation allowance against our deferred tax assets, which could have a material adverse effect on our results of operations, financial condition, and capital position;
- we could be adversely affected by an inability to access our credit facility;
- we could be adversely affected by an inability to access FHLB lending;
- our securities lending program may subject us to liquidity and other risks;
- our financial condition or results of operations could be adversely impacted if our assumptions regarding the fair value and future performance of our investments differ from actual experience;
- adverse actions of certain funds or their advisers could have a detrimental impact on our ability to sell our variable life and annuity products, or maintain current levels of assets in those products;
- the amount of statutory capital or risk-based capital that we have and the amount of statutory capital or risk-based capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations;

Industry and Regulation

- we are highly regulated and are subject to routine audits, examinations and actions by regulators, law enforcement agencies, and self-regulatory organizations;
- we may be subject to regulations of, or regulations influenced by, international regulatory authorities or initiatives;
- we are subject to the laws, rules, and regulations of state, federal, and foreign regulators that could adversely affect our financial condition or results of operations;
- NAIC actions, pronouncements and initiatives may affect our product profitability, reserve and capital requirements, financial condition or results of operations;
- our use of captive reinsurance companies to finance statutory reserves related to our term and universal life products and to reduce volatility affecting our variable annuity products, may be limited or adversely affected by regulatory action, pronouncements and interpretations;
- laws, regulations and initiatives related to unreported deaths and unclaimed property and death benefits may result in operational burdens, fines, unexpected payments or escheatments;
- we are subject to insurance guaranty laws which could adversely affect our financial condition or results of operations;
- we are subject to insurable interest laws which could adversely affect our financial condition or results of operations;
- the Healthcare Act and related regulations could adversely affect our results of operations or financial condition;
- laws, rules and regulations promulgated in connection with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act may adversely affect our results of operations or financial condition;
- regulations issued by the Department of Labor on April 6, 2016, expanding the definition of "investment advice fiduciary" under ERISA and creating and revising several prohibited transactions exemptions for investment activities in light of that expanded definition, may have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations;
- we may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with our business operations;
- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- the financial services and insurance industries are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;

- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- if our business does not perform well, we may be required to recognize an impairment of our goodwill and indefinite lived intangible assets which could adversely affect our results of operations or financial condition;
- use of reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates, terminate agreements, or be subject to adverse developments that could affect us;
- our policy claims fluctuate from period to period resulting in earnings volatility;
- we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and
- we may not be able to protect our intellectual property and may be subject to infringement claims.

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

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CRITICAL ACCOUNTING POLICIES

Our accounting policies require the use of judgments relating to a variety of assumptions and estimates, including, but not limited to expectations of current and future mortality, morbidity, persistency, expenses, and interest rates, as well as expectations around the valuations of securities. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated condensed financial statements. For a complete listing of our critical accounting policies, refer to our Annual Report on Form 10-K for the year ended December 31, 2016.

RESULTS OF OPERATIONS

Our management and Board of Directors analyzes and assesses the operating performance of each segment using "pre-tax adjusted operating income (loss)" and "after-tax adjusted operating income (loss)". Consistent with GAAP accounting guidance for segment reporting, pre-tax adjusted operating income (loss) is our measure of segment performance. Pre-tax adjusted operating income (loss) is calculated by adjusting "income (loss) before income tax," by excluding the following items:

- realized gains and losses on investments and derivatives,
- changes in the GLWB embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,
- actual GLWB incurred claims, and
- the amortization of DAC, VOBA, and certain policy liabilities that is impacted by the exclusion of these items.

After-tax adjusted operating income (loss) is derived from pre-tax adjusted operating income (loss) with the inclusion of income tax expense or benefits associated with pre-tax adjusted operating income. Income tax expense or benefits is allocated to the items excluded from pre-tax adjusted operating income (loss) at the statutory federal income tax rate of thirty five percent. Income tax expense or benefits allocated to after-tax adjusted operating income (loss) can vary period to period based on changes in the Company's effective income tax rate.

The items excluded from adjusted operating income (loss) are important to understanding the overall results of operations. Pre-tax adjusted operating income (loss) and after-tax adjusted operating income (loss) are not a substitutes for income before income taxes or net income (loss), respectively. These measures may not be comparable to similarly titled measures reported by other companies. Our belief is that pre-tax and after-tax adjusted operating income (loss) enhances management's and the Board of Directors' understanding of the ongoing operations, the underlying profitability of each segment, and helps facilitate the allocation of resources.

In determining the components of the pre-tax adjusted operating income (loss) for each segment, premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC and VOBA are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner that most appropriately reflects the operations of that segment. Investments and other assets are allocated based on statutory policy liabilities net of associated statutory policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.

During 2016, we modified our labeling of our non-GAAP measures presented herein as "Adjusted operating income (loss)" or "Pre-tax adjusted operating income (loss)". In previous filings, we referred to "Pre-tax adjusted operating income (loss)" as "Pre-tax operating income", "Operating income before tax", or "Segment operating income". In addition, we previously referred to "After-tax adjusted operating income (loss)" as "After-tax operating income" or "Operating earnings". The definition of these labels remains unchanged, but we have modified the labels to provide further clarity that these measures are non-GAAP measures.

We periodically review and update as appropriate our key assumptions used to measure certain balances related to insurance products, including future mortality, expenses, lapses, premium persistency, benefit utilization, investment yields, interest rates, and separate account fund returns. Changes to these assumptions result in adjustments which increase or decrease DAC and VOBA amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as “unlocking.” When referring to unlocking the reference is to changes in all balance sheet components associated with these assumption changes.

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The following table presents a summary of results and reconciles pre-tax adjusted operating income (loss) to consolidated income before income tax and net income:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Pre-tax Adjusted Operating Income (Loss)				
Life Marketing	$8,969	$(1,306)	$51,157	$36,957
Acquisitions	62,880	70,157	184,825	184,095
Annuities	62,000	53,666	161,585	164,196
Stable Value Products	27,992	14,700	74,258	44,326
Asset Protection	6,963	5,455	19,098	16,216
Corporate and Other	(26,870)	(29,774)	(67,466)	(60,231)
Pre-tax adjusted operating income	141,934	112,898	423,457	385,559
Realized (losses) gains on investments and derivatives	(31,084)	20,181	(74,490)	88,023
Income before income tax	110,850	133,079	348,967	473,582
Income tax expense	(28,308)	(39,785)	(106,743)	(152,820)
Net income	$82,542	$93,294	$242,224	$320,762
Pre-tax adjusted operating income	$141,934	$112,898	$423,457	$385,559
Adjusted operating income tax (expense) benefit	(39,187)	(32,722)	(132,815)	(121,982)
After-tax adjusted operating income	102,747	80,176	290,642	263,577
Realized (losses) gains on investments and derivatives	(31,084)	20,181	(74,490)	88,023
Income tax benefit (expense) on adjustments	10,879	(7,063)	26,072	(30,838)
Net income	$82,542	$93,294	$242,224	$320,762
Realized investment (losses) gains:				
Derivative financial instruments	$(82,341)	$116	$(260,407)	$(156,749)
All other investments	18,150	24,152	94,708	194,663
Net impairment losses recognized in earnings	(273)	(3,308)	(10,889)	(6,892)
Less: related amortization[(1)]	(12,123)	21,532	(38,570)	4,409
Less: VA GLWB economic cost	(21,257)	(20,753)	(63,528)	(61,410)
Realized (losses) gains on investments and derivatives	$(31,084)	$20,181	$(74,490)	$88,023

(1) Includes amortization of DAC/VOBA and benefits and settlement expenses that are impacted by realized gains (losses).

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016
Net income for the three months ended September 30, 2017 included a $29.0 million, or 25.7%, increase in pre-tax adjusted operating income. The increase consisted of a $10.3 million increase in the Life Marketing segment, a $8.3 million increase in the Annuities segment, a $13.3 million increase in the Stable Value Products segment, a increase of $1.5 million in the Asset Protection segment, and a $2.9 million increase in the Corporate & Other segment. These increases were partially offset by a $7.3 million decrease in the Acquisitions segment.
Net realized losses on investments and derivatives for the three months ended September 30, 2017 was $31.1 million. These losses were primarily due to net losses on VA GLWB derivatives (after adjusting for economic cost and amortization) of $23.1 million and net losses on FIA derivatives of $5.3 million. The net losses on VA GLWB derivatives included $12.0 million of losses from changes to policyholder assumptions. The net losses on FIA derivatives were primarily driven by losses of $5.9 million from changes to policyholder assumptions.

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- Life Marketing segment pre-tax adjusted operating income was $9.0 million for the three months ended September 30, 2017, representing an increase of $10.3 million from the three months ended September 30, 2016. The increase was primarily due to the impact of prospective unlocking during the current quarter compared to the prior year, offset by an increase in universal life claims during 2017. The segment recorded a favorable $0.6 million of prospective unlocking for the three months ended September 30, 2017, as compared to an unfavorable $18.3 million of prospective unlocking for the three months ended September 30, 2016.
- Acquisitions segment pre-tax adjusted operating income was $62.9 million for the three months ended September 30, 2017, a decrease of $7.3 million as compared to the three months ended September 30, 2016, primarily due to the expected runoff of the in-force blocks of business. For the three months ended September 30, 2017, the segment recorded unfavorable prospective unlocking of $3.7 million as compared to favorable $1.2 million of prospective unlocking for the three months ended September 30, 2016.
- Annuities segment pre-tax adjusted operating income was $62.0 million for the three months ended September 30, 2017, as compared to $53.7 million for the three months ended September 30, 2016, an increase of $8.3 million, or 15.5%. This variance was primarily the result of favorable unlocking, growth in variable annuities ("VA") fee income, and a favorable change in single premium immediate annuities ("SPIA") mortality. Segment results were positively impacted by $13.0 million of favorable unlocking for the three months ended September 30, 2017, as compared to $5.7 million of favorable unlocking for the three months ended September 30, 2016.
- Stable Value segment pre-tax adjusted operating income was $28.0 million and increased $13.3 million, or 90.4%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase in adjusted operating earnings primarily resulted from an increase in average account values in addition to an increase in participating mortgage income. Participating mortgage income for the three months ended September 30, 2017, was $12.4 million as compared to $1.3 million for the nine months ended September 30, 2016. The adjusted operating spread, which excludes participating income, decreased by 33 basis points for the three months ended September 30, 2017, from the prior year, due primarily to an increase in credited interest.
- Asset Protection segment pre-tax adjusted operating income was $7.0 million, representing an increase of $1.5 million, or 27.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Service contract earnings increased $2.6 million primarily due to favorable loss ratios and the acquisition of US Warranty in the fourth quarter of 2016. Credit insurance earnings increased $0.2 million primarily due to lower loss ratios. Earnings from the GAP product line decreased $1.3 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.
- The Corporate and Other segment pre-tax adjusted operating loss was $26.9 million for the three months ended September 30, 2017, as compared to a pre-tax adjusted operating loss of $29.8 million for the three months ended September 30, 2016. The increase was primarily due to an increase in invested assets and investment yields.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Net income for the nine months ended September 30, 2017 included a $37.9 million, or 9.8%, increase in pre-tax adjusted operating income. The increase consisted of a $14.2 million increase in the Life Marketing segment, a $0.7 million increase in the Acquisitions segment, a $29.9 million increase in the Stable Value Products segment, and a $2.9 million increase in the Asset Protection segment. These increases were partially offset by a $2.6 million decrease in the Annuities segment and a $7.2 million decrease in the Corporate and Other segment.

Net realized losses on investments and derivatives for the nine months ended September 30, 2017 was $74.5 million. These losses were primarily due to net losses on VA GLWB derivatives (after adjusting for economic cost and amortization) of $57.7 million, impairment losses on available-for-sale securities of $10.9 million, mortgage loan losses of $6.8 million, and net losses on FIA derivatives of $7.4 million. These losses were partially offset by net gains from sales of securities of $9.1 million as well as net gains of $2.9 million related to Modco trading portfolio activity and the associated embedded derivative. The net losses on VA GLWB derivatives included $12.0 million of losses from changes to policyholder assumptions. The net losses on FIA derivatives were primarily driven by losses of $5.9 million from changes to policyholder assumptions.

- Life Marketing segment pre-tax adjusted operating income was $51.2 million for the nine months ended September 30, 2017, representing an increase of $14.2 million from the nine months ended September 30, 2016. The increase

was primarily due to the impact of unlocking for the nine months ended September 30, 2017, as compared to the prior year. The segment recorded a favorable $3.0 million of unlocking for the nine months ended September 30, 2017, as compared to an unfavorable $13.2 million of unlocking for the nine months ended September 30, 2016.

- Acquisitions segment pre-tax adjusted operating income was $184.8 million for the nine months ended September 30, 2017, an increase of $0.7 million as compared to the nine months ended September 30, 2016, primarily due to decreases in life insurance claims and lower amortization of VOBA, partially offset by the expected runoff of the in-force blocks of business. For the nine months ended September 30, 2017, the segment recorded unfavorable prospective unlocking of $3.7 million.
- Annuities segment pre-tax adjusted operating income was $161.6 million for the nine months ended September 30, 2017, as compared to $164.2 million for the nine months ended September 30, 2016, a decrease of $2.6 million, or 1.6%. This variance was primarily the result of an unfavorable change in SPIA mortality and higher non-deferred expenses, partially offset by increased interest spreads, growth in VA fee income, and favorable unlocking. Segment

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results were positively impacted by $14.9 million of favorable unlocking for the nine months ended September 30, 2017, as compared to $6.7 million of favorable unlocking for the nine months ended September 30, 2016.

- Stable Value segment pre-tax adjusted operating income was $74.3 million and increased $29.9 million, or 67.5%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase in adjusted operating earnings primarily resulted from an increase in average account values in addition to an increase in participating mortgage income. Participating mortgage income for the nine months ended September 30, 2017, was $23.6 million as compared to $10.5 million for the nine months ended September 30, 2016. The adjusted operating spread, which excludes participating income, decreased by five basis points for the nine months ended September 30, 2017, from the prior year, due primarily to an increase in credited interest.
- Asset Protection segment pre-tax adjusted operating income was $19.1 million, representing an increase of $2.9 million, or 17.8%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Service contract earnings increased $7.3 million primarily due to favorable loss ratios and the acquisition of US Warranty in the fourth quarter of 2016. Credit insurance earnings increased $0.5 million primarily due to lower loss ratios. Earnings from the GAP product line decreased $5.0 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.
- The Corporate and Other segment pre-tax adjusted operating loss was $67.5 million for the nine months ended September 30, 2017, as compared to a pre-tax adjusted operating loss of $60.2 million for the nine months ended September 30, 2016. The decrease was attributable to a $7.8 million decrease in gains recognized on the extinguishment of debt.

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Life Marketing
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Gross premiums and policy fees	$458,468	$439,290	$1,372,864	$1,329,030
Reinsurance ceded	(200,616)	(198,301)	(601,839)	(586,182)
Net premiums and policy fees	257,852	240,989	771,025	742,848
Net investment income	137,001	132,359	412,652	392,266
Other income	27,241	27,146	80,997	84,018
Total operating revenues	422,094	400,494	1,264,674	1,219,132
Realized gains (losses) - investments	334	85	(6,671)	4,212
Realized gains (losses) - derivatives	1,737	8,844	(5,400)	8,053
Total revenues	424,165	409,423	1,252,603	1,231,397
BENEFITS AND EXPENSES				
Benefits and settlement expenses	345,501	325,947	993,424	949,926
Amortization of DAC/VOBA	26,984	33,560	86,934	97,300
Other operating expenses	40,640	42,293	133,159	134,949
Operating benefits and settlement expenses	413,125	401,800	1,213,517	1,182,175
Amortization related to benefits and settlement expenses	(396)	6,122	(10,250)	4,282
Amortization of DAC/VOBA related to realized gains (losses) - investments	427	401	938	431
Total benefits and expenses	413,156	408,323	1,204,205	1,186,888
INCOME BEFORE INCOME TAX	11,009	1,100	48,398	44,509
Less: realized gains (losses)	2,071	8,929	(12,071)	12,265
Less: amortization related to benefits and settlement expenses	396	(6,122)	10,250	(4,282)
Less: related amortization of DAC/VOBA	(427)	(401)	(938)	(431)
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	$8,969	$(1,306)	$51,157	$36,957

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Sales By Product[1]				
Traditional life	$721	$221	$1,325	$892
Universal life	41,244	40,871	127,743	122,148
	$41,965	$41,092	$129,068	$123,040
Sales By Distribution Channel				
Traditional brokerage	$35,320	$35,314	$110,066	$106,056
Institutional	4,459	4,026	12,262	12,041
Direct	2,186	1,752	6,740	4,943
	$41,965	$41,092	$129,068	$123,040
Average Life Insurance In-force[2]				
Traditional	$342,522,847	$361,945,424	$347,481,484	$366,723,972
Universal life	260,101,843	215,270,993	248,933,690	204,771,980
	$602,624,690	$577,216,417	$596,415,174	$571,495,952
Average Account Values				
Universal life	$7,644,822	$7,443,908	$7,607,208	$7,415,471
Variable universal life	729,171	620,071	705,045	604,555
	$8,373,993	$8,063,979	$8,312,253	$8,020,026

(1) Sales data for traditional life insurance is based on annualized premiums. Universal life sales are based on annualized planned premiums, or "target" premiums if lesser, plus 6% of amounts received in excess of target premiums and 10% of single premiums. "Target" premiums for universal life are those premiums upon which full first year commissions are paid.
(2) Amounts are not adjusted for reinsurance ceded.

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Operating expenses detail

Other operating expenses for the segment were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Insurance companies:				
First year commissions	$48,643	$46,558	$147,618	$142,913
Renewal commissions	9,503	9,645	28,932	27,713
First year ceding allowances	(729)	(875)	(1,766)	(2,663)
Renewal ceding allowances	(48,218)	(39,160)	(134,492)	(117,716)
General & administrative	55,534	50,087	170,928	156,022
Taxes, licenses, and fees	9,592	8,316	26,268	23,981
Other operating expenses incurred	74,325	74,571	237,488	230,250
Less: commissions, allowances & expenses capitalized	(62,593)	(60,266)	(189,574)	(179,315)
Other insurance company operating expenses	11,732	14,305	47,914	50,935
Marketing companies:				
Commissions	20,462	19,851	59,996	60,132
Other operating expenses	8,446	8,137	25,249	23,882
Other marketing company operating expenses	28,908	27,988	85,245	84,014
Other operating expenses	$40,640	$42,293	$133,159	$134,949

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $9.0 million for the three months ended September 30, 2017, representing an increase of $10.3 million from the three months ended September 30, 2016. The increase was primarily due to the impact of prospective unlocking during the current quarter compared to the prior year, offset by an increase in universal life claims during 2017. The segment recorded a favorable $0.6 million of prospective unlocking for the three months ended September 30, 2017, as compared to an unfavorable $18.3 million of prospective unlocking for the three months ended September 30, 2016.

Operating revenues

Total operating revenues for the three months ended September 30, 2017, increased $21.6 million, or 5.4%, as compared to the three months ended September 30, 2016. This increase was driven by higher policy fees and higher investment income.

Net premiums and policy fees

Net premiums and policy fees increased by $16.9 million, or 7.0%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to an increase in policy fees associated with continued growth in universal life business.

Net investment income

Net investment income in the segment increased $4.6 million, or 3.5%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Of the increase in net investment income, $4.0 million resulted from growth in the universal life block of business. Traditional life investment income increased $0.2 million.

Other income

Other income remained consistent for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Benefits and settlement expenses

Benefits and settlement expenses increased by $19.6 million, or 6.0%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to an increase in universal life claims and traditional life reserves, partially offset by prospective unlocking during the third quarter of 2017 as compared to the third quarter of 2016. For the three months ended September 30, 2017, universal life unlocking increased policy benefits and settlement expenses $1.8 million, as compared to an increase of $17.9 million for the three months ended September 30, 2016. Assumption changes related to reinsurance,

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lapse rates, and yields contributed to the unlocking in 2017. Unlocking in 2016 was largely driven by assumption changes to reinsurance and yields.

Amortization of DAC/VOBA

DAC/VOBA amortization decreased $6.6 million, or 19.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to higher VOBA amortization in the traditional block resulting from higher lapses and the impact of unlocking. For the three months ended September 30, 2017, universal life unlocking decreased amortization $3.6 million, as compared to a decrease of $2.4 million for the three months ended September 30, 2016.

Other operating expenses

Other operating expenses decreased $1.7 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This decrease was driven by lower new business acquisition costs after capitalization and higher reinsurance allowances, offset by higher commissions and general and administrative expenses.

Sales

Sales for the segment increased $0.9 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Universal life sales increased $0.4 million primarily due to an expansion in distribution partners and focused efforts with existing partners.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $51.2 million for the nine months ended September 30, 2017, representing an increase of $14.2 million from the nine months ended September 30, 2016. The increase was primarily due to the impact of unlocking for the nine months ended September 30, 2017, as compared to the prior year. The segment recorded a favorable $3.0 million of unlocking for the nine months ended September 30, 2017, as compared to an unfavorable $13.2 million of unlocking for the nine months ended September 30, 2016.

Operating revenues

Total operating revenues for the nine months ended September 30, 2017, increased $45.5 million, or 3.7%, as compared to the nine months ended September 30, 2016. This increase was driven by higher policy fees and higher investment income due to increases in net in-force reserves, offset in part by lower traditional life premiums.

Net premiums and policy fees

Net premiums and policy fees increased by $28.2 million, or 3.8%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, due to an increase in policy fees associated with continued growth in universal life business. Offsetting this was a decrease in traditional life premiums.

Net investment income

Net investment income in the segment increased $20.4 million, or 5.2%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Of the increase in net investment income, $15.9 million resulted from growth in the universal life block of business. Traditional life investment income increased $2.0 million.

Other income

Other income decreased $3.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to lower revenue in the segment’s non-insurance operations.

Benefits and settlement expenses

Benefits and settlement expenses increased by $43.5 million, or 4.6%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, due primarily to an increase in universal life claims, partially offset by unlocking. For the nine months ended September 30, 2017, universal life unlocking increased policy benefits and settlement expenses $1.3 million, as compared to an increase of $15.9 million for the nine months ended September 30, 2016.

Amortization of DAC/VOBA

DAC/VOBA amortization decreased $10.4 million, or 10.7%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, due to lower VOBA amortization in the traditional blocks resulting from decreased lapses. For the nine months ended September 30, 2017, universal life unlocking decreased amortization $4.4 million, as compared to a decrease of $2.7 million for the nine months ended September 30, 2016.

Other operating expenses

Other operating expenses decreased $1.8 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This decrease was driven by higher reinsurance allowances, partially offset by higher general and administrative expenses.

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Sales

Sales for the segment increased $6.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Universal life sales increased $5.6 million primarily due to an expansion in distribution partners and focused efforts with existing partners.

Reinsurance

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

Reinsurance allowances do not affect the methodology used to amortize DAC or the period over which such DAC is amortized. However, they do affect the amounts recognized as DAC amortization. DAC on universal life-type, limited-payment long duration, and investment contracts business is amortized based on the estimated gross profits of the policies in-force. Reinsurance allowances are considered in the determination of estimated gross profits, and therefore, impact DAC amortization on these lines of business. Deferred reinsurance allowances on level term business are recorded as ceded DAC, which is amortized over estimated ceded premiums of the policies in-force. Thus, deferred reinsurance allowances may impact DAC amortization. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, Summary of Significant Accounting Policies to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Impact of reinsurance

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

Life Marketing Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$(200,616)	$(198,301)	$(601,839)	$(586,182)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(170,468)	(180,232)	(504,652)	(555,964)
Amortization of DAC/VOBA	(1,418)	(1,230)	(4,270)	(4,610)
Other operating expenses[1]	(46,756)	(38,149)	(130,426)	(114,260)
Total benefits and expenses	(218,642)	(219,611)	(639,348)	(674,834)
NET IMPACT OF REINSURANCE	$18,026	$21,310	$37,509	$88,652
Allowances received	$(48,948)	$(40,035)	$(136,258)	$(120,379)
Less: Amount deferred	2,192	1,886	5,832	6,119
Allowances recognized (ceded other operating expenses)[1]	$(46,756)	$(38,149)	$(130,426)	$(114,260)

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

The table above does not reflect the impact of reinsurance on our net investment income. By ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed, which will increase the assuming companies' profitability on the

business that we cede. The net investment income impact to us and the assuming companies has not been quantified. The impact of including foregone investment income would be to substantially reduce the favorable net impact of reinsurance reflected above. We estimate that the impact of foregone investment income would be to reduce the net impact of reinsurance presented in the table above by 170% to 380%. The Life Marketing segment's reinsurance programs do not materially impact the "other income" line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment's operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment's traditional new business was ceded to reinsurers. Since mid-2005, a much

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

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

The higher ceded premium and policy fees for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, was caused primarily by higher universal life policy fees of $12.3 million, slightly offset by lower ceded traditional life premiums of $10.4 million. Ceded traditional life premiums for the three months ended September 30, 2017, decreased from the three months ended September 30, 2016, primarily due to post level term activity.

Ceded benefits and settlement expenses were lower for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to lower traditional life ceded claims and a decrease in ceded reserves, partially offset by higher universal life ceded claims. Traditional ceded benefits and settlement expenses decreased $23.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to lower ceded reserves and claims. Universal life ceded benefits increased $12.9 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to an increase in ceded claims.

Ceded amortization of DAC and VOBA increased slightly for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Ceded other operating expenses reflect the impact of reinsurance allowances net of amounts deferred.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

The higher ceded premium and policy fees for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, was caused primarily by higher universal life policy fees of $33.1 million, offset by lower ceded traditional life premiums of $16.9 million. Ceded traditional life premiums for the nine months ended September 30, 2017, decreased from the nine months ended September 30, 2016, primarily due to post level term activity.

Ceded benefits and settlement expenses were lower for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, due to lower ceded claims and reserves. Traditional ceded benefits decreased $36.3 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to lower ceded reserves. Universal life ceded benefits decreased $14.1 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, due to a decrease in ceded claims, partially offset by an increase in ceded reserves. Ceded universal life claims were $18.0 million lower for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, driven by fewer high dollar claims during the current year.

Ceded amortization of DAC and VOBA decreased slightly for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016.

Ceded other operating expenses reflect the impact of reinsurance allowances net of amounts deferred.

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Acquisitions
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Gross premiums and policy fees	$270,303	$280,598	$828,252	$877,215
Reinsurance ceded	(78,647)	(81,457)	(239,785)	(259,284)
Net premiums and policy fees	191,656	199,141	588,467	617,931
Net investment income	181,714	190,890	561,632	567,559
Other income	2,515	2,771	8,350	8,223
Total operating revenues	375,885	392,802	1,158,449	1,193,713
Realized gains (losses) - investments	19,675	22,825	95,135	182,428
Realized gains (losses) - derivatives	(19,741)	(24,610)	(88,934)	(106,469)
Total revenues	375,819	391,017	1,164,650	1,269,672
BENEFITS AND EXPENSES				
Benefits and settlement expenses	286,035	293,616	894,509	913,344
Amortization of VOBA	(453)	(836)	(3,362)	8,256
Other operating expenses	27,423	29,865	82,477	88,018
Operating benefits and expenses	313,005	322,645	973,624	1,009,618
Amortization related to benefits and settlement expenses	2,603	2,807	7,109	8,495
Amortization of VOBA related to realized gains (losses) - investments	(27)	(44)	(183)	(40)
Total benefits and expenses	315,581	325,408	980,550	1,018,073
INCOME BEFORE INCOME TAX	60,238	65,609	184,100	251,599
Less: realized gains (losses)	(66)	(1,785)	6,201	75,959
Less: amortization related to benefits and settlement expenses	(2,603)	(2,807)	(7,109)	(8,495)
Less: related amortization of VOBA	27	44	183	40
PRE-TAX ADJUSTED OPERATING INCOME	$62,880	$70,157	$184,825	$184,095

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The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Average Life Insurance In-Force[1]				
Traditional	$225,506,328	$241,585,970	$229,375,136	$231,957,799
Universal life	27,216,155	29,401,602	27,725,925	29,863,714
	$252,722,483	$270,987,572	$257,101,061	$261,821,513
Average Account Values				
Universal life	$4,194,821	$4,253,363	$4,203,635	$4,279,809
Fixed annuity[2]	3,545,906	3,550,366	3,523,691	3,567,036
Variable annuity	1,194,958	1,174,310	1,181,037	1,185,166
	$8,935,685	$8,978,039	$8,908,363	$9,032,011
Interest Spread - Fixed Annuities				
Net investment income yield	3.97 %	3.95 %	3.99 %	3.97 %
Interest credited to policyholders	3.29 %	3.25 %	3.27 %	3.28 %
Interest spread[3]	0.68 %	0.70 %	0.72 %	0.69 %

(1) Amounts are not adjusted for reinsurance ceded.
(2) Includes general account balances held within variable annuity products and is net of coinsurance ceded.
(3) Earned rates exclude portfolios supporting modified coinsurance and crediting rates exclude 100% cessions.

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $62.9 million for the three months ended September 30, 2017, a decrease of $7.3 million as compared to the three months ended September 30, 2016, primarily due to the expected runoff of the in-force blocks of business. For the three months ended September 30, 2017, the segment recorded unfavorable prospective unlocking of $3.7 million as compared to favorable $1.2 million of prospective unlocking for the three months ended September 30, 2016.

Operating revenues

Net premiums and policy fees decreased $7.5 million, or 3.8%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to the expected runoff of the in-force blocks of business. Net investment income decreased $9.2 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Total benefits and expenses

Total benefits and expenses decreased $9.8 million, or 3.0%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The decrease was primarily due to the expected runoff of the in-force blocks of business, partly offset by unfavorable mortality experience and higher amortization of VOBA.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $184.8 million for the nine months ended September 30, 2017, an increase of $0.7 million as compared to the nine months ended September 30, 2016, primarily due to lower operating expenses and VOBA amortization, partially offset by the expected runoff of the in-force blocks of business. For the nine months ended September 30, 2017, the segment recorded unfavorable prospective unlocking of $3.7 million.

Operating revenues

Net premiums and policy fees decreased $29.5 million, or 4.8%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to the expected runoff of the in-force blocks of business. Net investment income decreased $5.9 million, or 1.0%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to expected runoff of the in-force blocks of business.

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Total benefits and expenses

Total benefits and expenses decreased $37.5 million, or 3.7%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The decrease was primarily due to improved mortality experience and lower amortization of VOBA, as well as the expected runoff of the in-force blocks of business.

Reinsurance

The Acquisitions segment currently reinsures portions of both its life and annuity in-force. The cost of reinsurance to the segment is reflected in the chart shown below. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, Summary of Significant Accounting Policies of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Impact of reinsurance

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

Acquisitions Segment
Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$(78,647)	$(81,457)	$(239,785)	$(259,284)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(53,233)	(65,188)	(207,339)	(199,412)
Amortization of value of business acquired	(183)	(130)	(440)	(325)
Other operating expenses	(9,710)	(10,389)	(29,272)	(32,379)
Total benefits and expenses	(63,126)	(75,707)	(237,051)	(232,116)
NET IMPACT OF REINSURANCE[1]	$(15,521)	$(5,750)	$(2,734)	$(27,168)

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

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

The net impact of reinsurance was less favorable by $9.8 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to lower ceded benefits and expenses. For the three months ended September 30, 2017, ceded revenues decreased by $2.8 million, while ceded benefits and expenses decreased by $12.6 million primarily due to lower ceded claims.

The net impact of reinsurance was more favorable by $24.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to lower ceded revenues and higher ceded benefits and expenses. For the nine months ended September 30, 2017, ceded revenues decreased by $19.5 million, while ceded benefits and expenses increased by $4.9 million primarily due to higher ceded claims.

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Annuities
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Gross premiums and policy fees	$38,259	$37,560	$114,294	$109,570
Reinsurance ceded	—	—	—	—
Net premiums and policy fees	38,259	37,560	114,294	109,570
Net investment income	80,206	83,041	239,416	242,464
Realized gains (losses) - derivatives	(21,257)	(20,753)	(63,528)	(61,410)
Other income	43,262	42,443	129,733	121,154
Total operating revenues	140,470	142,291	419,915	411,778
Realized gains (losses) - investments	135	(3,655)	(256)	(3,344)
Realized gains (losses) - derivatives, net of economic cost	(43,117)	36,162	(101,207)	2,021
Total revenues	97,488	174,798	318,452	410,455
BENEFITS AND EXPENSES				
Benefits and settlement expenses	53,105	60,206	159,537	159,146
Amortization of DAC/VOBA	(11,741)	(6,913)	(11,647)	(15,211)
Other operating expenses	37,106	35,332	110,440	103,647
Operating benefits and expenses	78,470	88,625	258,330	247,582
Amortization related to benefits and settlement expenses	1,157	220	3,569	3,190
Amortization of DAC/VOBA related to realized gains (losses) - investments	(15,887)	12,026	(39,753)	(11,949)
Total benefits and expenses	63,740	100,871	222,146	238,823
INCOME BEFORE INCOME TAX	33,748	73,927	96,306	171,632
Less: realized gains (losses) - investments	135	(3,655)	(256)	(3,344)
Less: realized gains (losses) - derivatives, net of economic cost	(43,117)	36,162	(101,207)	2,021
Less: amortization related to benefits and settlement expenses	(1,157)	(220)	(3,569)	(3,190)
Less: related amortization of DAC/VOBA	15,887	(12,026)	39,753	11,949
PRE-TAX ADJUSTED OPERATING INCOME	$62,000	$53,666	$161,585	$164,196

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The following tables summarize key data for the Annuities segment:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Sales[1]				
Fixed annuity	$246,914	$180,889	$806,432	$561,425
Variable annuity	87,045	154,731	323,650	479,828
	$333,959	$335,620	$1,130,082	$1,041,253
Average Account Values		.		
Fixed annuity[2]	$8,297,792	$8,162,296	$8,188,092	$8,202,283
Variable annuity	13,082,417	12,534,520	12,977,656	12,261,077
	$21,380,209	$20,696,816	$21,165,748	$20,463,360
Interest Spread - Fixed Annuities[3]				
Net investment income yield	3.73 %	3.76 %	3.68 %	3.69 %
Interest credited to policyholders	2.53	2.66	2.52	2.67
Interest spread	1.20 %	1.10 %	1.16 %	1.02 %

(1) Sales are measured based on the amount of purchase payments received less surrenders occurring within twelve months of the purchase payments.
(2) Includes general account balances held within VA products.
(3) Interest spread on average general account values.

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	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Derivatives related to VA contracts:				
Interest rate futures - VA	$549	$(7,002)	$16,746	$62,065
Equity futures - VA	(25,959)	(41,836)	(75,389)	(66,392)
Currency futures - VA	(6,092)	934	(22,366)	5,888
Equity options - VA	(23,307)	(36,482)	(76,376)	(23,410)
Interest rate swaptions - VA	(292)	(229)	(2,423)	(3,212)
Interest rate swaps - VA	5,342	14,737	31,331	221,884
Total return swaps - VA	(8,057)	—	(9,675)	—
Embedded derivative - GLWB[1]	740	90,954	(15,904)	(246,299)
Total derivatives related to VA contracts	(57,076)	21,076	(154,056)	(49,476)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(18,606)	(14,486)	(40,351)	(15,938)
Equity futures - FIA	66	2,236	161	4,269
Volatility futures - FIA	—	—	—	—
Equity options - FIA	11,242	6,583	29,511	1,756
Total derivatives related to FIA contracts	(7,298)	(5,667)	(10,679)	(9,913)
VA GLWB economic cost[2]	21,257	20,753	63,528	61,410
Realized gains (losses) - derivatives, net of economic cost	$(43,117)	$36,162	$(101,207)	$2,021

(1) Includes impact of nonperformance risk of $0.7 million and $(31.6) million for the three and nine months ended September 30, 2017 and $(4.4) million and $29.6 million for the three and nine months ended September 30, 2016.

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

	As of	
	September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
GMDB - Net amount at risk[1]	$ 78,182	$ 123,091
GMDB Reserves	31,158	31,695
GLWB and GMAB Reserves	131,276	115,370
Account value subject to GLWB rider	9,657,797	9,486,773
GLWB Benefit Base	10,566,159	10,559,907
GMAB Benefit Base	3,313	3,770
S&P 500® Index	2,519	2,239

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

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $62.0 million for the three months ended September 30, 2017, as compared to $53.7 million for the three months ended September 30, 2016, an increase of $8.3 million, or 15.5%. This variance was primarily the result of favorable unlocking, growth in VA fee income, and a favorable change in SPIA mortality. Segment results were positively impacted by $13.0 million of favorable unlocking for the three months ended September 30, 2017, as compared to $5.7 million of favorable unlocking for the three months ended September 30, 2016.

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Operating revenues

Segment operating revenues decreased $1.8 million, or 1.3%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to lower investment income and higher GLWB economic cost in the VA line of business. Those impacts were partially offset by higher policy fees and other income from the VA line of business. Average fixed account balances increased 1.7% and average variable account balances increased 4.4% for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016.

Benefits and settlement expenses

Benefits and settlement expenses decreased $7.1 million, or 11.8%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. This decrease was primarily the result of a favorable change in SPIA mortality, lower credited interest, and a favorable change in unlocking. Included in benefits and settlement expenses was $0.1 million of favorable unlocking for the three months ended September 30, 2017, as compared to $0.9 million of unfavorable unlocking for the three months ended September 30, 2016.

Amortization of DAC and VOBA

DAC and VOBA amortization favorably changed by $4.8 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The favorable changes in DAC and VOBA amortization were primarily due to favorable unlocking from lower lapse assumptions. DAC and VOBA unlocking for the three months ended September 30, 2017, was $12.9 million favorable as compared to $6.6 million favorable for the three months ended September 30, 2016.

Other operating expenses

Other operating expenses increased $1.8 million, or 5.0%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to higher non-deferred acquisition expense, maintenance and overhead, and non-deferred commission expense.

Sales

Total sales decreased $1.7 million, or 0.5%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Sales of variable annuities decreased $67.7 million, or 43.7% for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to disruptions in the broader market driven by regulatory rule changes and the relative competitiveness of our product within the market. Sales of fixed annuities increased by $66.0 million, or 36.5%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to an increase in single premium deferred annuities (“SPDA”) sales.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $161.6 million for the nine months ended September 30, 2017, as compared to $164.2 million for the nine months ended September 30, 2016, a decrease of $2.6 million, or 1.6%. This variance was primarily the result of an unfavorable change in SPIA mortality and higher non-deferred expenses, partially offset by increased interest spreads, growth in VA fee income, and favorable unlocking. Segment results were positively impacted by $14.9 million of favorable unlocking for the nine months ended September 30, 2017, as compared to $6.7 million of favorable unlocking for the nine months ended September 30, 2016.

Operating revenues

Segment operating revenues increased $8.1 million, or 2.0%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to higher policy fees and other income from the VA line of business. Those increases were partially offset by higher GLWB economic cost in the VA line of business and lower investment income. Average fixed account balances decreased 0.2% and average variable account balances increased 5.8% for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016.

Benefits and settlement expenses

Benefits and settlement expenses increased $0.4 million, or 0.2%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. This increase was primarily the result of an unfavorable

change in SPIA mortality partially offset by lower credited interest. Included in benefits and settlement expenses was $0.2 million of favorable unlocking for the nine months ended September 30, 2017, as compared to $0.1 million of unfavorable unlocking for the nine months ended September 30, 2016.

Amortization of DAC and VOBA

DAC and VOBA amortization unfavorably changed by $3.6 million, or 23.4%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The unfavorable changes in DAC and VOBA amortization were primarily due to higher fee income in the VA line of business and the runoff of negative VOBA in the fixed annuity lines of business. These changes were partially offset by a favorable change in unlocking. DAC and VOBA unlocking for the nine months ended September 30, 2017, was $14.7 million favorable as compared to $6.8 million favorable for the nine months ended September 30, 2016.

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Other operating expenses

Other operating expenses increased $6.8 million, or 6.6%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Increases in non-deferred acquisition and commission expenses were offset by lower non-deferred maintenance and overhead expense.

Sales

Total sales increased $88.8 million, or 8.5%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Sales of variable annuities decreased $156.2 million, or 32.5% for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to disruptions in the broader market driven by regulatory rule changes and the relative competitiveness of our product within the market. Sales of fixed annuities increased by $245.0 million, or 43.6%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to an increase in SPDA sales.

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Stable Value Products
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Net investment income	$49,962	$27,033	$130,816	$76,008
Other income	—	176	—	176
Total operating revenues	49,962	27,209	130,816	76,184
Realized gains (losses)	(29)	171	2,047	7,335
Total revenues	49,933	27,380	132,863	83,519
BENEFITS AND EXPENSES				
Benefits and settlement expenses	19,121	11,413	51,074	29,133
Amortization of deferred policy acquisition costs	607	359	1,613	713
Other operating expenses	2,242	737	3,871	2,012
Total benefits and expenses	21,970	12,509	56,558	31,858
INCOME BEFORE INCOME TAX	27,963	14,871	76,305	51,661
Less: realized gains (losses)	(29)	171	2,047	7,335
PRE-TAX ADJUSTED OPERATING INCOME	$27,992	$14,700	$74,258	$44,326

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Sales[1]				
GIC	$50,000	$4,800	$107,000	$61,800
GFA	900,000	650,000	1,650,000	1,550,000
	$950,000	$654,800	$1,757,000	$1,611,800
Average Account Values	$4,184,418	$2,928,148	$3,947,056	$2,524,249
Ending Account Values	$4,793,890	$3,412,041	$4,793,890	$3,412,041
Operating Spread				
Net investment income yield	4.79 %	3.71 %	4.43 %	4.08 %
Other income yield	—	0.02	—	0.01
Interest credited	1.83	1.56	1.73	1.55
Operating expenses	0.28	0.15	0.18	0.14
Operating spread	2.68 %	2.02 %	2.52 %	2.40 %
Adjusted operating spread[2]	1.49 %	1.82 %	1.73 %	1.78 %

(1) Sales are measured at the time the purchase payments are received.
(2) Excludes participating mortgage loan income.

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For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $28.0 million and increased $13.3 million, or 90.4%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase in adjusted operating earnings primarily resulted from an increase in average account values in addition to an increase in participating mortgage income. Participating mortgage income for the three months ended September 30, 2017, was $12.4 million as compared to $1.3 million for the three months ended September 30, 2016. The adjusted operating spread, which excludes participating income, decreased by 33 basis points for the three months ended September 30, 2017, from the prior year, due primarily to an increase in credited interest.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $74.3 million and increased $29.9 million, or 67.5%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase in adjusted operating earnings primarily resulted from an increase in average account values in addition to an increase in participating mortgage income. Participating mortgage income for the nine months ended September 30, 2017, was $23.6 million as compared to $10.5 million for the nine months ended September 30, 2016. The adjusted operating spread, which excludes participating income, decreased by five basis points for the nine months ended September 30, 2017, from the prior year, due primarily to an increase in credited interest.

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Asset Protection
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Gross premiums and policy fees	$84,955	$73,696	$258,760	$218,866
Reinsurance ceded	(45,867)	(42,411)	(142,398)	(123,494)
Net premiums and policy fees	39,088	31,285	116,362	95,372
Net investment income	7,043	5,568	20,100	16,275
Other income	37,472	32,453	109,686	89,394
Total operating revenues	83,603	69,306	246,148	201,041
Realized gains (losses) - investments	(6)	—	(6)	—
Total revenues	83,597	69,306	246,142	201,041
BENEFITS AND EXPENSES				
Benefits and settlement expenses	32,547	27,316	95,891	79,597
Amortization of DAC/VOBA	4,081	4,839	13,072	15,399
Other operating expenses	40,012	31,696	118,087	89,829
Total benefits and expenses	76,640	63,851	227,050	184,825
INCOME BEFORE INCOME TAX	6,957	5,455	19,092	16,216
Less: realized gains (losses) - investments	(6)	—	(6)	—
PRE-TAX ADJUSTED OPERATING INCOME	$6,963	$5,455	$19,098	$16,216

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Sales[1]				
Credit insurance	$3,880	$5,444	$11,759	$16,975
Service contracts	120,736	103,838	350,892	287,882
GAP	26,965	27,413	86,565	79,508
	$151,581	$136,695	$449,216	$384,365
Loss Ratios[2]				
Credit insurance	9.8%	33.5%	19.2%	32.9%
Service contracts	65.8	84.9	64.7	79.7
GAP	121.8	106.6	120.5	105.4

(1) Sales are based on the amount of single premiums and fees received
(2) Incurred claims as a percentage of earned premiums

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $7.0 million, representing an increase of $1.5 million, or 27.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Service contract

earnings increased $2.6 million primarily due to favorable loss ratios and the acquisition of US Warranty in the fourth quarter of 2016. Credit insurance

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earnings increased $0.2 million primarily due to lower loss ratios. Earnings from the GAP product line decreased $1.3 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.

Net premiums and policy fees

Net premiums and policy fees increased $7.8 million, or 24.9%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Service contract premiums increased $4.4 million primarily due to the addition of US Warranty business, somewhat offset by higher ceded premiums in existing distribution channels. GAP premiums increased $3.9 million primarily due to higher premium rates on existing business and the addition of US Warranty business. Credit insurance premiums decreased $0.5 million as a result of lower sales.

Other income

Other income increased $5.0 million, or 15.5%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to the addition of US Warranty business in the service contract and GAP lines.

Benefits and settlement expenses

Benefits and settlement expenses increased $5.2 million, or 19.1%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. GAP claims increased $6.4 million due to higher loss ratios and the acquisition of US Warranty. Credit insurance claims decreased $0.8 million due primarily to lower loss ratios and lower volume. Service contract claims decreased $0.4 million due to lower loss ratios, somewhat offset by the addition of claims from the US Warranty line.

Amortization of DAC and VOBA and Other operating expenses

Amortization of DAC and VOBA was $0.8 million, or 15.7%, lower for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to decreased amortization of in-force VOBA in the GAP product line and lower volume in the credit product line. Other operating expenses were $8.3 million, or 26.2%, higher for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to the acquisition of US Warranty.

Sales

Total segment sales increased $14.9 million, or 10.9%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. Service contract sales increased $16.9 million due to the additional volume provided by US Warranty. Credit insurance sales decreased $1.6 million due to decreasing demand for the product. GAP sales decreased $0.4 million due to lower production in existing distribution channels offset by sales from US Warranty.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $19.1 million, representing an increase of $2.9 million, or 17.8%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Service contract earnings increased $7.3 million primarily due to favorable loss ratios and the acquisition of US Warranty in the fourth quarter of 2016. Credit insurance earnings increased $0.5 million primarily due to lower loss ratios. Earnings from the GAP product line decreased $5.0 million primarily resulting from higher loss ratios, somewhat offset by additional income provided by US Warranty.

Net premiums and policy fees

Net premiums and policy fees increased $21.0 million, or 22.0%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. GAP premiums increased $12.1 million primarily due to higher premium rates on existing business and the addition of US Warranty business. Service contract premiums increased $10.2 million primarily due to the addition of US Warranty business, somewhat offset by higher ceded premiums in existing distribution channels. Credit insurance premiums decreased $1.3 million as a result of lower sales.

Other income

Other income increased $20.3 million, or 22.7 %, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to the addition of US Warranty business in the service contract and GAP lines.

Benefits and settlement expenses

Benefits and settlement expenses increased $16.3 million, or 20.5%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. GAP claims increased $19.4 million due to higher loss ratios and the acquisition of US Warranty. Credit insurance claims decreased $1.6 million due primarily to lower loss ratios and lower volume. Service contract claims decreased $1.5 million primarily due to lower loss ratios, somewhat offset by the addition of claims from the US Warranty line.

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Amortization of DAC and VOBA and Other operating expenses

Amortization of DAC and VOBA was $2.3 million, or 15.1%, lower for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to decreased amortization of in-force VOBA in the GAP product line and lower volume in the credit product line. Other operating expenses were $28.3 million higher for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to the acquisition of US Warranty.

Sales

Total segment sales increased $64.9 million, or 16.9%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. Service contract sales increased $63.0 million due to the additional volume provided by US Warranty. GAP sales increased $7.1 million due to higher sales in existing distribution channels and US Warranty. Credit insurance sales decreased $5.2 million due to decreasing demand for the product.

Reinsurance

The majority of the Asset Protection segment's reinsurance activity relates to the cession of single premium credit life and credit accident and health insurance, vehicle service contracts, and guaranteed asset protection insurance to producer affiliated reinsurance companies ("PARCs"). These arrangements are coinsurance contracts ceding the business on a first dollar quota share basis at 100% to limit our exposure and allow the PARCs to share in the underwriting income of the product. Reinsurance contracts do not relieve us from our obligations to our policyholders. We also carry a catastrophic reinsurance policy for our GAP program. Losses incurred as a result of the recent hurricanes are covered under this policy. We believe losses from these catastrophes, net of reinsurance, will have an immaterial impact on our results of operations. A more detailed discussion of the components of reinsurance can be found in the Reinsurance section of Note 2, Summary of Significant Accounting Policies to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Impact of Reinsurance

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

Asset Protection Segment

Line Item Impact of Reinsurance

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Reinsurance ceded	$(45,867)	$(42,411)	$(142,398)	$(123,494)
BENEFITS AND EXPENSES				
Benefits and settlement expenses	(24,290)	(18,451)	(62,818)	(56,222)
Amortization of DAC/VOBA	(804)	(501)	(2,298)	(1,308)
Other operating expenses	(845)	(1,218)	(3,126)	(3,550)
Total benefits and expenses	(25,939)	(20,170)	(68,242)	(61,080)
NET IMPACT OF REINSURANCE[1]	$(19,928)	$(22,241)	$(74,156)	$(62,414)

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

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016

Reinsurance premiums ceded increased $3.5 million, or 8.1%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase was primarily due to an increase in ceded service contract premiums.

Benefits and settlement expenses ceded increased $5.8 million, or 31.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase was primarily due to higher ceded losses in the service contract product line and GAP product line.

Amortization of DAC and VOBA ceded increased $0.3 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, as the result of ceded activity in all product lines. Other operating expenses ceded decreased $0.4 million for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, due to ceded activity in all product lines.

Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business we cede. The net investment

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income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated financial statements.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016
Reinsurance premiums ceded increased $18.9 million, or 15.3%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase was primarily due to an increase in ceded service contract and GAP premiums.
Benefits and settlement expenses ceded increased $6.6 million, or 11.7%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase was primarily due to higher ceded losses in the GAP product line, somewhat offset by a decrease in ceded losses in the service contract and credit product line.
Amortization of DAC and VOBA ceded increased $1.0 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, as the result of ceded activity in all product lines. Other operating expenses ceded decreased $0.4 million for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016 due to ceded activity in all product lines.
Net investment income has no direct impact on reinsurance cost. However, by ceding business to the assuming companies, we forgo investment income on the reserves ceded. Conversely, the assuming companies will receive investment income on the reserves assumed which generally will increase the assuming companies' profitability on business we cede. The net investment income impact to us and the assuming companies has not been quantified as it is not reflected in our consolidated financial statements.

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Corporate and Other
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
REVENUES				
Gross premiums and policy fees	$3,103	$3,400	$9,643	$10,606
Reinsurance ceded	10	(60)	(72)	(201)
Net premiums and policy fees	3,113	3,340	9,571	10,405
Net investment income	51,988	43,838	157,482	151,734
Other income	480	2,653	2,757	10,541
Total operating revenues	55,581	49,831	169,810	172,680
Realized gains (losses) - investments	(2,232)	1,418	(6,430)	(2,860)
Realized gains (losses) - derivatives	37	473	(1,338)	1,056
Total revenues	53,386	51,722	162,042	170,876
BENEFITS AND EXPENSES				
Benefits and settlement expenses	4,261	5,404	11,074	14,180
Amortization of DAC and VOBA	—	—	—	—
Other operating expenses	78,190	74,201	226,202	218,731
Total benefits and expenses	82,451	79,605	237,276	232,911
INCOME (LOSS) BEFORE INCOME TAX	(29,065)	(27,883)	(75,234)	(62,035)
Less: realized gains (losses) - investments	(2,232)	1,418	(6,430)	(2,860)
Less: realized gains (losses) - derivatives	37	473	(1,338)	1,056
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	$(26,870)	$(29,774)	$(67,466)	$(60,231)

For The Three Months Ended September 30, 2017, as compared to The Three Months Ended September 30, 2016
Pre-tax adjusted operating income (loss)
Pre-tax adjusted operating loss was $26.9 million for the three months ended September 30, 2017, as compared to a pre-tax adjusted operating loss of $29.8 million for the three months ended September 30, 2016. The increase was primarily due to an increase in investment income due to an increase in invested assets and investment yields.
Operating revenues
Net investment income for the segment increased $8.2 million, or 18.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016. The increase in net investment income was primarily due to an increase in invested assets and investment yields.
Total benefits and expenses
Total benefits and expenses increased $2.9 million or 3.6%, for the three months ended September 30, 2017, as compared to the three months ended September 30, 2016, primarily due to increases in corporate overhead expenses.

For The Nine Months Ended September 30, 2017, as compared to The Nine Months Ended September 30, 2016
Pre-tax adjusted operating income (loss)
Pre-tax adjusted operating loss was $67.5 million for the nine months ended September 30, 2017, as compared to an adjusted pre-tax operating loss of $60.2 million for the nine months ended September 30, 2016. The decrease was attributable to a $7.8 million decrease in Other Income related to gains on the extinguishment of debt.

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Operating revenues

Net investment income for the segment increased $5.7 million, or 3.7%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016. The increase in net investment income was primarily due to an increase in invested assets and investment yields.

Other income

Other income decreased $7.8 million or 73.8% due to decreases in the gains on the extinguishment of debt.

Total benefits and expenses

Total benefits and expenses increased $4.4 million or 1.9%, for the nine months ended September 30, 2017, as compared to the nine months ended September 30, 2016, primarily due to increases in corporate overhead expenses.

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CONSOLIDATED INVESTMENTS

As of September 30, 2017, our investment portfolio was approximately $54.1 billion. The types of assets in which we may invest are influenced by various state insurance laws which prescribe qualified investment assets. Within the parameters of these laws, we invest in assets giving consideration to such factors as liquidity and capital needs, investment quality, investment return, matching of assets and liabilities, and the overall composition of the investment portfolio by asset type and credit exposure. We do not have material exposure to financial guarantee insurance companies with respect to our investment portfolio.

Within our fixed maturity investments, we maintain portfolios classified as “available-for-sale”, “trading”, and “held-to-maturity”. We purchase our available-for-sale investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, we may sell any of our available-for-sale and trading investments to maintain proper matching of assets and liabilities. Accordingly, we classified $38.1 billion, or 87.5%, of our fixed maturities as “available-for-sale” as of September 30, 2017. These securities are carried at fair value on our consolidated condensed balance sheets. Changes in fair value for our available-for-sale portfolio, net of tax and the related impact on certain insurance assets and liabilities are recorded directly to shareowner’s equity. Declines in fair value that are other-than-temporary are recorded as realized losses in the consolidated condensed statements of income, net of any applicable non-credit component of the loss, which is recorded as an adjustment to other comprehensive income (loss).

Trading securities are carried at fair value and changes in fair value are recorded on the income statement as they occur. Our trading portfolio accounted for $2.7 billion, or 6.2%, of our fixed maturities and $44.3 million of short-term investments as of September 30, 2017. Changes in fair value on the Modco trading portfolios, including gains and losses from sales, are passed to third party reinsurers through the contractual terms of the related reinsurance arrangements. Partially offsetting these amounts are corresponding changes in the fair value of the embedded derivative associated with the underlying reinsurance arrangement.

Fixed maturities with respect to which we have both the positive intent and ability to hold to maturity are classified as “held-to-maturity”. We classified $2.7 billion, or 6.3%, of our fixed maturities as “held-to-maturity” as of September 30, 2017. These securities are carried at amortized cost on our consolidated condensed balance sheets.

Fair values for private, non-traded securities are determined as follows: 1) we obtain estimates from independent pricing services and 2) we estimate fair value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. We analyze the independent pricing services valuation methodologies and related inputs, including an assessment of the observability of market inputs. Upon obtaining this information related to fair value, management makes a determination as to the appropriate valuation amount. For more information about the fair values of our investments please refer to Note 5, Fair Value of Financial Instruments, to the financial statements.

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

	As of				
	September 30, 2017			December 31, 2016	
	(Dollars In Thousands)				
Publicly issued bonds (amortized cost: 2017 - $31,259,653; 2016 - $30,523,193)	$30,942,595	57.3	%	$29,184,566	57.6 %
Privately issued bonds (amortized cost: 2017 - $12,464,390; 2016 - $11,981,360)	12,471,147	23.1		11,679,121	23.0
Preferred stock (amortized cost: 2017 - $97,590; 2016 - $98,348)	95,069	0.2		89,827	0.3
Fixed maturities	43,508,811	80.6	%	40,953,514	80.9 %
Equity securities (cost: 2017 - $763,914; 2016 - $768,423)	781,537	1.4		754,489	1.5
Mortgage loans	6,528,890	12.1		6,132,125	12.1
Investment real estate	4,572	—		8,060	—
Policy loans	1,625,960	3.0		1,650,240	3.3
Other long-term investments	1,113,937	2.1		865,304	1.7
Short-term investments	527,179	0.8		332,431	0.5

Total investments	$54,090,886	100.0%	$50,696,163	100.0%

Included in the preceding table are $2.7 billion and $2.6 billion of fixed maturities and $44.3 million and $52.6 million of short-term investments classified as trading securities as of September 30, 2017 and December 31, 2016, respectively. All of the fixed maturities in the trading portfolio are invested assets that are held pursuant to Modco arrangements under which the economic risks and benefits of the investments are passed to third party reinsurers. Also included above are $2.7 billion and $2.8 billion of securities classified as held-to-maturity as of September 30, 2017 and December 31, 2016, respectively.

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Fixed Maturity Investments

As of September 30, 2017, our fixed maturity investment holdings were approximately $43.5 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	As of September 30, 2017		December 31, 2016	
	(Dollars In Thousands)			
AAA	$5,640,828	13.0 %	$5,241,698	12.8 %
AA	3,598,786	8.3	3,500,090	8.5
A	13,622,604	31.3	12,748,585	31.1
BBB	15,759,883	36.1	14,471,125	35.4
Below investment grade	2,155,715	5.0	2,221,839	5.4
Not rated[(1)]	2,730,995	6.3	2,770,177	6.8
	$43,508,811	100.0%	$40,953,514	100.0%

(1) Our "not rated" securities are $2.7 billion or 6.3% of our fixed maturity investments, of held-to-maturity securities issued by affiliates of the Company which are considered variable interest entities ("VIE's") and are discussed in Note 4, Investment Operations, to the consolidated condensed financial statements. We are not the primary beneficiary of these entities and thus these securities are not eliminated in consolidation. These securities are collateralized by non-recourse funding obligations issued by captive insurance companies that are wholly owned subsidiaries of the Company.

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

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

Type	As of September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
Corporate securities	$31,164,109	$28,996,154
Residential mortgage-backed securities	2,454,316	2,153,510
Commercial mortgage-backed securities	2,067,082	1,961,153
Other asset-backed securities	1,333,280	1,411,617
U.S. government-related securities	1,320,547	1,295,120
Other government-related securities	318,403	302,933
States, municipals, and political subdivisions	2,025,010	1,973,022
Preferred stock	95,069	89,828
Securities issued by affiliates	2,730,995	2,770,177
Total fixed income portfolio	$43,508,811	$40,953,514

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

	As of September 30, 2017	% Fair Value	As of December 31, 2016	% Fair Value
	(Dollars In Thousands)			
Banking	$4,381,478	10.1 %	$3,857,746	9.4 %
Other finance	79,836	0.2	83,895	0.2
Electric utility	3,976,703	9.1	3,929,300	9.6
Energy	3,964,819	9.1	3,897,950	9.5
Natural gas	720,472	1.6	603,149	1.5
Insurance	3,647,574	8.4	3,197,348	7.8
Communications	1,709,392	3.9	1,654,630	4.0
Basic industrial	1,623,790	3.7	1,536,879	3.8
Consumer noncyclical	3,827,046	8.8	3,483,948	8.5
Consumer cyclical	1,145,040	2.6	1,050,529	2.6
Finance companies	146,817	0.3	139,050	0.3
Capital goods	1,853,251	4.3	1,779,590	4.3
Transportation	1,171,433	2.7	1,144,450	2.8
Other industrial	224,436	0.5	200,605	0.5
Brokerage	851,862	2.0	769,663	1.9
Technology	1,785,981	4.1	1,551,826	3.8
Real estate	83,513	0.2	122,058	0.3
Other utility	65,735	0.2	83,366	0.2
Commercial mortgage-backed securities	2,067,082	4.8	1,961,153	4.8
Other asset-backed securities	1,333,280	3.1	1,411,617	3.4
Residential mortgage-backed non-agency securities	1,699,166	3.9	1,423,735	3.5
Residential mortgage-backed agency securities	755,150	1.7	729,775	1.8
U.S. government-related securities	1,320,547	3.0	1,295,120	3.2
Other government-related securities	318,403	0.7	302,933	0.7
State, municipals, and political divisions	2,025,010	4.7	1,973,022	4.8
Securities issued by affiliates	2,730,995	6.3	2,770,177	6.8
Total	$43,508,811	100.0%	$40,953,514	100.0%

The total Modco trading portfolio fixed maturities by rating is as follows:

Rating	As of September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
AAA	$351,042	$341,364
AA	293,864	301,258
A	867,936	849,286
BBB	927,524	884,850
Below investment grade	240,713	263,102
Total Modco trading fixed maturities	$2,681,079	$2,639,860

A portion of our bond portfolio is invested in residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”). ABS are securities that are backed by a pool of assets. These holdings as of September 30, 2017, were approximately $5.9 billion. Mortgage-backed securities (“MBS”) are constructed from pools of mortgages and may have cash flow volatility as a result of changes in the rate at which prepayments of principal occur with respect to the underlying loans. Excluding limitations on access to lending and other extraordinary economic conditions,

prepayments of principal on the underlying loans can be expected to accelerate with decreases in market interest rates and diminish with increases in interest rates.

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The following tables include the percentage of our collateral grouped by rating category and categorizes the estimated fair value by year of security origination for our Prime, Non-Prime, Commercial, and Other asset-backed securities as of September 30, 2017 and December 31, 2016.

	As of September 30, 2017									
	Prime[1]		Non-Prime[1]		Commercial		Other asset-backed		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(Dollars In Millions)									
Rating $										
AAA	$2,114.9	$2,112.3	$—	$—	$1,242.3	$1,250.8	$643.4	$648.4	$4,000.6	$4,011.5
AA	1.6	1.6	—	—	534.7	543.8	115.2	108.2	651.5	653.6
A	2.4	2.4	21.8	22.0	286.7	287.5	478.1	476.5	789.0	788.4
BBB	1.7	1.6	3.0	3.1	3.4	3.4	19.8	19.8	27.9	27.9
Below	96.5	95.6	212.4	211.0	—	—	76.8	76.2	385.7	382.8
	$2,217.1	$2,213.5	$237.2	$236.1	$2,067.1	$2,085.5	$1,333.3	$1,329.1	$5,854.7	$5,864.2
Rating %										
AAA	95.4 %	95.4 %	— %	— %	60.1 %	60.0 %	48.2 %	48.8 %	68.3 %	68.4 %
AA	0.1	0.1	—	—	25.9	26.1	8.6	8.1	11.1	11.1
A	0.1	0.1	9.2	9.3	13.8	13.7	35.9	35.9	13.5	13.4
BBB	0.1	0.1	1.3	1.3	0.2	0.2	1.5	1.5	0.5	0.5
Below	4.3	4.3	89.5	89.4	—	—	5.8	5.7	6.6	6.6
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Estimated Fair Value of Security by Year of Security Origination										
2013 and prior	$930.0	$925.1	$237.2	$236.1	$1,046.7	$1,055.7	$819.6	$820.1	$3,033.5	$3,037.0
2014	197.5	195.0	—	—	239.5	244.2	31.8	32.4	468.8	471.6
2015	463.0	462.6	—	—	214.2	212.0	53.6	52.2	730.8	726.8
2016	236.2	240.8	—	—	469.1	475.7	249.0	246.1	954.3	962.6
2017	390.4	390.0	—	—	97.6	97.9	179.3	178.3	667.3	666.2
Total	$2,217.1	$2,213.5	$237.2	$236.1	$2,067.1	$2,085.5	$1,333.3	$1,329.1	$5,854.7	$5,864.2

(1) Included in Residential Mortgage-Backed securities.

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	As of December 31, 2016									
	Prime[1]		Non-Prime[1]		Commercial		Other asset-backed		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
	(Dollars In Millions)									
Rating										
$										
AAA	$1,767.5	$1,779.9	$—	$—	$1,167.9	$1,186.7	$727.3	$732.6	$3,662.7	$3,699.2
AA	3.1	3.1	—	—	517.0	532.9	125.2	117.8	645.3	653.8
A	2.8	2.8	0.5	0.5	266.5	270.9	426.4	428.6	696.2	702.8
BBB	2.2	2.2	1.8	1.9	9.8	9.8	34.6	34.7	48.4	48.6
Below	118.1	117.9	257.5	260.1	—	—	98.1	96.9	473.7	474.9
	$1,893.7	$1,905.9	$259.8	$262.5	$1,961.2	$2,000.3	$1,411.6	$1,410.6	$5,526.3	$5,579.3
Rating										
%										
AAA	93.3 %	93.4 %	— %	— %	59.6 %	59.4 %	51.5 %	51.9 %	66.3 %	66.3 %
AA	0.2	0.2	—	—	26.4	26.6	8.9	8.4	11.7	11.7
A	0.1	0.1	0.2	0.2	13.5	13.5	30.2	30.4	12.6	12.6
BBB	0.1	0.1	0.7	0.7	0.5	0.5	2.5	2.5	0.9	0.9
Below	6.3	6.2	99.1	99.1	—	—	6.9	6.8	8.5	8.5
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Estimated Fair Value of Security by Year of Security Origination										
2012 and prior	$845.2	$845.2	$259.8	$262.5	$825.5	$837.1	$828.7	$828.9	$2,759.2	$2,773.7
2013	166.5	168.0	—	—	231.2	235.7	98.6	98.8	496.3	502.5
2014	205.0	205.0	—	—	238.2	246.9	168.4	168.4	611.6	620.3
2015	461.2	464.6	—	—	210.9	211.6	66.2	64.6	738.3	740.8
2016	215.8	223.1	—	—	455.4	469.0	249.7	249.9	920.9	942.0
Total	$1,893.7	$1,905.9	$259.8	$262.5	$1,961.2	$2,000.3	$1,411.6	$1,410.6	$5,526.3	$5,579.3

(1) Included in Residential Mortgage-Backed securities

The majority of our RMBS holdings as of September 30, 2017, were super senior or senior bonds in the capital structure. Our total non-agency portfolio has a weighted-average life of 10.15 years. The following table categorizes the weighted-average life for our non-agency portfolio, by category of material holdings, as of September 30, 2017:

Non-agency portfolio	Weighted-Average Life
Prime	10.83
Alt-A	2.63
Sub-prime	2.27

Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of September 30, 2017, our mortgage loan holdings were approximately $6.5 billion. We have specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. Our underwriting procedures relative to our commercial loan portfolio are based, in our view, on a conservative and disciplined approach. We concentrate on a small number of commercial real estate asset types associated with the necessities of

life (retail, multi-family, senior living, professional office buildings, and warehouses). We believe that these asset types tend to weather economic downturns better than other commercial asset classes in which we have chosen not to participate. We believe this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout our history. The majority of our mortgage loans portfolio was underwritten and funded by us. From time to time, we may acquire loans in conjunction with an acquisition.

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

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Certain of the mortgage loans have call options that occur within the next 12 years. However, if interest rates were to significantly increase, we may be unable to exercise the call options on our existing mortgage loans commensurate with the significantly increased market rates. As of September 30, 2017, assuming the loans are called at their next call dates, approximately $54.7 million of principal would become due for the remainder of 2017, $976.2 million in 2018 through 2022, $124.6 million in 2023 through 2027, and $9.9 million thereafter.

We offer a type of commercial mortgage loan under which we will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of September 30, 2017 and December 31, 2016, approximately $715.2 million and $595.2 million, respectively, of our total mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and nine months ended September 30, 2017 and 2016, we recognized $14.2 million, $25.7 million, $3.3 million, and $15.8 million, respectively, of participating mortgage loan income.

We record mortgage loans net of an allowance for credit losses. This allowance is calculated through analysis of specific loans that have indicators of potential impairment based on current information and events. As of September 30, 2017 and December 31, 2016, there were $1.1 million and $0.7 million of allowances for mortgage loan credit losses, respectively. While our mortgage loans do not have quoted market values, as of September 30, 2017, we estimated the fair value of our mortgage loans to be $6.5 billion (using an internal fair value model which calculates the value of most loans by using the loan's discounted cash flows to the loan's call or maturity date), which was approximately 0.63% less than the amortized cost, less any related loan loss reserve.

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

As of September 30, 2017, approximately $3.1 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. We do not expect these investments to adversely affect our liquidity or ability to maintain proper matching of assets and liabilities. During the nine months ended September 30, 2017, certain mortgage loan transactions occurred that would have been accounted for as troubled debt restructurings. For all mortgage loans, the impact of troubled debt restructurings is reflected in our investment balance and in the allowance for mortgage loan credit losses. During the nine months ended September 30, 2017, we recognized two troubled debt restructurings as a result of the Company granting concessions to borrowers which included loan terms unavailable from other lenders. These concessions were the result of agreements between the creditor and the debtor. We did not identify any loans whose principal was permanently impaired during the nine months ended September 30, 2017.

Our mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of September 30, 2017, $3.1 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming mortgage loans, restructured, or mortgage loans that were foreclosed and were converted to real estate properties. We did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the nine months ended September 30, 2017.

As of September 30, 2017, none of the loans subject to a pooling and servicing agreement were nonperforming or restructured. We did not foreclose on any nonperforming loans subject to a pooling and servicing agreement during the nine months ended September 30, 2017.

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

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

Unrealized Gains and Losses — Available-for-Sale Securities

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after September 30, 2017, the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. Management considers a number of factors in determining if an unrealized loss is other-than-temporary, including the expected cash to be collected and the intent, likelihood, and/or ability to hold the security until recovery. Consistent with our long-standing practice, we do not utilize a “bright line test” to determine other-than-temporary impairments. On a quarterly basis, we perform an analysis on every security with an unrealized loss to determine if an other-than-temporary impairment has occurred. This analysis includes reviewing several metrics including collateral, expected cash flows, ratings, and liquidity. Furthermore, since the timing of recognizing realized gains and losses is largely based on management’s decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain/(loss) position of the portfolio. We had an overall net unrealized loss of $295.2 million, prior to tax and the related impact of certain insurance assets and liabilities offsets, as of September 30, 2017, and an overall net unrealized loss of $1.7 billion as of December 31, 2016.

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For fixed maturity and equity securities held that are in an unrealized loss position as of September 30, 2017, the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position are presented in the table below:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
<= 90 days	$5,243,594	23.6 %	$5,279,722	22.8 %	$(36,128)	4.2 %
>90 days but <= 180 days	228,235	1.0	233,182	1.0	(4,947)	0.6
>180 days but <= 270 days	266,193	1.2	274,333	1.2	(8,140)	0.9
>270 days but <= 1 year	6,731,343	30.3	6,920,677	29.9	(189,334)	21.9
>1 year but <= 2 years	792,490	3.6	831,757	3.6	(39,267)	4.5
>2 years but <= 3 years	8,983,871	40.3	9,569,236	41.5	(585,365)	67.9
>3 years but <= 4 years	—	—	—	—	—	—
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	$22,245,726	100.0%	$23,108,907	100.0 %	$(863,181)	100.0 %

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

As of September 30, 2017, the Barclays Investment Grade Index was priced at 98 bps versus a 10 year average of 178 bps. Similarly, the Barclays High Yield Index was priced at 370 bps versus a 10 year average of 656 bps. As of September 30, 2017, the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 1.9%, 2.3%, and 2.9%, as compared to 10 year averages of 1.7%, 2.6%, and 3.5%, respectively.

As of September 30, 2017, 93.1% of the unrealized loss was associated with securities that were rated investment grade. We have examined the performance of the underlying collateral and cash flows and expect that our investments will continue to perform in accordance with their contractual terms. Factors such as credit enhancements within the deal structures and the underlying collateral performance/characteristics support the recoverability of the investments. Based on the factors discussed, we do not consider these unrealized loss positions to be other-than-temporary. However, from time to time, we may sell securities in the ordinary course of managing our portfolio to meet diversification, credit quality, yield enhancement, asset/liability management, and liquidity requirements.

Expectations that investments in mortgage-backed and asset-backed securities will continue to perform in accordance with their contractual terms are based on assumptions that a market participant would use in determining the current fair value. It is reasonably possible that the underlying collateral of these investments will perform worse than current market expectations and that such an event may lead to adverse changes in the cash flows on our holdings of these types of securities. This could lead to potential future write-downs within our portfolio of mortgage-backed and asset-backed securities. Expectations that our investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through our normal credit surveillance process. Although we do not anticipate such events, it is reasonably possible that issuers of our investments in corporate securities will perform worse than current expectations. Such events may lead us to recognize potential future write-downs within our portfolio of corporate securities. It is also possible that such unanticipated events would lead us to dispose of those certain holdings and recognize the effects of any such market movements in our financial statements.

As of September 30, 2017, there were estimated gross unrealized losses of $1.6 million related to our mortgage-backed securities collateralized by Alt-A mortgage loans.

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We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of September 30, 2017, is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
Banking	$1,443,113	6.5 %	$1,467,879	6.4 %	$(24,766)	2.9 %
Other finance	65,241	0.3	68,219	0.3	(2,978)	0.3
Electric utility	3,043,060	13.7	3,210,920	13.9	(167,860)	19.4
Energy	1,597,682	7.2	1,682,342	7.3	(84,660)	9.8
Natural gas	588,544	2.6	619,028	2.7	(30,484)	3.5
Insurance	2,238,831	10.1	2,314,403	10.0	(75,572)	8.8
Communications	1,195,917	5.4	1,273,219	5.5	(77,302)	9.0
Basic industrial	722,518	3.2	756,203	3.3	(33,685)	3.9
Consumer noncyclical	2,090,569	9.4	2,166,045	9.4	(75,476)	8.7
Consumer cyclical	644,643	2.9	671,045	2.9	(26,402)	3.1
Finance companies	27,413	0.1	29,411	0.1	(1,998)	0.2
Capital goods	1,021,495	4.6	1,062,302	4.6	(40,807)	4.7
Transportation	712,052	3.2	744,331	3.2	(32,279)	3.7
Other industrial	151,884	0.7	161,350	0.7	(9,466)	1.1
Brokerage	356,436	1.6	364,591	1.6	(8,155)	0.9
Technology	606,798	2.7	629,082	2.7	(22,284)	2.6
Real estate	35,526	0.5	35,851	0.2	(325)	—
Other utility	16,257	0.1	17,094	0.1	(837)	0.1
Commercial mortgage-backed securities	1,442,327	6.5	1,466,897	6.3	(24,570)	2.8
Other asset-backed securities	372,844	1.7	386,332	1.7	(13,488)	1.6
Residential mortgage-backed non-agency securities	798,758	3.6	811,727	3.5	(12,969)	1.5
Residential mortgage-backed agency securities	334,309	1.5	338,687	1.5	(4,378)	0.6
U.S. government-related securities	1,176,479	5.3	1,202,812	5.2	(26,333)	3.1
Other government-related securities	128,539	0.6	135,374	0.6	(6,835)	0.8
States, municipals, and political divisions	1,434,491	6.0	1,493,763	6.3	(59,272)	6.9
Total	$22,245,726	100.0%	$23,108,907	100.0 %	$(863,181)	100.0 %

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We have no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held as of December 31, 2016, is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
Banking	$3,106,898	10.6 %	$3,214,957	10.3 %	$(108,059)	5.8 %
Other finance	65,883	0.2	69,729	0.2	(3,846)	0.2
Electric utility	3,412,425	11.7	3,727,811	12.0	(315,386)	16.9
Energy	2,714,073	9.3	2,892,598	9.3	(178,525)	9.6
Natural gas	542,654	1.9	593,355	1.9	(50,701)	2.7
Insurance	2,864,965	9.8	3,101,797	10.0	(236,832)	12.7
Communications	1,466,405	5.0	1,607,756	5.2	(141,351)	7.6
Basic industrial	1,149,208	3.9	1,236,848	4.0	(87,640)	4.7
Consumer noncyclical	2,636,679	9.0	2,822,430	9.1	(185,751)	10.0
Consumer cyclical	770,269	2.6	814,406	2.6	(44,137)	2.4
Finance companies	64,490	0.2	69,077	0.2	(4,587)	0.2
Capital goods	1,393,935	4.8	1,480,205	4.8	(86,270)	4.6
Transportation	954,836	3.3	1,018,546	3.3	(63,710)	3.4
Other industrial	163,993	0.6	176,558	0.6	(12,565)	0.7
Brokerage	516,318	1.8	550,112	1.8	(33,794)	1.8
Technology	949,675	3.2	1,003,894	3.2	(54,219)	2.9
Real estate	126,156	0.5	131,715	0.4	(5,559)	0.3
Other utility	17,326	0.1	18,516	0.1	(1,190)	0.1
Commercial mortgage-backed securities	1,552,621	5.3	1,594,299	5.1	(41,678)	2.2
Other asset-backed securities	500,497	1.7	521,195	1.7	(20,698)	1.1
Residential mortgage-backed non-agency securities	965,399	3.3	985,142	3.2	(19,743)	1.1
Residential mortgage-backed agency securities	265,996	0.9	271,920	0.9	(5,924)	0.3
U.S. government-related securities	1,237,945	4.2	1,278,400	4.1	(40,455)	2.2
Other government-related securities	177,805	0.6	192,602	0.6	(14,797)	0.8
States, municipals, and political divisions	1,610,621	5.5	1,716,179	5.4	(105,558)	5.7
Total	$29,227,072	100.0%	$31,090,047	100.0 %	$(1,862,975)	100.0 %

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The range of maturity dates for securities in an unrealized loss position as of September 30, 2017, varies, with 14.8% maturing in less than 5 years, 16.0% maturing between 5 and 10 years, and 69.2% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of September 30, 2017:

S&P or Equivalent Designation	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
AAA/AA/A	$13,657,954	61.4 %	$14,097,720	61.0 %	$(439,766)	50.9 %
BBB	7,928,659	35.6	8,293,038	35.8	(364,379)	42.2
Investment grade	21,586,613	97.0 %	22,390,758	96.8 %	(804,145)	93.1 %
BB	355,087	1.6	381,427	1.7	(26,340)	3.1
B	220,235	1.0	249,675	1.1	(29,440)	3.4
CCC or lower	83,791	0.4	87,047	0.4	(3,256)	0.4
Below investment grade	659,113	3.0 %	718,149	3.2 %	(59,036)	6.9 %
Total	$22,245,726	100.0%	$23,108,907	100.0 %	$(863,181)	100.0 %

As of September 30, 2017, we held a total of 1,742 positions that were in an unrealized loss position. Included in that amount were 89 positions of below investment grade securities with a fair value of $659.1 million that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were $59.0 million, $52.5 million of which had been in an unrealized loss position for more than twelve months. Below investment grade securities in an unrealized loss position were 1.2% of invested assets. We have the ability and intent to hold these securities to maturity. After a review of each security and its expected cash flows, we believe the decline in market value to be temporary.

The following table includes the fair value, amortized cost, unrealized loss, and total time period that the security has been in an unrealized loss position for all below investment grade securities as of September 30, 2017:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
<= 90 days	$124,880	18.9 %	$127,411	17.7 %	$(2,531)	4.3 %
>90 days but <= 180 days	23,503	3.6	24,306	3.4	(803)	1.4
>180 days but <= 270 days	1,320	0.2	1,609	0.2	(289)	0.5
>270 days but <= 1 year	57,566	8.7	60,461	8.4	(2,895)	4.9
>1 year but <= 2 years	15,142	2.3	15,742	2.2	(600)	1.0
>2 years but <= 3 years	436,702	66.3	488,620	68.1	(51,918)	87.9
>3 years but <= 4 years	—	—	—	—	—	—
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	$659,113	100.0%	$718,149	100.0 %	$(59,036)	100.0 %

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Risk Management and Impairment Review

We monitor the overall credit quality of our portfolio within established guidelines. The following table includes our available-for-sale fixed maturities by credit rating as of September 30, 2017:

Rating	Fair Value	Percent of Fair Value
	(Dollars In Thousands)	
AAA	$ 5,289,786	13.9 %
AA	3,304,923	8.7
A	12,754,667	33.5
BBB	14,832,359	38.9
Investment grade	36,181,735	95.0
BB	1,369,259	3.6
B	301,762	0.8
CCC or lower	243,981	0.6
Below investment grade	1,915,002	5.0
Total	$ 38,096,737	100.0 %

Not included in the table above are $2.4 billion of investment grade and $240.7 million of below investment grade fixed maturities classified as trading securities and $2.7 billion of fixed maturities classified as held-to-maturity.

Limiting bond exposure to any creditor group is another way we manage credit risk. We held no credit default swaps on the positions listed below as of September 30, 2017. The following table summarizes our ten largest fixed maturity exposures to an individual creditor group as of September 30, 2017:

Creditor	Fair Value of Funded Securities	Unfunded Exposures	Total Fair Value
	(Dollars In Millions)		
Federal Home Loan Bank	$230.3	$ —	$ 230.3
The Southern Co	215.7	—	215.7
Duke Energy Corp	207.3	—	207.3
AT&T Inc	206.7	—	206.7
JPMorgan Chase & Co	199.5	6.6	206.1
Wells Fargo & Co	200.3	—	200.3
Morgan Stanley	199.5	—	199.5
Goldman Sachs Group Inc	197.3	—	197.3
Exelon Corp	196.7	—	196.7
HSBC Holdings PLC	195.3	—	195.3
Total	$2,048.6	$ 6.6	$ 2,055.2

Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value is both objective and subjective, and can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. We review our positions on a monthly basis for possible credit concerns and review our current exposure, credit enhancement, and delinquency experience.

Management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Since it is possible for the impairment of one investment to affect other investments, we engage in ongoing risk management to safeguard against and limit any further risk to our investment portfolio. Special attention is given to correlative risks within specific industries, related parties, and business markets.

For certain securitized financial assets with contractual cash flows, including RMBS, CMBS, and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”), GAAP requires us to periodically update our best estimate of cash flows over the life of the security. If the fair value of a securitized financial asset is less than its cost or amortized cost and there has been a decrease in the present value of the expected cash flows since the last

revised estimate, considering both timing and amount, an other-than-temporary impairment charge is recognized. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. Projections of expected future cash flows may change based upon

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new information regarding the performance of the underlying collateral. In addition, we consider our intent and ability to retain a temporarily depressed security until recovery.

Securities in an unrealized loss position are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. We consider a number of factors in determining whether the impairment is other-than-temporary. 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 our intent to sell the security (including a more likely than not assessment of whether we 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 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, along with an analysis regarding our expectations for recovery of the security's entire amortized cost basis through the receipt of future cash flows. Based on our analysis, for the three and nine months ended September 30, 2017, we recognized approximately $0.3 million and $10.9 million, respectively, of credit related impairments on investment securities in an unrealized loss position that were other-than-temporarily impaired resulting in a charge to earnings.

There are certain risks and uncertainties associated with determining whether declines in fair values are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions, commission of fraud, and legislative actions. We continuously monitor these factors as they relate to the investment portfolio in determining the status of each investment.

We have deposits with certain financial institutions which exceed federally insured limits. We have reviewed the creditworthiness of these financial institutions and believe that there is minimal risk of a material loss.

The chart shown below includes our non-sovereign fair value exposures in these countries as of September 30, 2017. As of September 30, 2017, we had no unfunded exposure and had no direct sovereign exposure.

	Non-sovereign Debt		Total Gross Funded Exposure
Financial Instrument and Country	Financial	Non-financial	
	(Dollars In Millions)		
Securities:			
United Kingdom	$623.4	$ 768.5	$ 1,391.9
Netherlands	227.6	249.0	476.6
France	134.4	226.5	360.9
Switzerland	220.3	112.2	332.5
Germany	149.9	150.4	300.3
Spain	22.7	228.2	250.9
Belgium	—	202.9	202.9
Sweden	129.1	20.6	149.7
Norway	—	99.3	99.3
Luxembourg	—	61.3	61.3
Ireland	—	58.2	58.2
Italy	—	41.3	41.3
Total securities	1,507.4	2,218.4	3,725.8
Derivatives:			
Germany	41.4	—	41.4
United Kingdom	12.5	—	12.5
Switzerland	3.9	—	3.9
France	1.7	—	1.7
Total derivatives	59.5	—	59.5

Total securities	$1,566.9	$ 2,218.4	$ 3,785.3

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Realized Gains and Losses

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

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Fixed maturity gains - sales	$1,933	$3,223	$14,968	$30,703
Fixed maturity losses - sales	(891)	(1,558)	(4,486)	(6,587)
Equity gains - sales	—	—	—	320
Equity losses - sales	(352)	—	(1,398)	(284)
Impairments	(273)	(3,308)	(10,889)	(6,892)
Modco trading portfolio	19,399	23,995	93,181	178,353
Other	(1,939)	(1,508)	(7,557)	(7,842)
Total realized gains (losses) - investments	$17,877	$20,844	$83,819	$187,771
Derivatives related to VA contracts:				
Interest rate futures - VA	$549	$(7,002)	$16,746	$62,065
Equity futures - VA	(25,959)	(41,836)	(75,389)	(66,392)
Currency futures - VA	(6,092)	934	(22,366)	5,888
Equity options - VA	(23,307)	(36,482)	(76,376)	(23,410)
Interest rate swaptions - VA	(292)	(229)	(2,423)	(3,212)
Interest rate swaps - VA	5,342	14,737	31,331	221,884
Total return swaps - VA	(8,057)	—	(9,675)	—
Embedded derivative - GLWB	740	90,954	(15,904)	(246,299)
Total derivatives related to VA contracts	(57,076)	21,076	(154,056)	(49,476)
Derivatives related to FIA contracts:				
Embedded derivative - FIA	(18,606)	(14,486)	(40,351)	(15,938)
Equity futures - FIA	66	2,236	161	4,269
Volatility futures - FIA	—	—	—	—
Equity options - FIA	11,242	6,583	29,511	1,756
Total derivatives related to FIA contracts	(7,298)	(5,667)	(10,679)	(9,913)
Derivatives related to IUL contracts:				
Embedded derivative - IUL	(297)	7,136	(10,958)	6,302
Equity futures - IUL	58	101	(878)	(71)
Equity options - IUL	1,975	1,607	6,437	1,821
Total derivatives related to IUL contracts	1,736	8,844	(5,399)	8,052
Embedded derivative - Modco reinsurance treaties	(19,746)	(24,187)	(90,314)	(105,362)
Other derivatives	43	50	41	(50)
Total realized gains (losses) - derivatives	$(82,341)	$116	$(260,407)	$(156,749)

Realized gains and losses on investments reflect portfolio management activities designed to maintain proper matching of assets and liabilities and to enhance long-term investment portfolio performance. The change in net realized investment gains (losses), excluding impairments and Modco trading portfolio activity during the three and nine months ended September 30, 2017, primarily reflects the normal operation of our asset/liability program within the context of the changing interest rate and spread environment, as well as tax planning strategies designed to utilize capital loss carryforwards.

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Realized losses are comprised of other-than-temporary impairments and actual sales of investments. These other-than-temporary impairments resulted from our analysis of circumstances and our belief that credit events, loss severity, changes in credit enhancement, and/or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to these investments. These other-than-temporary impairments are presented in the chart below:

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Dollars In Thousands)			
Alt-A MBS	$—	$—	$—	$—
Other MBS	6	155	44	162
Corporate securities	—	3,153	7,948	6,730
Equities	—	—	2,630	—
Other	267	—	267	—
Total	$273	$3,308	$10,889	$6,892

As previously discussed, management considers several factors when determining other-than-temporary impairments. Although we purchase securities with the intent to hold them until maturity, we may change our position as a result of a change in circumstances. Any such decision is consistent with our classification of all but a specific portion of our investment portfolio as available-for-sale. For the nine months ended September 30, 2017, we sold securities in an unrealized loss position with a fair value of $121.5 million. For such securities, the proceeds, realized loss, and total time period that the security had been in an unrealized loss position are presented in the table below:

	Proceeds	% Proceeds	Realized Loss	% Realized Loss
	(Dollars In Thousands)			
<= 90 days	$33,154	27.3 %	$ (2,872)	48.8 %
>90 days but <= 180 days	25,614	21.1	(225)	3.8
>180 days but <= 270 days	5,888	4.8	(173)	2.9
>270 days but <= 1 year	14,560	12.0	(524)	8.9
>1 year	42,234	34.8	(2,090)	35.6
Total	$121,450	100.0 %	$ (5,884)	100.0 %

For the three and nine months ended September 30, 2017, we sold securities in an unrealized loss position with a fair value (proceeds) of $37.2 million and $121.5 million, respectively. The losses realized on the sale of these securities were $1.2 million and $5.9 million, respectively. We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the three and nine months ended September 30, 2017, we sold securities in an unrealized gain position with a fair value of $121.5 million and $566.1 million, respectively. The gains realized on the sale of these securities were $1.9 million and $15.0 million, respectively.

The $1.9 million of other realized losses recognized for the three months ended September 30, 2017, consisted of an increase in mortgage loan reserves of $1.9 million.

The $7.6 million of other realized losses recognized for the nine months ended September 30, 2017, consisted of an increase in mortgage loan reserves of $7.0 million, partnership losses of $0.4 million, and real estate losses of $0.1 million.

For the three and nine months ended September 30, 2017, net gains of $19.4 million and $93.2 million, primarily related to changes in fair value on our Modco trading portfolios, were included in realized gains and losses. Of the $93.2 million for the nine months ended September 30, 2017, approximately $1.7 million of losses were realized through the sale of certain securities, which will be returned to us from our reinsurance partners over time through the

reinsurance settlement process for this block of business. The Modco embedded derivative associated with the trading portfolios had realized pre-tax losses of $19.7 million and $90.3 million, respectively, during the three and nine months ended September 30, 2017. The losses during the three and nine months ended September 30, 2017, were due to the tightening of credit spreads and lower treasury yields.

Realized investment gains and losses related to derivatives represent changes in their fair value during the period and termination gains/(losses) on those derivatives that were closed during the period.

We use various derivative instruments to manage risks related to certain life insurance and annuity products. We can use these derivatives as economic hedges against risks inherent in the products. These risks have a direct impact on the cost of these products and are correlated with the equity markets, interest rates, foreign currency levels, and overall volatility. The hedged risks are recorded through the recognition of embedded derivatives associated with the products. These products include the GLWB rider associated with the variable annuity, fixed indexed annuity products as well as indexed universal life products. During the three and nine months ended September 30, 2017, we experienced net realized losses on derivatives related to VA contracts of

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approximately $57.1 million and $154.1 million, respectively. These net losses on derivatives related to VA contracts were affected by capital market impacts as well as updates to certain policyholder assumptions during the three months ended September 30, 2017.

We also use various swaps and other types of derivatives to mitigate risk related to other exposures. For the three and nine months ended September 30, 2017, these contracts generated immaterial gains.

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LIQUIDITY AND CAPITAL RESOURCES

The Holding Company

Overview

Our primary sources of funding are dividends from our operating subsidiaries; revenues from investment management, data processing, legal, and management services rendered to subsidiaries; investment income; and external financing. These sources of cash support our general corporate needs including our common stock dividends and debt service. We expect to use a portion of our positive cash flow from operations to pay dividends to our parent, Dai-ichi Life. We paid a $143.8 million dividend during the nine months ended September 30, 2017, and do not expect to pay a dividend for the remainder of 2017.

The states in which our insurance subsidiaries are domiciled impose certain restrictions on the insurance subsidiaries' ability to pay us dividends. These restrictions are based in part on the prior year's statutory income and/or surplus. Generally, these restrictions pose no short-term liquidity concerns. We plan to retain portions of the earnings of our insurance subsidiaries in those companies primarily to support their future growth.

Debt and other capital resources

Our primary sources of capital are through retained income from our operating subsidiaries, capital infusions from our parent, Dai-ichi Life, as well as our ability to access debt financing markets. Additionally, we have access to the Credit Facility discussed below.

We have the ability to borrow under a Credit Facility arrangement on an unsecured basis up to an aggregate principal amount of $1.0 billion. We have the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $1.25 billion. We are not aware of any non-compliance with the financial debt covenants of the Credit Facility as of September 30, 2017. There was an outstanding balance of $170.0 million bearing interest at a rate of LIBOR plus 1.00% as of September 30, 2017.

Liquidity

Liquidity refers to a company's ability to generate adequate amounts of cash to meet its needs. We meet our liquidity requirements primarily through positive cash flows from our operating subsidiaries. Primary sources of cash from the operating subsidiaries are premiums, deposits for policyholder accounts, investment sales and maturities, and investment income. Primary uses of cash include benefit payments, withdrawals from policyholder accounts, investment purchases, policy acquisition costs, interest payments, and other operating expenses. We believe that we have sufficient liquidity to fund our cash needs under normal operating scenarios.

In the event of significant unanticipated cash requirements beyond our normal liquidity needs, we have additional sources of liquidity available depending on market conditions and the amount and timing of the liquidity need. These additional sources of liquidity include cash flows from operations, the sale of liquid assets, accessing our credit facility, and other sources described herein. Our decision to sell investment assets could be impacted by accounting rules, including rules relating to the likelihood of a requirement to sell securities before recovery of our cost basis. Under stressful market and economic conditions, liquidity may broadly deteriorate, which could negatively impact our ability to sell investment assets. If we require on short notice significant amounts of cash in excess of normal requirements, we may have difficulty selling investment assets in a timely manner, be forced to sell them for less than we otherwise would have been able to realize, or both.

The liquidity requirements of our regulated insurance subsidiaries primarily relate to the liabilities associated with their various insurance and investment products, operating expenses, and income taxes. Liabilities arising from insurance and investment products include the payment of policyholder benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans, and obligations to redeem funding agreements. Our insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits and expected surrenders, withdrawals, loans, and redemption obligations without forced sales of investments. In addition, our insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund our expected operating expenses, surrenders, and withdrawals. As of September 30, 2017, our total cash and invested assets were $54.3 billion. The life insurance subsidiaries were committed as of September 30, 2017, to fund mortgage loans in the amount of $672.8 million.

Our positive cash flows from operations are used to fund an investment portfolio that provides for future benefit payments. We employ a formal asset/liability program to manage the cash flows of our investment portfolio relative to our long-term benefit obligations. The holding company held $96.3 million of cash and short-term investments, and our insurance subsidiaries held approximately $622.3 million in cash and short-term investments as of September 30, 2017.

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The following chart includes the cash flows provided by or used in operating, investing, and financing activities for the following periods:

	For The Nine Months Ended September 30,	
	2017	2016
	(Dollars In Thousands)	
Net cash (used in) provided by operating activities	$(7,762)	$355,370
Net cash used in investing activities	(1,948,618)	(3,558,298)
Net cash provided by financing activities	1,865,760	3,428,200
Total	$(90,620)	$225,272

For The Nine Months Ended September 30, 2017 as compared to the Nine Months Ended September 30, 2016

Net cash provided by operating activities - Cash flows from operating activities are affected by the timing of premiums received, investment income, and benefits and expenses paid. Principal sources of cash inflows from operating activities include sales of our products and services as well as income from investments. We typically generate positive cash flows from operating activities, as premiums collected from our insurance products exceed benefit payments and surrenders, and we invest the excess. Due to the nature of our business and the fact that many of the products we sell produce financing and investing cash flows it is important to consider cash flows generated by investing and financing activities in conjunction with those generated by operating activities.

Net cash used in investing activities - Changes in cash from investing activities primarily related to the activity in our investment portfolio.

Net cash provided by financing activities - Changes in cash from financing activities included $198.2 million of outflows from secured financing liabilities for the nine months ended September 30, 2017, as compared to the $218.7 million of outflows for the nine months ended September 30, 2016 and $2.2 billion inflows of investment product and universal life net activity as compared to $1.8 billion in the prior year. Net activity related to credit facility resulted in inflows of $40.9 million for the nine months ended September 30, 2017, as compared to $153.1 million of outflows for nine months ended September 30, 2016. Net repayment of non-recourse funding obligations equaled $36.0 million during the nine months ended September 30, 2017, as compared to net issuances of $2.1 billion during the nine months ended September 30, 2016. The Company paid a dividend during the nine month period ended September 30, 2017 of $143.8 million, as compared to a dividend of $89.3 million during the nine months ended September 30, 2016.

Through our subsidiaries, we are members of the FHLB of Cincinnati and the FHLB of New York. FHLB advances provide an attractive funding source for short-term borrowing and for the sale of funding agreements. Membership in the FHLB requires that we purchase FHLB capital stock based on a minimum requirement and a percentage of the dollar amount of advances outstanding. Our borrowing capacity is determined by criteria established by each respective bank. In addition, our obligations under the advances must be collateralized. We maintain control over any such pledged assets, including the right of substitution. As of September 30, 2017, we had $595.8 million of funding agreement-related advances and accrued interest outstanding under the FHLB program.

While we anticipate that the cash flows of our operating subsidiaries will be sufficient to meet our investment commitments and operating cash needs in a normal credit market environment, we recognize that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, we have established repurchase agreement programs for certain of our insurance subsidiaries to provide liquidity when needed. We expect that the rate received on its investments will equal or exceed its borrowing rate. Under this program, we may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provided for net settlement in the event of default or on termination of the agreements. As of September 30, 2017, the fair value of securities pledged under the repurchase program was $549.8 million and the repurchase obligation of

$493.8 million was included in our consolidated condensed balance sheets (at an average borrowing rate of 118 basis points). During the nine months ended September 30, 2017, the maximum balance outstanding at any one point in time related to these programs was $981.3 million. The average daily balance was $546.2 million (at an average borrowing rate of 89 basis points) during the nine months ended September 30, 2017. As of December 31, 2016, the fair value of securities pledged under the repurchase program was $861.7 million and the repurchase obligation of $797.7 million was included in our consolidated condensed balance sheets (at an average borrowing rate of 65 basis points). During 2016, the maximum balance outstanding at any one point in time related to these programs was $1,065.8 million. The average daily balance was $505.4 million (at an average borrowing rate of 44 basis points) during the year ended December 31, 2016.

We participate in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. We require initial collateral of 102% of the market value of the loaned securities to be separately maintained. The loaned securities' market value is monitored on a daily basis. As of September 30, 2017, securities with a market value of $100.2 million were loaned under this program. As collateral for the loaned securities, we receive short-term investments, which are recorded in "short-term investments" with a corresponding liability recorded in "other liabilities" to account for its obligation to return the collateral. As of September 30, 2017, the fair value of the

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collateral related to this program was $105.8 million and we have an obligation to return $105.8 million of collateral to the securities borrowers.

Additionally, we may, from time to time, sell short-duration stable value products to complement our cash management practices. Depending on market conditions, we may also use securitization transactions involving our commercial mortgage loans to increase liquidity for the operating subsidiaries.

Statutory Capital

A life insurance company's statutory capital is computed according to rules prescribed by the NAIC, as modified by state law. Generally speaking, other states in which a company does business defer to the interpretation of the domiciliary state with respect to NAIC rules, unless inconsistent with the other state's regulations. Statutory accounting rules are different from GAAP and are intended to reflect a more conservative view, for example, requiring immediate expensing of policy acquisition costs. The NAIC's risk-based capital requirements require insurance companies to calculate and report information under a risk-based capital formula. The achievement of long-term growth will require growth in the statutory capital of our insurance subsidiaries. The subsidiaries may secure additional statutory capital through various sources, such as retained statutory earnings or our equity contributions. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as an ordinary dividend to us from our insurance subsidiaries in 2017 is approximately $423.7 million.

State insurance regulators and the NAIC have adopted risk-based capital ("RBC") requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. A company's risk-based statutory surplus is calculated by applying factors and performing calculations relating to various asset, premium, claim, expense, and reserve items. Regulators can then measure the adequacy of a company's statutory surplus by comparing it to RBC. We manage our capital consumption by using the ratio of our total adjusted capital, as defined by the insurance regulators, to our company action level RBC (known as the RBC ratio), also as defined by insurance regulators.

Statutory reserves established for VA contracts are sensitive to changes in the equity and bond markets and are affected by the level of account values relative to the level of any guarantees and product design. As a result, the relationship between reserve changes and market performance may be non-linear during any given reporting period. Market conditions greatly influence the capital required due to their impact on the valuation of reserves and derivative investments mitigating the risk in these reserves. Risk mitigation activities may result in material and sometimes counterintuitive impacts on statutory surplus and RBC ratio. Notably, as changes in these market and non-market factors occur, both our potential obligation and the related statutory reserves and/or required capital can vary at a non-linear rate.

Our statutory surplus is impacted by credit spreads as a result of accounting for the assets and liabilities on our fixed MVA annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities, we are required to use current crediting rates based on U.S. Treasuries. In many capital market scenarios, current crediting rates based on U.S. Treasuries are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, actual credit spreads on investment assets may increase or decrease sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value gains or losses. As actual credit spreads are not fully reflected in current crediting rates based on U.S. Treasuries, the calculation of statutory reserves will not substantially offset the change in fair value of the statutory separate account assets resulting in a change in statutory surplus.

We cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets, we remain liable with respect to ceded insurance should any

reinsurer fail to meet the obligations that it assumed. We evaluate the financial condition of our reinsurers and monitor the associated concentration of credit risk. For the three and nine months ended September 30, 2017, we ceded premiums to third party reinsurers amounting to $325.1 million and $984.1 million, respectively. In addition, we had receivables from reinsurers amounting to $5.1 billion as of September 30, 2017. We review reinsurance receivable amounts for collectability and establish bad debt reserves if deemed appropriate.

Captive Reinsurance Companies

Our life insurance subsidiaries are subject to a regulation entitled “Valuation of Life Insurance Policies Model Regulation,” commonly known as “Regulation XXX,” and a supporting guideline entitled “The Application of the Valuation of Life Insurance Policies Model Regulation,” commonly known as “Guideline AXXX.” The regulation and supporting guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that these levels of reserves are non-economic. We use captive reinsurance companies to implement reinsurance and capital management actions to satisfy these reserve requirements by financing the non-economic reserves either through the issuance of non-recourse funding obligations by the captives or obtaining Letters of Credit from third-party financial institutions.

Our captive reinsurance companies assume business from affiliates only. Our captives are capitalized to a level we believe is sufficient to support the contractual risks and other general obligations of the respective captive entity. All of our captive

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reinsurance companies are wholly owned subsidiaries and are located domestically. The captive insurance companies are subject to regulations in the state of domicile.

The National Association of Insurance Commissioners (“NAIC”), through various committees, subgroups and dedicated task forces, is reviewing the use of captives and special purpose vehicles used to transfer insurance risk in relation to existing state laws and regulations, and several committees have adopted or exposed for comment white papers and reports that, if or when implemented, could impose additional requirements on the use of captives and other reinsurers. The Financial Condition (E) Committee of the NAIC recently established a Variable Annuity Issues Working Group to examine company use of variable annuity captives. The Committee has proposed changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and results of operations.

The Principles Based Reserving Implementation (EX) Task Force of the NAIC, charged with analysis of the adoption of a principles-based reserving methodology, adopted the “conceptual framework” contained in a report issued by Rector & Associates, Inc., dated June 4, 2014 (as modified or supplemented, the “Rector Report”), that contains numerous recommendations pertaining to the regulation and use of certain captive reinsurers. Certain high-level recommendations have been adopted and assigned to various NAIC working groups, which working groups are in various stages of discussions regarding recommendations. One recommendation of the Rector Report was adopted as Actuarial Guideline XLVIII (“AG48”). AG48 sets more restrictive standards on the permitted collateral utilized to back reserves of a captive. In September 2016, the Financial Condition (E) Committee of the NAIC adopted the Term and Universal Life Insurance Reserve Financing Model Regulation (the "Reserve Model") which is substantially similar to AG48. AG48 and the Reserve Model will likely make it difficult for the Company to establish new captive financing arrangements on a basis consistent with past practices. As a result of AG48 and the Reserve Model, the implementation of new captive structures in the future may be less capital efficient, may lead to lower product returns and/or increased product pricing or result in reduced sales of certain products. In some circumstances, AG48 and the Reserve Model could impact the Company’s ability to engage in certain reinsurance transactions with non-affiliates.

We also use a captive reinsurance company to reinsure risks associated with GLWB and GMDB riders which helps us to manage those risks on an economic basis. In an effort to mitigate the equity market risks relative to our RBC ratio, in the fourth quarter of 2012, we established an insurance subsidiary, Shades Creek Captive Insurance Company (“Shades Creek”), to which PLICO has reinsured GLWB and GMDB riders related to its VA contracts. The purpose of Shades Creek is to reduce the volatility in RBC due to non-economic variables included within the RBC calculation. We maintain an intercompany capital support agreement with Shades Creek that provides through a guarantee that we will contribute assets or purchase surplus notes (or cause an affiliate or third party to contribute assets or purchase surplus notes) in amounts necessary for Shades Creek’s regulatory capital levels to equal or exceed minimum thresholds as defined by the agreement. As of September 30, 2017, Shades Creek maintained capital levels in excess of the required minimum thresholds. The maximum potential future payment amount which could be required under the capital support agreement will be dependent on numerous factors, including the performance of equity markets, the level of interest rates, performance of associated hedges, and related policyholder behavior.

Ratings

Various Nationally Recognized Statistical Rating Organizations (“rating organizations”) review the financial performance and condition of insurers, including our insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer’s ability to meet policyholder and contract holder obligations. These ratings are important to maintaining public confidence in an insurer’s products, its ability to market its products and its competitive position. The following table summarizes the current financial strength ratings of our significant member companies from the major independent rating organizations:

Ratings	A.M. Best	Fitch	Standard & Poor’s	Moody’s
Insurance company financial strength rating:				
Protective Life Insurance Company	A+	A+	AA-	A1
West Coast Life Insurance Company	A+	A+	AA-	A1

Protective Life and Annuity Insurance Company	A+	A+	AA-	—
Protective Property & Casualty Insurance Company	A-	—	—	—
MONY Life Insurance Company	A+	A+	A+	A1

Our ratings are subject to review and change by the rating organizations at any time and without notice. A downgrade or other negative action by a ratings organization with respect to the financial strength ratings of our insurance subsidiaries could adversely affect sales, relationships with distributors, the level of policy surrenders and withdrawals, competitive position in the marketplace, and the cost or availability of reinsurance. The rating agencies may take various actions, positive or negative, with respect to the financial strength ratings of our insurance subsidiaries, including as a result of our status as a subsidiary of Dai-ichi Life.

Rating organizations also publish credit ratings for the issuers of debt securities, including the Company. Credit ratings are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner. These ratings are important in the debt issuer's overall ability to access credit markets and other types of liquidity. Ratings are not recommendations to buy our

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securities or products. A downgrade or other negative action by a ratings organization with respect to our credit rating could limit our access to capital markets, increase the cost of issuing debt, and a downgrade of sufficient magnitude, combined with other negative factors, could require us to post collateral. The rating agencies may take various actions, positive or negative, with respect to our debt ratings, including as a result of our status as a subsidiary of Dai-ichi Life.

LIABILITIES

Many of our products contain surrender charges and other features that are designed to reward persistency and penalize the early withdrawal of funds. Certain stable value and annuity contracts have market-value adjustments that protect us against investment losses if interest rates are higher at the time of surrender than at the time of issue.

As of September 30, 2017, we had policy liabilities and accruals of approximately $31.6 billion. Our interest-sensitive life insurance policies have a weighted average minimum credited interest rate of approximately 3.48%.

Contractual Obligations

We enter into various obligations to third parties in the ordinary course of our operations. However, we do not believe that our cash flow requirements can be assessed solely based upon an analysis of these obligations. The most significant factors affecting our future cash flows are our ability to earn and collect cash from our customers, and the cash flows arising from our investment program. Future cash outflows, whether they are contractual obligations or not, will also vary based upon our future needs. Although some outflows are fixed, others depend on future events. Examples of fixed obligations include our obligations to pay principal and interest on fixed-rate borrowings. Examples of obligations that will vary include obligations to pay interest on variable-rate borrowings and insurance liabilities that depend on future interest rates, market performance, or surrender provisions. Many of our obligations are linked to cash-generating contracts. In addition, our operations involve significant expenditures that are not based upon contractual obligations. These include expenditures for income taxes and payroll.

As of September 30, 2017, we carried an $11 million liability for uncertain tax positions, including interest on unrecognized tax benefits. These amounts are not included in the long-term contractual obligations table because of the difficulty in making reasonably reliable estimates of the occurrence or timing of cash settlements with the respective taxing authorities.

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The table below sets forth future maturities of our contractual obligations:

		Payments due by period			
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(Dollars In Thousands)				
Debt[1]	$1,458,676	$205,790	$645,171	$39,365	$568,350
Non-recourse funding obligations[2]	4,657,215	260,759	611,437	662,771	3,122,248
Subordinated debt securities[3]	1,432,535	26,750	53,500	53,500	1,298,785
Stable value products[4]	5,069,209	963,785	2,262,606	1,693,271	149,547
Operating leases[5]	30,270	4,621	8,450	7,367	9,832
Home office lease[6]	77,552	2,048	75,504	—	—
Mortgage loan and investment commitments	852,091	759,062	93,029	—	—
Secured financing liabilities[7]	599,593	599,593	—	—	—
Policyholder obligations[8]	42,356,450	1,593,588	3,431,659	3,439,093	33,892,110
Total[9]	$56,533,591	$4,415,996	$7,181,356	$5,895,367	$39,040,872

(1) Debt includes all principal amounts owed on note agreements and expected interest payments due over the term of the notes.
(2) Non-recourse funding obligations include all undiscounted principal amounts owed and expected future interest payments due over the term of the notes. Of the total undiscounted cash flows, $1.8 billion relates to the Golden Gate V transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate V receives from notes issued by a nonconsolidated variable interest entity. Additionally, $2.8 billion relates to the Golden Gate transaction that occurred in Q1 2016. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate receives from notes issued by nonconsolidated entity and third parties. The remaining amounts are associated with the Golden Gate II notes held by third parties as well as certain obligations assumed with the acquisition of MONY Life Insurance Company.
(3) Subordinated debt securities includes all principal amounts and interest payments due over the term of the obligations.
(4) Anticipated stable value products cash flows including interest.
(5) Includes all lease payments required under operating lease agreements.
(6) The lease payments shown assume we exercise our option to purchase the building at the end of the lease term. Additionally, the payments due by the periods above were computed based on the terms of the renegotiated lease agreement, which was entered in December 2013.
(7) Represents secured borrowings and accrued interest as part of our repurchase program as well as liabilities associated with securities lending transactions.
(8) Estimated contractual policyholder obligations are based on mortality, morbidity, and lapse assumptions comparable to our historical experience, modified for recent observed trends. These obligations are based on current balance sheet values and include expected interest crediting, but do not incorporate an expectation of future market growth, or future deposits. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. As variable separate account obligations are legally insulated from general account obligations, the variable separate account obligations will be fully funded by cash flows from variable separate account assets. We expect to fully fund the general account obligations from cash flows from general account investments.
(9) Excluded from this table are certain pension obligations.

OFF-BALANCE SHEET ARRANGEMENTS

We have entered into indemnity agreements with each of our directors as well as operating leases that do not result in an obligation being recorded on the balance sheet. Refer to Note 11, Commitments and Contingencies, of the consolidated condensed financial statements for more information on our indemnity agreements.

MARKET RISK EXPOSURES

Our financial position and earnings are subject to various market risks including changes in interest rates, the yield curve, spreads between risk-adjusted and risk-free interest rates, foreign currency rates, used vehicle prices, and equity price risks and issuer defaults. We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, currency exchange risk, volatility risk, and equity market risk. See Note 6, Derivative Financial Instruments, to the consolidated condensed financial statements included in this report for additional information on our financial instruments.

The primary focus of our asset/liability program is the management of interest rate risk within the insurance operations. This includes monitoring the duration of both investments and insurance liabilities to maintain an appropriate balance between risk and profitability for each product category, and for us as a whole. It is our policy to maintain asset and liability durations within one year of one another, although, from time to time, a broader interval may be allowed.

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We are exposed to credit risk within our investment portfolio and through derivative counterparties. Credit risk relates to the uncertainty of an obligor's continued ability to make timely payments in accordance with the contractual terms of the instrument or contract. We manage credit risk through established investment policies which attempt to address quality of obligors and counterparties, credit concentration limits, diversification requirements, and acceptable risk levels under expected and stressed scenarios. Derivative counterparty credit risk is measured as the amount owed to us, net of collateral held, based upon current market conditions. In addition, we periodically assess exposure related to potential payment obligations between us and our counterparties. We minimize the credit risk in derivative financial instruments by entering into transactions with high quality counterparties, (A-rated or higher at the time we enter into the contract), and we maintain credit support annexes with certain of those counterparties.

We utilize a risk management strategy that includes the use of derivative financial instruments. Derivative instruments expose us to credit market and basis risk. Such instruments can change materially in value from period- to-period. We minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market and basis risks by establishing and monitoring limits as to the types and degrees of risk that may be undertaken. We monitor our use of derivatives in connection with our overall asset/liability management programs and procedures. In addition, all derivative programs are monitored by our risk management department.

Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swaps, interest rate futures, interest rate caps, and interest rate options.

Derivative instruments that are used as part of the Company's foreign currency exchange risk management strategy include foreign currency swaps, foreign currency futures, foreign equity futures, and foreign equity options.

We may use the following types of derivative contracts to mitigate our exposure to certain guaranteed benefits related to variable annuity, fixed indexed annuity, and indexed universal life contracts:

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

We believe that our asset/liability management programs and procedures and certain product features provide protection against the effects of changes in interest rates under various scenarios. Additionally, we believe our asset/liability management programs and procedures provide sufficient liquidity to enable us to fulfill our obligation to pay benefits under our various insurance and deposit contracts. However, our asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity, spread movements, implied volatility, policyholder behavior, and other factors, and the effectiveness of our asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

In the ordinary course of our commercial mortgage lending operations, we may commit to provide a mortgage loan before the property to be mortgaged has been built or acquired. The mortgage loan commitment is a contractual obligation to fund a mortgage loan when called upon by the borrower. The commitment is not recognized in our financial statements until the commitment is actually funded. The mortgage loan commitment contains terms, including the rate of interest, which may be different than prevailing interest rates. As of September 30, 2017, we had outstanding mortgage loan commitments of $672.8 million at an average rate of 4.2%.

Impact of Continued Low Interest Rate Environment

Significant changes in interest rates expose us to the risk of not realizing anticipated spreads between the interest rate earned on investments and the interest rate credited to in-force policies and contracts. In addition, certain of our insurance and investment products guarantee a minimum guaranteed interest rate ("MGIR"). In periods of prolonged low interest rates, the interest spread earned may be negatively impacted to the extent our ability to reduce policyholder crediting rates is limited by the guaranteed minimum credited interest rates. Additionally, those policies without account values may exhibit lower profitability in periods of prolonged low interest rates due to reduced investment income.

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The table below presents account values by range of current minimum guaranteed interest rates and current crediting rates for our universal life and deferred fixed annuity products as of September 30, 2017, and December 31, 2016:

Credited Rate Summary
As of September 30, 2017

Minimum Guaranteed Interest Rate Account Value	At MGIR	1-50 bps above MGIR	More than 50 bps above MGIR	Total
	(Dollars In Millions)			
Universal Life Insurance				
>2% - 3%	$203	$1,197	$ 2,044	$3,444
>3% - 4%	4,160	997	8	5,165
>4% - 5%	2,001	13	1	2,015
>5% - 6%	201	—	—	201
Subtotal	6,565	2,207	2,053	10,825
Fixed Annuities				
1%	$614	$205	$ 360	$1,179
>1% - 2%	500	358	72	930
>2% - 3%	1,939	64	5	2,008
>3% - 4%	257	—	—	257
>4% - 5%	274	—	—	274
>5% - 6%	3	—	—	3
Subtotal	3,587	627	437	4,651
Total	$10,152	$2,834	$ 2,490	$15,476
Percentage of Total	66 %	18 %	16 %	100 %

Credited Rate Summary
As of December 31, 2016

Minimum Guaranteed Interest Rate Account Value	At MGIR	1-50 bps above MGIR	More than 50 bps above MGIR	Total
	(Dollars In Millions)			
Universal Life Insurance				
>2% - 3%	$202	$1,133	$ 2,023	$3,358
>3% - 4%	4,001	1,191	11	5,203
>4% - 5%	1,928	14	—	1,942
>5% - 6%	208	—	—	208
Subtotal	6,339	2,338	2,034	10,711
Fixed Annuities				
1%	$670	$153	$ 114	$937
>1% - 2%	535	463	103	1,101
>2% - 3%	2,056	68	7	2,131
>3% - 4%	267	—	—	267
>4% - 5%	281	—	—	281
>5% - 6%	3	—	—	3
Subtotal	3,812	684	224	4,720
Total	$10,151	$3,022	$ 2,258	$15,431
Percentage of Total	66 %	19 %	15 %	100 %

We are active in mitigating the impact of a continued low interest rate environment through product design, as well as adjusting crediting rates on current in-force policies and contracts. We also manage interest rate and reinvestment risks through

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our asset/liability management process. Our asset/liability management programs and procedures involve the monitoring of asset and liability durations; cash flow testing under various interest rate scenarios; and the regular rebalancing of assets and liabilities with respect to yield, credit and market risk, and cash flow characteristics. These programs also incorporate the use of derivative financial instruments primarily to reduce our exposure to interest rate risk, inflation risk, currency exchange risk, volatility risk, and equity market risk.

IMPACT OF INFLATION

Inflation increases the need for life insurance. Many policyholders who once had adequate insurance programs may increase their life insurance coverage to provide the same relative financial benefit and protection. Higher interest rates may result in higher sales of certain of our investment products.

The higher interest rates that have traditionally accompanied inflation could also affect our operations. Policy loans increase as policy loan interest rates become relatively more attractive. As interest rates increase, disintermediation of stable value and annuity account balances and individual life policy cash values may increase. The market value of our fixed-rate, long-term investments may decrease, we may be unable to implement fully the interest rate reset and call provisions of our mortgage loans, and our ability to make attractive mortgage loans, including participating mortgage loans, may decrease. In addition, participating mortgage loan income may decrease. The difference between the interest rate earned on investments and the interest rate credited to life insurance and investment products may also be adversely affected by rising interest rates. During the periods covered by this report, we believe inflation has not had a material impact on our business.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 2, Summary of Significant Accounting Policies, to the consolidated condensed financial statements for information regarding recently issued accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

See Part I, Item 2, Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources” and Part II, Item 1A, Risk Factors, of this report for market risk disclosures.

Item 4. Controls and Procedures

(a) Disclosure controls and procedures

In order to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), except as otherwise noted below. Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

In conducting our evaluation of the effectiveness of internal control over financial reporting as of September 30, 2017, we have excluded USWC Holding Company and its subsidiaries ("US Warranty") and the internal controls relating to the administrative systems and processes being provided by third parties for the acquired business. US Warranty was acquired on December 1, 2016 and its revenues and income were immaterial to the Company's results of operations for the nine month period ended September 30, 2017.

(b) Changes in internal control over financial reporting

During the third quarter of 2017, the Company implemented components of SAP’s enterprise resource planning ("ERP") solution, which includes a new general ledger, a new consolidation system, and new financial reporting tools. The upgraded ERP system represents a systems improvement initiative designed to provide more effective management of our business operations as we continue to grow in size and scale. This initiative was not undertaken in response to any identified deficiency in the Company’s internal control over financial reporting. The Company’s

internal controls exist within a dynamic environment, and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

There were no other changes in the Company’s internal control over financial reporting during the nine months ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

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Item 1A. Risk Factors

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company's future results include, but are not limited to, general economic conditions and known trends and uncertainties. In addition to other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A, Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect the Company's business, financial condition, or future results of operations which are discussed more fully below.

General Risk Factors

The Company's results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates.

In the conduct of business, the Company makes certain assumptions regarding mortality, morbidity, persistency, expenses, interest rates, equity markets, tax, business mix, casualty, contingent liabilities, investment performance, and other factors appropriate to the type of business it expects to experience in future periods. These assumptions are used to estimate the amounts of deferred policy acquisition costs, policy liabilities and accruals, future earnings, and various components of the Company's balance sheet. These assumptions are also used in the operation of the Company's business in making decisions crucial to the success of the Company, including the pricing of acquisitions and products. The Company's actual experience, as well as changes in estimates, is used to prepare the Company's financial statements. To the extent the Company's actual experience and changes in estimates differ from original estimates, the Company's financial condition may be adversely affected.

Mortality, morbidity, and casualty assumptions incorporate underlying assumptions about many factors. Such factors may include, for example, how a product is distributed, for what purpose the product is purchased, the mix of customers purchasing the products, persistency and lapses, future progress in the fields of health and medicine, and the projected level of used vehicle values. Actual mortality, morbidity, and/or casualty experience may differ from expectations. In addition, continued activity in the viatical, stranger-owned, and/or life settlement industry could cause the Company's level of lapses to differ from its assumptions about premium persistency and lapses, which could negatively impact the Company's performance.

The calculations the Company uses to estimate various components of its balance sheet and statements of income are necessarily complex and involve analyzing and interpreting large quantities of data. The Company currently employs various techniques for such calculations and relies, in certain instances, on third parties to make or assist in making such calculations. From time to time it develops and implements more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates. The systems and procedures that the Company develops and the Company's reliance upon third parties could result in errors in the calculations that impact our financial statements or affect our financial condition.

Assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. Accordingly, the Company's results may be affected, positively or negatively, from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

The Company may not realize its anticipated financial results from its acquisitions strategy.

The Company's Acquisitions segment focuses on the acquisitions of companies and business operations, and the coinsurance of blocks of insurance business, all of which have increased the Company's earnings. However, there can be no assurance that the Company will have future suitable opportunities for, or sufficient capital available to fund, such transactions. If our competitors have access to capital on more favorable terms or at a lower cost, our ability to

compete for acquisitions may be diminished. In addition, there can be no assurance that the Company will be able to realize any projected operating efficiencies or achieve the anticipated financial results from such transactions.

The Company may be unable to complete an acquisition transaction. Completion of an acquisition transaction may be more costly or take longer than expected, or may have a different or more costly financing structure than initially contemplated. In addition, the Company may not be able to complete or manage multiple acquisition transactions at the same time, or the completion of such transactions may be delayed or be more costly than initially contemplated. The Company, its affiliates, or other parties to the transaction may be unable to obtain regulatory approvals required to complete an acquisition transaction. If the Company identifies and completes suitable acquisitions, it may not be able to successfully integrate the business in a timely or cost-effective manner, or retain key personnel and business relationships necessary to achieve anticipated financial results. In addition, there may be unforeseen liabilities that arise in connection with businesses or blocks of insurance business that the Company acquires or reinsures. Additionally, in connection with its acquisition transactions that involve reinsurance, the Company assumes, or otherwise becomes responsible for, the obligations of policies and other liabilities of other insurers. Any regulatory, legal, financial, or other adverse development affecting the other insurer could also have an adverse effect on the Company.

Risks Related to the Financial Environment

The Company's use of derivative financial instruments within its risk management strategy may not be effective or sufficient.

The Company uses derivative financial instruments within its risk management strategy to mitigate risks to which it is exposed, including risks related to credit and/or equity market and/or interest rate levels, foreign exchange, or volatility on its fixed indexed annuity and variable annuity products and associated guaranteed benefit features. The Company may also use derivative financial instruments within its risk management strategy to mitigate risks arising from its exposure to investments in

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individual issuers or sectors of issuers and to mitigate the adverse effects of interest rate levels or volatility on its overall financial condition or results of operations.

These derivative financial instruments may not effectively offset the changes in the carrying value of the exposures due to, among other things, the time lag between changes in the value of such exposures and the changes in the value of the derivative financial instruments purchased by the Company, extreme credit and/or equity market and/or interest rate levels or volatility, contract holder behavior that differs from the Company’s expectations, and basis risk.

The use of derivative financial instruments by the Company generally to hedge various risks that impact GAAP earnings may have an adverse impact on the level of statutory capital and risk-based capital ratios, because earnings under the Company's hedging program are recognized differently under GAAP and statutory accounting methods.

The Company may also choose not to hedge, in whole or in part, these or other risks that it has identified, due to, for example, the availability and/or cost of a suitable derivative financial instrument. In addition, the Company may fail to identify risks, or the magnitude thereof, to which it is exposed. The Company is also exposed to the risk that its use of derivative financial instruments within its risk management strategy may not be properly designed and/or may not be properly implemented as designed.

The Company is subject to the risk that its derivative counterparties or clearinghouse may fail or refuse to meet their obligations to the Company which may result in associated derivative financial instruments to be ineffective or inefficient.

The above factors, either alone or in combination, may have a material adverse effect on the Company's financial condition and results of operations.

The Company's securities lending program may subject it to liquidity and other risks.

The Company maintains a securities lending program in which securities are loaned to third parties, including brokerage firms and commercial banks. The borrowers of the Company's securities provide the Company with collateral, typically in cash, which it separately maintains. The Company invests the collateral in other securities, including primarily short-term government repo and money market funds. Securities loaned under the program may be returned to the Company by the borrower at any time, requiring the Company to return the related cash collateral. In some cases, the Company may use the cash collateral provided to purchase other securities to be held as invested collateral, and the maturity of such securities may exceed the term of the securities loaned under the program and/or the market value of such securities may fall below the amount of cash collateral that the Company is obligated to return to the borrower of the Company's loaned securities. If the Company is required to return significant amounts of cash collateral on short notice and is forced to sell the securities held as invested collateral to meet the obligation, the Company may have difficulty selling such securities in a timely manner and/or the Company may be forced to sell the securities in a volatile or illiquid market for less than it otherwise would have been able to realize under normal market conditions. In addition, the Company's ability to sell securities held as invested collateral may be restricted under stressful market and economic conditions in which liquidity deteriorates.

The amount of statutory capital or risk-based capital that the Company has and the amount of statutory capital or risk-based capital that it must hold to maintain its financial strength and credit ratings and meet other requirements can vary significantly from time to time and such amounts are sensitive to a number of factors outside of the Company’s control.

The Company primarily conducts business through licensed insurance company subsidiaries. Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital formulas

for life and property and casualty companies. The risk-based capital formula for life insurance companies establishes capital requirements relating to insurance, business, asset, interest rate, and certain other risks. The risk-based capital formula for property and casualty companies establishes capital requirements relating to asset, credit, underwriting, and certain other risks.

In any particular year, statutory surplus amounts and risk-based capital ratios may increase or decrease depending on a variety of factors, including, but not limited to, the amount of statutory income or losses generated by the Company's insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital its insurance subsidiaries must hold to support business growth, changes in the Company's statutory reserve requirements, the Company's ability to secure capital market solutions to provide statutory reserve relief, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, the credit ratings of investments held in its portfolio, including those issued by, or explicitly or implicitly guaranteed by, a government, the value of certain derivative instruments, changes in interest rates, foreign currency exchange rates or tax rates, credit market volatility, changes in consumer behavior, and changes to the NAIC risk-based capital formula. Most of these factors are outside of the Company's control. The Company's financial strength and credit ratings are significantly influenced by the statutory surplus amounts and risk-based capital ratios of its insurance company subsidiaries. Rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital the Company must hold in order to maintain its current ratings. In addition, rating agencies may downgrade the investments held in the Company's portfolio, which could result in a reduction of the Company's capital and surplus and/or its risk-based capital ratio.

In scenarios of equity market declines, the amount of additional statutory reserves or risk-based capital the Company is required to hold for its variable product guarantees may increase at a rate greater than the rate of change of the markets. Increases in reserves or risk-based capital could result in a reduction to the Company's capital, surplus, and/or risk-based capital ratio. Also, in environments where there is not a correlative relationship between interest rates and spreads, the Company's market value adjusted annuity product can have a material adverse effect on the Company's statutory surplus position.

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Industry and Regulatory Related Risks

The business of the Company is highly regulated and is subject to routine audits, examinations and actions by regulators, law enforcement agencies and self-regulatory organizations.

The Company is subject to government regulation in each of the states in which it conducts business. In many instances, the regulatory models emanate from the National Association of Insurance Commissioners ("NAIC"). Such regulation is vested in state agencies having broad administrative and in some instances discretionary power dealing with many aspects of the Company's business, which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, cybersecurity, policy forms, reinsurance reserve requirements, insurer use of captive reinsurance companies, acquisitions, mergers, capital adequacy, claims practices and the remittance of unclaimed property. In addition, some state insurance departments may enact rules or regulations with extra-territorial application, effectively extending their jurisdiction to areas such as permitted insurance company investments that are normally the province of an insurance company's domiciliary state regulator.

At any given time, a number of financial, market conduct, or other examinations or audits of the Company's subsidiaries may be ongoing. It is possible that any examination or audit may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures, any of which could have a material adverse effect on the Company's financial condition or results of operations.

The Company's insurance subsidiaries are required to obtain state regulatory approval for rate increases for certain health insurance products. The Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion.

State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and may lead to additional expense for the insurer and, thus, could have a material adverse effect on the Company's financial condition and results of operations. At the federal level, the executive branch may issue executive orders or take other action with respect to life insurance matters, and bills are routinely introduced in both chambers of the United States Congress that could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter or a federal presence for insurance, preempting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and solvency regulation, setting tax rates, and other matters. The Company cannot predict whether or in what form legislation will be enacted and, if so, whether the enacted legislation will positively or negatively affect the Company or whether any effects will be material.

The Company may be subject to regulations of, or regulations influenced by, international regulatory authorities or initiatives.

The NAIC and the Company's state regulators may be influenced by the initiatives of international regulatory bodies, and those initiatives may not translate readily into the legal system under which U.S. insurers must operate. There is increasing pressure to conform to international standards due to the globalization of the business of insurance and the most recent financial crisis. In addition to developments at the NAIC and in the United States, the Financial Stability Board ("FSB"), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of proposals intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated.

The International Association of Insurance Supervisors ("IAIS"), at the direction of the FSB, has published an evolving methodology for identifying "global systemically important insurers" ("G-SIIs") and high-level policy measures that will apply to G-SIIs. The FSB, working with national authorities and the IAIS, has designated nine insurance groups as G-SIIs. The IAIS is working on the policy measures which include higher capital requirements and enhanced supervision. Although neither the Company nor Dai-ichi Life has been designated as a G-SII, the list of designated insurers will be updated annually by the FSB. It is possible that the greater size and reach of the combined group as a result of the Company becoming a subsidiary of Dai-ichi Life, or a change in the methodologies or their application, could lead to the combined group's designation as a G-SII.

The IAIS is also in the process of developing a common framework for the supervision of internationally active insurance groups ("IAIGs"), which is targeted to be implemented in 2019. The framework, which is currently under discussion, may include a global capital measurement standard for insurance groups deemed to be IAIGs that could exceed the sum of state or other local capital requirements. In addition, the IAIS is developing a model framework for the supervision of IAIGs that contemplates "group wide supervision" across national boundaries and legal entities, which could require each IAIG to conduct its own risk and solvency assessment to monitor and manage its overall solvency. It is likely that, as a result of the Merger, the combined group will be deemed an IAIG, in which case it may be subject to supervision requirements and capital measurement standards beyond those applicable to any competitors who are not designated as an IAIG.

The Company's sole stockholder, Dai-ichi Life, is also subject to regulation by the Japanese Financial Services Authority ("JFSA"). Under applicable laws and regulations, Dai-ichi Life is required to provide notice to or obtain the consent of the JFSA prior to taking certain actions or engaging in certain transactions, either directly or indirectly through its subsidiaries, including the Company and its consolidated subsidiaries, which could limit the ability of the Company to engage in certain transactions or business initiatives.

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While it is not yet known how or the extent to which the Company will be impacted by these regulations, the Company may experience increased costs of compliance, increased disclosure, less flexibility in capital management, and more burdensome regulation and capital requirements for specific lines of business. In addition, such regulations could impact the business of the Company and its reserve and capital requirements, financial condition or results of operations.

NAIC actions, pronouncements and initiatives may affect the Company's product profitability, reserve and capital requirements, financial condition or results of operations.

Although some NAIC pronouncements, particularly as they affect accounting, reserving and risk-based capital issues, may take effect automatically without affirmative action taken by the states, the NAIC is not a governmental entity and its processes and procedures do not comport with those to which governmental entities typically adhere. Therefore, it is possible that actions could be taken by the NAIC that become effective without the procedural safeguards that would be present if governmental action was required. In addition, with respect to some financial regulations and guidelines, states sometimes defer to the interpretation of the insurance department of a non-domiciliary state. Neither the action of the domiciliary state nor the action of the NAIC is binding on a non-domiciliary state. Accordingly, a state could choose to follow a different interpretation. The Company is also subject to the risk that compliance with any particular regulator's interpretation of a legal, accounting or actuarial issue may result in non-compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator's interpretation of a legal, accounting or actuarial issue may change over time to the Company's detriment, or that changes to the overall legal or market environment may cause the Company to change its practices in ways that may, in some cases, limit its growth or profitability. Statutes, regulations, interpretations, and instructions may be applied with retroactive impact, particularly in areas such as accounting, reserve and risk-based capital requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products.

The NAIC has announced more focused inquiries on certain matters that could have an impact on the Company's financial condition and results of operations. Such inquiries concern, for example, insurer use of captive reinsurance companies, variable annuity reserves and capital treatment, certain aspects of insurance holding company reporting and disclosure, reinsurance, cybersecurity practices, liquidity assessment, and risk-based capital calculations. In addition, the NAIC continues to consider various initiatives to change and modernize its financial and solvency requirements and regulations. It has adopted principles-based reserving methodologies for life insurance and annuity reserves, but additional formulas and/or guidance relevant to the new standard are being developed. The NAIC is also considering changes to accounting and risk-based capital regulations, risk-based capital calculations, governance practices of insurers, and other items. Additionally, the NAIC is studying a group capital calculation that would aggregate required capital across U.S.-based insurance groups. The Company cannot currently estimate what impact these more focused inquiries or proposed changes, if they occur, will have on its product mix, product profitability, reserve and capital requirements, financial condition or results of operations.

The Company's use of captive reinsurance companies to finance statutory reserves related to its term and universal life products and to reduce volatility affecting its variable annuity products may be limited or adversely affected by regulatory action, pronouncements and interpretations.

The Company currently uses affiliated captive reinsurance companies in various structures to finance certain statutory reserves based on a regulation entitled "Valuation of Life Insurance Policies Model Regulation," commonly known as "Regulation XXX," and a supporting guideline entitled "The Application of the Valuation of Life Insurance Policies Model Regulation," commonly known as "Guideline AXXX," which are associated with term life insurance and universal life insurance with secondary guarantees, respectively, as well as to reduce the volatility in statutory risk-based capital associated with certain guaranteed minimum withdrawal and death benefit riders associated with

certain of the Company’s variable annuity products.

The NAIC has adopted Actuarial Guideline XLVIII ("AG48") and the substantially similar "Term and Universal Life Insurance Reserve Financing Model Regulation" (the "Reserve Model") which establish national standards for new reserve financing arrangements for term life insurance and universal life insurance with secondary guarantees. AG48 and the Reserve Model govern collateral requirements for captive reinsurance arrangements. In order to obtain reserve credit, AG48 and the Reserve Model require a minimum level of funds, consisting of primary and other securities, to be held by or on behalf of ceding insurers as security under each captive life reinsurance treaty. As a result of AG48 and the Reserve Model, the implementation of new captive structures in the future may be less capital efficient, lead to lower product returns and/or increased product pricing, or result in reduced sales of certain products. In some circumstances, AG48 and the Reserve Model could impact the Company’s ability to engage in certain reinsurance transactions with non-affiliates.

The Financial Condition (E) Committee of the NAIC established a Variable Annuity Issues Working Group ("VAIWG") in 2015 to oversee the NAIC’s efforts to study and address regulatory issues resulting in variable annuity captive reinsurance transactions. The VAIWG developed a Framework for Change (the “Framework”) which was adopted in 2015. The Framework suggests numerous changes to current NAIC rules and regulations that are intended to decrease incentives for insurers to establish variable annuities captives, which changes could potentially be applied to both in-force and new business. The Framework proposes that various NAIC groups consider and adopt recommended changes to current rules and regulations (with a likely effective date in 2019) and that, upon adoption, domestic regulators request that insurers ceding business to variable annuity captives recapture such business and dissolve such captives. The VAIWG received a draft proposal for changes in late 2016 and is reviewing the proposal’s possible impact. If the proposal is adopted, changes in the regulation of variable annuities and variable annuity captives could adversely affect our future financial condition and results of operations.

The NAIC adopted revisions to the Part A Laws and Regulations Preamble (the "Preamble") of the NAIC Financial Regulation Standards and Accreditation Program that includes within the definition of “multi-state insurer” certain insurer-owned captives and special purpose vehicles that are single-state licensed but assume reinsurance from cedants operating in multiple

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states. The revised definition subjects certain captives, including XXX/AXXX captives, variable annuity and long-term care captives, to all of the accreditation standards applicable to other traditional multi-state insurers, including standards related to capital and surplus requirements, risk-based capital requirements, investment laws and credit for reinsurance laws. Although we do not expect the revised definition to affect our existing life insurance captives (or our ability to engage in life insurance captive transactions in the future), such application will likely prevent us from engaging in variable annuity captive transactions on the same or a similar basis as in the past and, if applied retroactively, would likely cause us to recapture business from and unwind our existing variable annuity captive ("VA Captive").

While the recapture of business from our existing VA Captive, caused either by actions of the VAIWG or the effect of the Preamble, would not have a material adverse effect on the Company given current market conditions, in the future the Company could experience fluctuations in its risk-based capital ratio due to market volatility if it were prohibited from engaging in similar transactions or required to unwind its existing VA Captive, which could adversely affect our future financial condition and results of operations.

Any regulatory action or change in interpretation that materially adversely affects the Company's use or materially increases the Company's cost of using captives or reinsurers for the Affected Business, either retroactively or prospectively, could have a material adverse impact on the Company's financial condition or results of operations. If the Company were required to discontinue its use of captives for intercompany reinsurance transactions on a retroactive basis, adverse impacts would include early termination fees payable to third party finance providers with respect to certain structures, diminished capital position and higher cost of capital. Additionally, finding alternative means to support policy liabilities efficiently is an unknown factor that would be dependent, in part, on future market conditions and the Company's ability to obtain required regulatory approvals. On a prospective basis, discontinuation of the use of captives could impact the types, amounts and pricing of products offered by the Company's insurance subsidiaries.

Laws, rules and regulations promulgated in connection with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act may adversely affect the results of operations or financial condition of the Company.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") enacted in July 2010 made sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of Dodd-Frank are or may become applicable to the Company, its competitors or those entities with which the Company does business. Such provisions include, but are not limited to: the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation and standards applicable to broker-dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareowners, and the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Since the enactment of Dodd-Frank, many regulations have been enacted and others are likely to be adopted in the future that will have an impact upon the Company. Dodd-Frank also created the Financial Stability Oversight Council (the "FSOC"), which has issued a final rule and interpretive guidance setting forth the methodology by which it will determine whether a non-bank financial company is a systemically important financial institution ("SIFI"). A non-bank financial company, such as the Company, that is designated as a SIFI by the FSOC will become subject to supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company is not currently supervised by the Federal Reserve as a SIFI. Such supervision could impact the Company's requirements relating to capital, liquidity, stress testing, limits on counterparty credit exposure, compliance and governance, early remediation in the event of financial weakness and other prudential matters, and in other ways the Company currently cannot anticipate. FSOC-designated non-bank financial companies will also be required to prepare resolution plans, so-called "living wills," that set out how they could most efficiently be liquidated if they endangered the U.S. financial system or the broader economy. The FSOC

has conducted multiple rounds of SIFI designation consideration and continues to make changes to its process for designating a company as a SIFI. The FSOC has made SIFI designations, and the Company was not designated as such. However, the Company could be considered and designated at any time. The Company is at this time unable to predict the impact on an entity that is supervised as a SIFI by the Federal Reserve Board. The Company is not able to predict whether the capital requirements or other requirements imposed on SIFIs may impact the requirements applicable to the Company even if it is not designated as a SIFI. The uncertainty about regulatory requirements could influence the Company's product line or other business decisions with respect to some product lines.

Additionally, Dodd-Frank created the Consumer Financial Protection Bureau ("CFPB"), an independent division of the Department of Treasury with jurisdiction over credit, savings, payment, and other consumer financial products and services, but excluding investment products already regulated by the United States Securities and Exchange Commission (the "SEC") or the U.S. Commodity Futures Trading Commission. The CFPB has supervisory authority over certain non-banks whose activities or products it determines pose risks to consumers, and issued a rule in 2016 amending regulations under the Home Mortgage Disclosure Act that requires the Company to, among other things, collect and disclose extensive data related to its lending practices. At this time, the rule relates to reporting data relative to Company loans made on multi-family apartments, seniors living housing, manufactured housing communities and any mixed-use properties which contain a residential component. It is unclear at this time how burdensome compliance with this or other rules promulgated under the Home Mortgage Disclosure Act will become.

Certain of the Company's subsidiaries sell products that may be regulated by the CFPB. CFPB continues to bring enforcement actions involving a growing number of issues, including actions brought jointly with state Attorneys General, which could directly or indirectly affect the Company or any of its subsidiaries. Additionally, the CFPB is exploring the possibility of helping Americans manage their retirement savings and is considering the extent of its authority in that area. The Company is unable at this time to predict the impact of these activities on the Company.

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Dodd-Frank includes a framework of regulation of over-the-counter ("OTC") derivatives markets that requires clearing of certain types of transactions which have been or are currently traded OTC by the Company. The types of transactions required to be cleared are expected to increase in the future. In addition, new variation margin requirements applicable to derivatives transactions that are not required to be cleared became effective in September 2017. The increase of transactions required to be cleared and the application of new margin requirements for uncleared derivatives transactions may result in additional costs to the Company. Increased margin requirements on the Company's part, combined with restrictions on securities that will qualify as eligible collateral, could continue to reduce its liquidity and require an increase in its holdings of cash and government securities with lower yields causing a reduction in income. The Company uses derivative financial instruments to mitigate a wide range of risks in connection with its businesses, including those arising from its fixed and variable annuity products with guaranteed benefit features. The derivative clearing requirements of Dodd-Frank could continue to increase the cost of the Company's risk mitigation and expose it to the risk of a default by a clearinghouse with respect to the Company's cleared derivative transactions.

Numerous provisions of Dodd-Frank require the adoption of implementing rules and/or regulations. The process of adopting such implementing rules and/or regulations have in some instances been delayed beyond the timeframes imposed by Dodd-Frank. Until the various final regulations are promulgated pursuant to Dodd-Frank, the full impact of the regulations on the Company will remain unclear. In addition, Dodd-Frank mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, the Company, its competitors or the entities with which the Company does business. Legislative or regulatory requirements imposed by or promulgated in connection with Dodd-Frank may impact the Company in many ways, including but not limited: placing the Company at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for the Company to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, or causing historical market behavior or statistics utilized by the Company in connection with its efforts to manage risk and exposure to no longer be predictive of future risk and exposure or otherwise have a material adverse effect on the overall business climate as well as the Company's financial condition and results of operations.

Regulations issued by the Department of Labor on April 6, 2016, expanding the definition of "investment advice fiduciary" under ERISA and creating and revising several prohibited transaction exemptions for investment activities in light of that expanded definition, may have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations.

Broker-dealers, insurance agencies and other financial institutions sell the Company's annuities to employee benefit plans governed by provisions of the Employee Retirement Income Security Act ("ERISA") and Individual Retirement Accounts ("IRAs") that are governed by similar provisions under the Internal Revenue Code (the "Code"). Consequently, our activities and those of the firms that sell the Company's products are subject to restrictions that require ERISA fiduciaries to perform their duties solely in the interests of ERISA plan participants and beneficiaries, and that prohibit ERISA fiduciaries from causing a covered plan or retirement account to engage in certain prohibited transactions absent an exemption. In general, the prohibited transaction provisions of ERISA and the Code restrict the receipt of compensation from third parties in connection with the provision of investment advice to ERISA plans and participants and IRAs.

On April 6, 2016, the Department of Labor issued new regulations expanding the definition of "investment advice fiduciary" under ERISA. These new regulations increased the number of circumstances in which the Company and broker-dealers, insurance agencies and other financial institutions that sell the Company's products could be deemed a fiduciary when providing investment advice with respect to ERISA plans or IRAs. The Department of Labor also issued amendments to long-standing exemptions from the provisions of ERISA and the Code that permit fiduciaries to

engage in certain types of transactions ("Prohibited Transaction Exemptions") and adopted new Prohibited Transaction Exemptions. These amended and new Prohibited Transaction Exemptions appear to increase significantly the conditions that must be satisfied by fiduciaries in order to receive traditional forms of commission, such as sales commissions, for sales of insurance products to ERISA plans, plan participants and IRAs.

The expanded definition of "investment advice fiduciary" and certain regulations related to new and revised Prohibited Transaction Exemptions went into effect on June 9, 2017, allowing fiduciaries to rely on the Prohibited Transaction Exemptions provided that they adhere to certain required Impartial Conduct Standards. The implementation of additional conditions applicable to the Prohibited Transaction Exemptions with which fiduciaries must comply has been delayed until July 1, 2019 and may be impacted, along with the current definition of "investment advice fiduciary", by public comments solicited pursuant to the Department of Labor's Request for Information. Responses to the Request for Information may also result in the adoption of new Prohibited Transaction Exemptions or additional conditions applicable to existing exemption requirements.

There remains significant uncertainty surrounding the final form that these regulations may take. Our current distributors may continue to move forward with their plans to limit the number of products they offer, including the types of products offered by the Company. The Company may find it necessary to change sales representative and/or broker compensation, to limit the assistance or advice it can provide to owners of the Company's annuities, to replace or engage additional distributors, or otherwise change the manner in which it designs and supports sales of its annuities. In addition, the Company continues to incur expenses in connection with initial and ongoing compliance obligations with respect to such rules, and in the aggregate these expenses may be significant. The foregoing could have a material adverse impact on our ability to sell annuities and other products, to retain in-force business, and on our financial condition or results of operations.

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The Company may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with its business operations.

Certain life insurance policies, contracts, and annuities offered by the Company are subject to regulation under the federal securities laws administered by the SEC. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions. From time to time, the SEC and the Financial Industry Regulatory Authority ("FINRA") examine or investigate the activities of broker-dealers and investment advisors, including the Company's affiliated broker-dealers and investment advisors. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisors doing business through such entities and the entities' supervision of those persons. It is possible that any examination or investigation could lead to enforcement action by the regulator and/or may result in payments of fines and penalties, payments to customers, or both, as well as changes in systems or procedures of such entities, any of which could have a material adverse effect on the Company's financial condition or results of operations.

In June of 2017, the Chairman of the SEC requested public comments on a series of questions focused on (1) the current regulatory framework for broker-dealers and investment advisers, (2) the current state of the market for retail advice, and (3) market trends. The SEC will consider these views as it determines future steps, including potential rulemaking, related to standards of conduct applicable to broker-dealers and investment advisers. In this request the Chairman also welcomed the opportunity to engage with the Department of Labor as the SEC moves forward with its examination of the standards of conduct applicable to broker-dealers, investment advisers and matters related thereto.

FINRA has also issued a report addressing how its member firms might identify and address conflicts of interest including conflicts related to the introduction of new products and services and the compensation of the member firms' associated persons. These regulatory initiatives could have an impact on Company operations and the manner in which broker-dealers and investment advisers distribute the Company's products.

The Company may also be subject to regulation by governments of the countries in which it currently does, or may in the future, do, business, as well as regulation by the U.S. Government with respect to its operations in foreign countries, such as the Foreign Corrupt Practices Act. Penalties for violating the various laws governing the Company's business in other countries may include restrictions upon business operations, fines and imprisonment, both within the U.S. and abroad. U.S. enforcement of anti-corruption laws continues to increase in magnitude, and penalties may be substantial.

The Company is subject to conditions and requirements set forth in the Telephone Consumer Protection Act ("TCPA"), which places restrictions on the use of automated telephone and facsimile machines. Class action lawsuits alleging violations of the act have been filed against a number of companies, including life insurance carriers. These class action lawsuits contain allegations that defendant carriers were vicariously liable for the alleged wrongful conduct of agents who violated the TCPA. Some of the class actions have resulted in substantial settlements against other insurers. Any such actions against the Company could result in a material adverse effect upon our financial condition or results of operations.

Other types of regulation that could affect the Company and its subsidiaries include, but are not limited to, insurance company investment laws and regulations, state statutory accounting and reserving practices, antitrust laws, minimum solvency requirements, enterprise risk requirements, state securities laws, federal privacy laws, cybersecurity regulation, technology and data regulations, insurable interest laws, federal anti-money laundering and anti-terrorism laws, employment and immigration laws (including laws in Alabama where over half of the Company's employees are located), and because the Company owns and operates real property, state, federal, and local environmental laws. Under some circumstances, severe penalties may be imposed for breach of these laws.

The Company cannot predict what form any future changes to laws and/or regulations affecting participants in the financial services sector and/or insurance industry, including the Company and its competitors or those entities with which it does business, may take, or what effect, if any, such changes may have.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended September 30, 2017, the Company sold no equity securities in transactions which were not registered under the Securities Act of 1933, as amended.

Purchases of Equity Securities by the Issuer

During the quarter ended September 30, 2017, 100% of the Company's common stock was owned by Dai-ichi Life Holdings, Inc., and was not available for repurchase by the Company.

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Item 6. Exhibits

Exhibit Number	
3(a)	Certificate of Incorporation of the Company effective as of February 1, 2015, incorporated by reference to Exhibit 3(a) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 filed February 26, 2015 (No. 001-11339).
3(b)	Amended and Restated Bylaws of the Company effective January 4, 2016, incorporated by reference to Exhibit 3(b) to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 filed February 25, 2016 (No. 001-11339).
4(a)	Supplemental Indenture No. 11, dated as of August 10, 2017, to the Subordinated Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., as successor to AmSouth Bank, as Trustee, incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed August 10, 2017 (No. 001-11339).
4(b)	Form of 5.350% Subordinated Debenture due 2052, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed August 10, 2017 (No. 001-11339).
31(a)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31(b)	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32(a)	Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements from the quarterly report on Form 10-Q of Protective Life Corporation for the quarter ended September 30, 2017, filed on November 14, 2017, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Statements of Comprehensive Income, (iii) the Consolidated Condensed Balance Sheets, (iv) the Consolidated Condensed Statement of Shareowner’s Equity, (v) the Consolidated Condensed Statements of Cash Flows, and (iv) the Notes to Consolidated Condensed Financial Statements.

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTIVE LIFE CORPORATION

Date: November 14, 2017 By:/s/ PAUL R. WELLS

Paul R. Wells
Senior Vice President, Chief Accounting Officer, and
Controller