PROTECTIVE LIFE CORP
Form 10-Q
May 11, 2018
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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 March 31, 2018

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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated Filer o

Non-accelerated filer x (Do not check if a smaller reporting company) 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 April 23, 2018: 1,000

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PROTECTIVE LIFE CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED MARCH 31, 2018

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PART I

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Revenues		
Premiums and policy fees	$889,166	$860,586
Reinsurance ceded	(345,423)	(316,076)
Net of reinsurance ceded	543,743	544,510
Net investment income	520,863	506,413
Realized investment gains (losses):		
Derivative financial instruments	78,059	(69,878)
All other investments	(87,599)	22,841
Other-than-temporary impairment losses	(691)	(2,725)
Portion recognized in other comprehensive income (before taxes)	(2,954)	(5,106)
Net impairment losses recognized in earnings	(3,645)	(7,831)
Other income	114,411	109,242
Total revenues	1,165,832	1,105,297
Benefits and expenses		
Benefits and settlement expenses, net of reinsurance ceded: (2018 - $347,637; 2017 - $263,377)	786,802	749,642
Amortization of deferred policy acquisition costs and value of business acquired	57,981	20,519
Other operating expenses, net of reinsurance ceded: (2018 - $43,117; 2017 - $51,017)	229,251	222,787
Total benefits and expenses	1,074,034	992,948
Income before income tax	91,798	112,349
Income tax expense	17,686	36,935
Net income	$74,112	$75,414

See Notes to the Consolidated Condensed Financial Statements

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Net income	$74,112	$75,414
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of income tax: (2018 - $(153,379); 2017 - $85,962)	(577,712)	159,641
Reclassification adjustment for investment amounts included in net income, net of income tax: (2018 - $181; 2017 - $(578))	681	(1,072)
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: (2018 - $3; 2017 - $1,995)	11	3,703
Change in accumulated (loss) gain - derivatives, net of income tax: (2018 - $129; 2017 - $(362))	487	(672)
Reclassification adjustment for derivative amounts included in net income, net of income tax: (2018 - $24; 2017 - $72)	89	133
Change in postretirement benefits liability adjustment, net of income tax: (2018 - $0; 2017 - $0)	—	—
Total other comprehensive income (loss)	(576,444)	161,733
Total comprehensive income (loss)	$(502,332)	$237,147

See Notes to the Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	As of March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2018 - $41,165,316 ; 2017 - $41,153,551)	$40,023,550	$41,176,052
Fixed maturities, at amortized cost (fair value: 2018 - $2,674,129; 2017 - $2,776,327)	2,699,826	2,718,904
Equity securities, at fair value (cost: 2018 - $676,451; 2017 - $740,813)	681,520	754,360
Mortgage loans (related to securitizations: 2018 - $1,367; 2017 - $226,409)	6,846,633	6,817,723
Investment real estate, net of accumulated depreciation (2018 - $154; 2017 - $132)	7,531	8,355
Policy loans	1,594,642	1,615,615
Other long-term investments	920,939	915,595
Short-term investments	441,781	615,210
Total investments	53,216,422	54,621,814
Cash	307,724	252,310
Accrued investment income	497,984	491,802
Accounts and premiums receivable	127,762	124,934
Reinsurance receivables	5,090,572	5,075,698
Deferred policy acquisition costs and value of business acquired	2,434,154	2,199,577
Goodwill	793,470	793,470
Other intangibles, net of accumulated amortization (2018 - $154,449; 2017 - $140,368)	651,707	663,572
Property and equipment, net of accumulated depreciation (2018 - $25,492; 2017 - $22,926)	108,682	111,417
Other assets	208,366	227,357
Income tax receivable	6,753	76,543
Assets related to separate accounts		
Variable annuity	13,549,068	13,956,071
Variable universal life	1,019,250	1,035,202
Total assets	$78,011,914	$79,629,767

See Notes to the Consolidated Condensed Financial Statements

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

	As of March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
Liabilities		
Future policy benefits and claims	$30,690,409	$30,957,592
Unearned premiums	863,162	875,405
Total policy liabilities and accruals	31,553,571	31,832,997
Stable value product account balances	4,699,614	4,698,371
Annuity account balances	11,060,885	10,921,190
Other policyholders' funds	1,114,823	1,267,198
Other liabilities	2,454,942	2,353,565
Deferred income taxes	1,068,091	1,232,407
Non-recourse funding obligations	2,728,689	2,747,477
Secured financing liabilities	778,947	1,017,749
Debt	1,096,368	945,052
Subordinated debt securities	495,324	495,289
Liabilities related to separate accounts		
Variable annuity	13,549,068	13,956,071
Variable universal life	1,019,250	1,035,202
Total liabilities	71,619,572	72,502,568
Commitments and contingencies - Note 11		
Shareowner's equity		
Common Stock: 2018 and 2017 - $0.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,554,059	5,554,059
Retained earnings	1,412,583	1,560,444
Accumulated other comprehensive income (loss):		
Net unrealized (losses) gains on investments, net of income tax: (2018 - $(149,309); 2017 - $6,883)	(561,687)	25,896
Net unrealized losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2018 - $(3); 2017 - $(6))	(11)	(22)
Accumulated gain (loss) - derivatives, net of income tax: (2018 - $352; 2017 - $198)	1,323	747
Postretirement benefits liability adjustment, net of income tax: (2018 - $(3,469); 2017 - $(3,469))	(13,925)	(13,925)
Total shareowner's equity	6,392,342	7,127,199
Total liabilities and shareowner's equity	$78,011,914	$79,629,767

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, 2017	$—	$5,554,059	$1,560,444	$ 12,696	$7,127,199
Net income for the three months ended March 31, 2018			74,112		74,112
Other comprehensive loss				(576,444)	(576,444)
Comprehensive loss for the three months ended March 31, 2018					(502,332)
Cumulative effect adjustments			(81,973)	(10,552)	(92,525)
Dividends to parent			(140,000)		(140,000)
Balance, March 31, 2018	$—	$5,554,059	$1,412,583	$ (574,300)	$6,392,342

See Notes to the Consolidated Condensed Financial Statements

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 74,112	$ 75,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses	13,185	54,868
Amortization of DAC and VOBA	57,981	20,519
Capitalization of DAC	(99,246)	(81,474)
Depreciation and amortization expense	16,763	15,474
Deferred income tax	20,965	29,133
Accrued income tax	69,790	6,737
Interest credited to universal life and investment products	178,238	160,239
Policy fees assessed on universal life and investment products	(351,128)	(335,883)
Change in reinsurance receivables	(14,874)	15,219
Change in accrued investment income and other receivables	(7,185)	(9,368)
Change in policy liabilities and other policyholders' funds of traditional life and health products	(111,356)	(94,234)
Trading securities:		
Maturities and principal reductions of investments	53,420	44,041
Sale of investments	67,298	85,382
Cost of investments acquired	(129,346)	(114,390)
Other net change in trading securities	(10,901)	3,801
Amortization of premiums and accretion of discounts on investments and mortgage loans	73,529	142,613
Change in other liabilities	27,947	19,373
Other, net	(21,303)	2,554
Net cash (used in) provided by operating activities	$ (92,111)	$ 40,018

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 Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	$151,227	$166,419
Sale of investments, available-for-sale	436,969	269,509
Cost of investments acquired, available-for-sale	(674,513)	(623,564)
Change in investments, held-to-maturity	18,000	11,000
Mortgage loans:		
New lendings	(248,231)	(373,108)
Repayments	206,111	177,142
Change in investment real estate, net	583	832
Change in policy loans, net	20,973	14,729
Change in other long-term investments, net	(136,969)	(33,832)
Change in short-term investments, net	187,652	31,859
Net unsettled security transactions	48,994	7,361
Purchase of property, equipment, and intangibles	(2,244)	(8,118)
Net cash provided by (used in) investing activities	$8,552	$(359,771)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	$375,000	$255,000
Principal payments on line of credit arrangement and debt	(211,412)	(98,498)
Issuance (repayment) of non-recourse funding obligations	(18,000)	(11,000)
Secured financing liabilities	(238,802)	29,504
Dividends to shareowner	(140,000)	(143,848)
Investment product deposits and change in universal life deposits	884,607	901,387
Investment product withdrawals	(512,323)	(551,597)
Other financing activities, net	(97)	—
Net cash provided by financing activities	$138,973	$380,948
Change in cash	55,414	61,195
Cash at beginning of period	252,310	348,182
Cash at end of period	$307,724	$409,377

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. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three months ended March 31, 2018, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018. 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, 2017.

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, 2017. There were no significant changes to the Company's accounting policies during the three months ended March 31, 2018 other than those discussed below.

Property and Casualty Insurance Products

Property and casualty insurance products include service contract business, surety bonds, and guaranteed asset protection ("GAP"). Premiums and fees associated with service contracts and GAP products are recognized based on expected claim patterns. For all other products, premiums are generally recognized over the terms of the contract on a pro-rata basis. Commissions and fee income associated with other products are recognized as earned when the related services are provided to the customer. Unearned premium reserves are maintained for the portion of the premiums that is related to the unexpired period of the policy. Benefit reserves are recorded when insured events occur. Benefit reserves include case basis reserves for known but unpaid claims as of the balance sheet date as well as incurred but not reported ("IBNR") reserves for claims where the insured event has occurred but has not been reported to the Company as of the balance sheet date. The case basis reserves and IBNR are calculated based on historical experience and on assumptions relating to claim severity and frequency, the level of used vehicle prices, and other factors. These assumptions are modified as necessary to reflect anticipated trends.

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Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers. In consideration of the amendments in this Update, the Company revised its recognition pattern for administrative fees associated with certain vehicle service and GAP products. Previously, these fees were recognized based on the work effort involved in satisfying the Company's contract obligations. The Company will recognize these fees on a claims occurrence basis in future periods. To reflect this change in accounting principle, the Company recorded a cumulative effect adjustment as of January 1, 2018 that resulted in a decrease in retained earnings of $92.5 million. The pre-tax impact to each affected line item on the Company's financial statements is reflected in the table below:

	As Reported	Previous Accounting Method
	For The Three Months Ended March 31, 2018	
	(Dollars In Millions)	
Financial Statement Line Item:		
Balance Sheet		
Deferred policy acquisition costs and value of business acquired	$2,434.2	$ 2,295.2
Other liabilities	$2,454.9	$ 2,193.3
Statements of Income		
Other income	$114.4	$ 113.2
Amortization of deferred policy acquisition costs and value of business acquired	$58.0	$ 44.2
Other operating expenses, net of reinsurance ceded	$229.3	$ 243.5

Accounting Pronouncements Recently 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 adopted 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, impacted 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. The lines of business to which the revised guidance applies are not material to the Company's financial statements. In consideration of the amendments in this Update, the Company revised its recognition pattern for administrative fees associated with certain vehicle service and GAP products. Previously, these fees were recognized based on the work effort involved in satisfying the Company's contract obligations. The Company will recognize these fees on a claims occurrence basis in future periods. To reflect this change in accounting principle, the Company recorded a cumulative effect adjustment as of January 1, 2018 that resulted in a decrease in retained earnings of $92.5 million. The Company also implemented minor changes to its accounting and disclosures with respect to the lines of business referenced above to ensure compliance with the revised guidance. See above for additional discussion.

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 were applied on a modified retrospective basis. The Company recorded 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, net of income tax, resulted in a $10.6 million increase to retained earnings and a corresponding decrease to accumulated other comprehensive income, resulting in no net impact to consolidated shareowner's equity. The Company has updated its disclosures in Note 4, Investment Operations and Note 5, Fair Value of Financial Instruments in accordance with the ASU.

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, 2017 using the retrospective method. There was no financial impact.

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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. There was no impact to the Company on adoption.

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 did not impact the Company's financial position, results of operations, or current disclosures.

Accounting Pronouncements Not Yet Adopted

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. 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 the financial and operational impact of implementing the Update, as well as 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.

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

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

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

Summarized financial information for the Closed Block as of March 31, 2018, and December 31, 2017, is as follows:

	As of March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	$5,760,621	$ 5,791,867
Policyholder dividend obligation	—	160,712
Other liabilities	34,796	30,764
Total closed block liabilities	5,795,417	5,983,343
Closed block assets		
Fixed maturities, available-for-sale, at fair value	$4,497,521	$ 4,669,856

Mortgage loans on real estate	107,826	108,934
Policy loans	692,632	700,769
Cash	39,464	31,182
Other assets	113,120	122,637
Total closed block assets	5,450,563	5,633,378
Excess of reported closed block liabilities over closed block assets	344,854	349,965
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses) net of policyholder dividend obligation: $(162,429) and $(13,429); and net of income tax: $34,911 and $2,820	(3,014)	—
Future earnings to be recognized from closed block assets and closed block liabilities	$341,840	$ 349,965

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Reconciliation of the policyholder dividend obligation is as follows:

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Policyholder dividend obligation, beginning of period	$ 160,712	$ 31,932
Applicable to net revenue (losses)	(11,712)	(16,753)
Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation	(149,000)	26,001
Policyholder dividend obligation, end of period	$ —	$ 41,180

Closed Block revenues and expenses were as follows:

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Revenues		
Premiums and other income	$ 39,612	$ 42,836
Net investment income	50,543	51,359
Net investment gains	(237)	63
Total revenues	89,918	94,258
Benefits and other deductions		
Benefits and settlement expenses	79,952	80,108
Other operating expenses	(319)	166
Total benefits and other deductions	79,633	80,274
Net revenues before income taxes	10,285	13,984
Income tax expense	2,160	4,895
Net revenues	$ 8,125	$ 9,089

4. INVESTMENT OPERATIONS

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Fixed maturities	$ 2,783	$ 9,490
Equity gains and losses(1)	(8,786)	(9)
Impairments	(3,645)	(7,831)
Modco trading portfolio	(84,709)	18,552
Other investments	3,113	(5,192)
Total realized gains (losses) - investments	$ (91,244)	$ 15,010

(1) Beginning in the three month period ending March 31, 2018, all changes in the fair market value of equity securities are recorded as a realized gains (loss) as a result of the adoption of ASU No. 2016-01

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Gross realized gains	$ 8,049	$ 10,738
Gross realized losses:		
Impairment losses	$ (3,645)	$ (7,831)
Other realized losses	$ (5,267)	$ (1,257)

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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Securities in an unrealized gain position:		
Fair value (proceeds)	$ 142,133	$ 169,134
Gains realized	$ 8,049	$ 10,738
Securities in an unrealized loss position(1):		
Fair value (proceeds)	$ 56,984	$ 12,452
Losses realized	$ (5,267)	$ (1,257)

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

The chart below summarizes the realized gains (losses) on equity securities sold during the period and equity securities still held at the reporting date.

	For The Three Months Ended March 31,
	2018
	(Dollars In Thousands)
Net gains (losses) recognized during the period on equity securities	$ (8,786)
Less: net gains (losses) recognized on equity securities sold during the period	$ (1,702)
Gains (losses) recognized during the period on equity securities still held	$ (7,084)

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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 March 31, 2018	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	$2,430,278	$11,723	$(47,631)	$2,394,370	$ 14
Commercial mortgage-backed securities	1,899,618	583	(58,695)	1,841,506	—
Other asset-backed securities	1,238,929	15,376	(9,653)	1,244,652	—
U.S. government-related securities	1,377,633	168	(50,001)	1,327,800	—
Other government-related securities	282,664	6,421	(11,626)	277,459	—
States, municipals, and political subdivisions	1,767,604	6,162	(73,487)	1,700,279	—
Corporate securities	29,487,086	261,484	(1,188,797)	28,559,773	—
Redeemable preferred stock	94,362	336	(4,129)	90,569	—
	38,578,174	302,253	(1,444,019)	37,436,408	14
Short-term investments	371,290	—	—	371,290	—
	$38,949,464	$302,253	$(1,444,019)	$37,807,698	$ 14

As of December 31, 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	$2,330,832	$19,413	$(23,033)	$2,327,212	$ 10
Commercial mortgage-backed securities	1,914,998	5,010	(30,186)	1,889,822	—
Other asset-backed securities	1,234,376	20,936	(5,763)	1,249,549	—
U.S. government-related securities	1,255,244	185	(32,177)	1,223,252	—
Other government-related securities	282,767	9,463	(4,948)	287,282	—
States, municipals, and political subdivisions	1,770,299	16,959	(45,613)	1,741,645	(37)
Corporate securities	29,606,484	623,713	(528,187)	29,702,010	(1)
Redeemable preferred stock	94,362	232	(3,503)	91,091	—
	38,489,362	695,911	(673,410)	38,511,863	(28)
Equity securities	735,569	22,318	(8,771)	749,116	—
Short-term investments	558,949	—	—	558,949	—
	$39,783,880	$718,229	$(682,181)	$39,819,928	$ (28)

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

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The fair value of the Company's investments classified as trading are as follows:

	As of March 31, 2018	As of December 31, 2017
	(Dollars In Thousands)	
Fixed maturities:		
Residential mortgage-backed securities	$265,547	$259,694
Commercial mortgage-backed securities	146,633	146,804
Other asset-backed securities	129,714	138,097
U.S. government-related securities	37,575	27,234
Other government-related securities	40,368	63,925
States, municipals, and political subdivisions	318,142	326,925
Corporate securities	1,645,899	1,698,183
Redeemable preferred stock	3,264	3,327
	2,587,142	2,664,189
Equity securities	5,366	5,244
Short-term investments	70,491	56,261
	$2,662,999	$2,725,694

The amortized cost and fair value of available-for-sale and held-to-maturity fixed maturities as of March 31, 2018, 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	$912,935	$909,757	$—	$—
Due after one year through five years	7,026,832	6,915,584	—	—
Due after five years through ten years	6,881,555	6,721,386	—	—
Due after ten years	23,756,852	22,889,681	2,699,826	2,674,129
	$38,578,174	$37,436,408	$2,699,826	$2,674,129

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

	For The Three Months Ended March 31, 2018 Fixed Maturities
	(Dollars In Thousands)
Other-than-temporary impairments	$ (691)
Non-credit impairment losses recorded in other comprehensive income	(2,954)
Net impairment losses recognized in earnings	$ (3,645)

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	For The Three Months Ended March 31, 2017		
	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)		
Other-than-temporary impairments	$(95)	$(2,630)	$(2,725)
Non-credit impairment losses recorded in other comprehensive income	(5,106)	—	(5,106)
Net impairment losses recognized in earnings	$(5,201)	$(2,630)	$(7,831)

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 months ended March 31, 2018 and 2017.

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):

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Beginning balance	$ 3,268	$ 12,685
Additions for newly impaired securities	—	—
Additions for previously impaired securities	—	—
Reductions for previously impaired securities due to a change in expected cash flows	(1,033)	(12,685)
Reductions for previously impaired securities that were sold in the current period	—	—
Ending balance	$ 2,235	$ —

The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2018:

	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	$1,426,703	$(29,466)	$394,955	$(18,165)	$1,821,658	$(47,631)
Commercial mortgage-backed securities	984,307	(24,232)	756,845	(34,463)	1,741,152	(58,695)
Other asset-backed securities	143,917	(1,784)	129,840	(7,869)	273,757	(9,653)
U.S. government-related securities	145,876	(3,108)	1,054,322	(46,893)	1,200,198	(50,001)
Other government-related securities	90,010	(4,221)	112,461	(7,405)	202,471	(11,626)
States, municipalities, and political subdivisions	505,864	(10,768)	1,007,246	(62,719)	1,513,110	(73,487)
Corporate securities	12,307,646	(337,936)	10,410,752	(850,861)	22,718,398	(1,188,797)
Redeemable preferred stock	57,050	(1,408)	22,859	(2,721)	79,909	(4,129)
	$15,661,373	$(412,923)	$13,889,280	$(1,031,096)	$29,550,653	$(1,444,019)

RMBS and CMBS had gross unrealized losses greater than twelve months of $18.2 million and $34.5 million, respectively, as of March 31, 2018. 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 $7.9 million as of March 31, 2018. This category predominately includes student loan backed auction rate securities whose underlying collateral is at least 97%

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guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.
The U.S. government-related securities and the other government-related securities had gross unrealized losses greater than twelve months of $46.9 million and $7.4 million as of March 31, 2018, respectively. 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 $62.7 million as of March 31, 2018. These declines were related to changes in interest rates.
The corporate securities category had gross unrealized losses greater than twelve months of $850.9 million as of March 31, 2018. 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 March 31, 2018, the Company had a total of 2,428 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.
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, 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	$766,599	$(9,671)	$416,221	$(13,362)	$1,182,820	$(23,033)
Commercial mortgage-backed securities	757,471	(8,592)	796,456	(21,594)	1,553,927	(30,186)
Other asset-backed securities	86,506	(322)	134,316	(5,441)	220,822	(5,763)
U.S. government-related securities	94,110	(688)	1,072,232	(31,489)	1,166,342	(32,177)
Other government-related securities	24,830	(169)	115,294	(4,778)	140,124	(4,947)
States, municipalities, and political subdivisions	170,268	(1,738)	1,027,747	(43,874)	1,198,015	(45,612)
Corporate securities	5,054,316	(55,795)	10,962,689	(472,394)	16,017,005	(528,189)
Redeemable preferred stock	22,048	(1,120)	23,197	(2,383)	45,245	(3,503)
Equities	86,586	(1,401)	91,195	(7,370)	177,781	(8,771)
	$7,062,734	$(79,496)	$14,639,347	$(602,685)	$21,702,081	$(682,181)

RMBS and CMBS had gross unrealized losses greater than twelve months of $13.4 million and $21.6 million, respectively, as of December 31, 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 $5.4 million as of December 31, 2017. 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 U.S. government-related securities and other government-related securities had gross unrealized losses greater than twelve months of $31.5 million and $4.8 million as of December 31, 2017, respectively. 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 $43.9 million as of December 31, 2017. These declines were related to changes in interest rates.
The corporate securities category had gross unrealized losses greater than twelve months of $472.4 million as of December 31, 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 March 31, 2018, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.8 billion and had an amortized cost of $1.9 billion. In addition, included in the Company's trading portfolio, the

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Company held $217.2 million of securities which were rated below investment grade. Approximately $307.5 million of the available-for-sale and trading securities that were below investment grade were not publicly traded.

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

	For The Three Months Ended March 31, 2018	2017
	(Dollars In Thousands)	
Fixed maturities	$(884,219)	$224,115

The amortized cost and fair value of the Company's investments classified as held-to-maturity as of March 31, 2018 and December 31, 2017, are as follows:

As of March 31, 2018	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	$718,826	$ —	$ (56,007)	$662,819	$ —
Steel City LLC	1,981,000	30,310	—	2,011,310	—
	$2,699,826	$ 30,310	$ (56,007)	$2,674,129	$ —

As of December 31, 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	$704,904	$ —	$ (19,163)	$685,741	$ —
Steel City LLC	2,014,000	76,586	—	2,090,586	—
	$2,718,904	$ 76,586	$ (19,163)	$2,776,327	$ —

During the three months ended March 31, 2018 and 2017, the Company recorded no other-than-temporary impairments on held-to-maturity securities.

The Company's held-to-maturity securities had $30.3 million of gross unrecognized holding gains and $56.0 million of gross unrecognized holding losses by maturity as of March 31, 2018. 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 $76.6 million of gross unrecognized holding gains and $19.2 million of gross unrecognized holding losses by maturity as of December 31, 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.

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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 March 31, 2018 and December 31, 2017, 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 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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018:

	Measurement Category	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)			
Assets:					
Fixed maturity securities - available-for-sale					
Residential mortgage-backed securities	4	$—	$2,394,370	$—	$2,394,370
Commercial mortgage-backed securities	4	—	1,841,506	—	1,841,506
Other asset-backed securities	4	—	740,863	503,789	1,244,652
U.S. government-related securities	4	1,041,123	286,677	—	1,327,800
State, municipalities, and political subdivisions	4	—	1,700,279	—	1,700,279
Other government-related securities	4	—	277,459	—	277,459
Corporate securities	4	—	27,933,364	626,409	28,559,773
Redeemable preferred stock	4	72,244	18,325	—	90,569
Total fixed maturity securities - available-for-sale		1,113,367	35,192,843	1,130,198	37,436,408
Fixed maturity securities - trading					
Residential mortgage-backed securities	3	—	265,547	—	265,547
Commercial mortgage-backed securities	3	—	146,633	—	146,633
Other asset-backed securities	3	—	94,756	34,958	129,714
U.S. government-related securities	3	31,684	5,891	—	37,575
State, municipalities, and political subdivisions	3	—	318,142	—	318,142
Other government-related securities	3	—	40,368	—	40,368
Corporate securities	3	—	1,640,575	5,324	1,645,899
Redeemable preferred stock	3	3,264	—	—	3,264
Total fixed maturity securities - trading		34,948	2,511,912	40,282	2,587,142
Total fixed maturity securities		1,148,315	37,704,755	1,170,480	40,023,550
Equity securities	3	615,423	36	66,061	681,520
Other long-term investments[(1)]	3 & 4	87,558	354,855	144,352	586,765
Short-term investments	3	327,834	113,947	—	441,781
Total investments		2,179,130	38,173,593	1,380,893	41,733,616
Cash	3	307,724	—	—	307,724
Other assets	3	34,463	—	—	34,463
Assets related to separate accounts					
Variable annuity	3	13,549,068	—	—	13,549,068
Variable universal life	3	1,019,250	—	—	1,019,250
Total assets measured at fair value on a recurring basis		$17,089,635	$38,173,593	$1,380,893	$56,644,121
Liabilities:					
Annuity account balances [(2)]	3	$—	$—	$81,399	$81,399
Other liabilities[(1)]	3 & 4	7,397	189,206	621,102	817,705
Total liabilities measured at fair value on a recurring basis		$7,397	$189,206	$702,501	$899,104

(1) Includes certain freestanding and embedded derivatives.
(2) Represents liabilities related to fixed indexed annuities.
(3) Fair Value through Net Income
(4) Fair Value through Other Comprehensive Income

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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, 2017:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$—	$2,327,212	$—	$2,327,212
Commercial mortgage-backed securities	—	1,889,822	—	1,889,822
Other asset-backed securities	—	745,184	504,365	1,249,549
U.S. government-related securities	958,775	264,477	—	1,223,252
State, municipalities, and political subdivisions	—	1,741,645	—	1,741,645
Other government-related securities	—	287,282	—	287,282
Corporate securities	—	29,075,109	626,901	29,702,010
Redeemable preferred stock	72,471	18,620	—	91,091
Total fixed maturity securities - available-for-sale	1,031,246	36,349,351	1,131,266	38,511,863
Fixed maturity securities - trading				
Residential mortgage-backed securities	—	259,694	—	259,694
Commercial mortgage-backed securities	—	146,804	—	146,804
Other asset-backed securities	—	102,875	35,222	138,097
U.S. government-related securities	21,183	6,051	—	27,234
State, municipalities, and political subdivisions	—	326,925	—	326,925
Other government-related securities	—	63,925	—	63,925
Corporate securities	—	1,692,741	5,442	1,698,183
Redeemable preferred stock	3,327	—	—	3,327
Total fixed maturity securities - trading	24,510	2,599,015	40,664	2,664,189
Total fixed maturity securities	1,055,756	38,948,366	1,171,930	41,176,052
Equity securities	688,214	36	66,110	754,360
Other long-term investments(1)	51,102	417,969	136,004	605,075
Short-term investments	482,461	132,749	—	615,210
Total investments	2,277,533	39,499,120	1,374,044	43,150,697
Cash	252,310	—	—	252,310
Other assets	28,771	—	—	28,771
Assets related to separate accounts				
Variable annuity	13,956,071	—	—	13,956,071
Variable universal life	1,035,202	—	—	1,035,202
Total assets measured at fair value on a recurring basis	$17,549,887	$39,499,120	$1,374,044	$58,423,051
Liabilities:				
Annuity account balances(2)	$—	$—	$83,472	$83,472
Other liabilities(1)	5,755	240,927	760,890	1,007,572
Total liabilities measured at fair value on a recurring basis	$5,755	$240,927	$844,362	$1,091,044

(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 92.4% 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 three months ended March 31, 2018.

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

Asset-Backed Securities

This category mainly consists of residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities (collectively referred to as asset-backed securities or “ABS”). As of March 31, 2018, the Company held $5.5 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 March 31, 2018, the Company held $538.7 million of Level 3 ABS, which included $503.7 million of other asset-backed securities classified as available-for-sale and $35.0 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. The Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate. 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 March 31, 2018, the Company classified approximately $32.2 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 March 31, 2018, the Company classified approximately $631.7 million of securities as Level 3 valuations. Level 3 securities primarily represent investments in illiquid bonds for which no price is readily available. To determine a price, the Company uses a discounted cash flow model with both observable and unobservable inputs. These inputs are entered into an industry standard pricing model to determine the final price of the security. These inputs include: 1) principal and interest payments, 2) coupon rate, 3) sector and issuer level spread over treasury, 4) underlying collateral, 5) credit ratings, 6) maturity, 7) embedded options, 8) recent new issuance, 9) comparative bond analysis, and 10) an illiquidity premium.

Equities

As of March 31, 2018, the Company held approximately $66.1 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 March 31, 2018, 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 guaranteed living withdrawal benefits ("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 and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 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 up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

The balance of the indexed universal life (“IUL”) embedded derivative is impacted by policyholder cash flows associated with the IUL product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the IUL embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the SOA 2015 VBT Primary Tables modified with company experience, with attained age factors varying from 34% - 152%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR up to one year and constant maturity treasury rates plus a credit spread (to represent the Company's non-performance risk) thereafter. Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the IUL embedded derivative is categorized as Level 3.

The Company has assumed and ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios inure directly to the reinsurers. As a result, these agreements contain embedded derivatives that are reported at fair value. Changes in their fair value are reported in earnings. The investments supporting these agreements are designated as “trading securities”; therefore changes in their fair value are also reported in earnings. As of March 31, 2018, 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 $134.1 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 March 31, 2018 is $81.4 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 March 31, 2018 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 503,672	Liquidation	Liquidation value	$90 - $97 ($94.92)
		Discounted cash flow	Liquidity premium	0.07% - 1.09% (0.73%)
			Paydown rate	11.63% - 12.53% (12.16%)
Corporate securities	617,724	Discounted cash flow	Spread over treasury	0.96% - 4.35% (1.61%)
Liabilities:(1)				
Embedded derivatives - GLWB(2)	$ 55,468	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	0.14% - 0.95%
Embedded derivative - FIA	218,340	Actuarial cash flow model	Expenses	$146 per policy
			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	0.14% - 0.95%
Embedded derivative - IUL	77,350	Actuarial cash flow model	Mortality	34% - 152% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.14% - 0.95%

(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 March 31, 2018, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in $49.5 million of financial instruments being classified as Level 3 as of March 31, 2018. Of the $49.5 million, $35.1 million are other asset-backed securities, $14.0 million are corporate securities, and $0.4 million are equity securities.

In certain cases, the Company has determined that book value materially approximates fair value. As of March 31, 2018, 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, 2017 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 504,228	Liquidation	Liquidation value	$90 - $97 ($94.91)
		Discounted Cash Flow	Liquidity premium	0.06% - 1.17% (0.75%)
			Paydown rate	11.31% - 11.97% (11.54%)
Corporate securities	617,770	Discounted cash flow	Spread over treasury	0.81% - 3.95% (1.06%)
Liabilities:(1)				
Embedded derivatives - GLWB(2)	$ 111,760	Actuarial cash flow model	Mortality	91.1% to 106.6% of Ruark 2015 ALB table
			Lapse	1.0% - 30.0%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.11% - 0.79%
Embedded derivative - FIA	218,676	Actuarial cash flow model	Expenses	$146 per policy
			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	0.11% - 0.79%
Embedded derivative - IUL	80,212	Actuarial cash flow model	Mortality	34% - 152% of 2015 VBT Primary Tables
			Lapse	0.5% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.11% - 0.79%

(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, 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 $50.4 million of financial instruments being classified as Level 3 as of December 31, 2017. Of the $50.4 million, $35.4 million are other asset-backed securities, $14.6 million are corporate securities, and $0.4 million are equity securities.

In certain cases the Company has determined that book value materially approximates fair value. As of December 31, 2017, the Company held $65.7 million of financial instruments where book value approximates fair value which was 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 liquidation value for these securities are sensitive to the issuer's available cash flows and ability to redeem the securities, as well as the current holders' willingness to liquidate at the specified price.

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

The fair value of the 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 three unobservable assumptions would result in a decrease in the fair value of the liability and conversely, if there is a decrease in the assumptions the fair value would increase. The fair value is also dependent on the assumed policyholder utilization of the 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 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 March 31, 2018, 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	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	504,365	—	514	—	(1,634)	—	(14)	—	—	—	558	503,789
Corporate securities	626,901	—	1,399	—	(12,101)	35,000	(23,635)	—	—	—	(1,155)	626,409
Total fixed maturity securities - available-for-sale	1,131,266	—	1,913	—	(13,735)	35,000	(23,649)	—	—	—	(597)	1,130,19
Fixed maturity securities - trading												
Other asset-backed securities	35,222	194	—	(28)	—	—	(396)	—	—	—	(34)	34,958
Corporate securities	5,442	—	—	(94)	—	—	—	—	—	—	(24)	5,324
Total fixed maturity securities - trading	40,664	194	—	(122)	—	—	(396)	—	—	—	(58)	40,282
Total fixed maturity securities	1,171,930	194	1,913	(122)	(13,735)	35,000	(24,045)	—	—	—	(655)	1,170,48

Equity securities	66,110	—	—	(49)	—	—	—	—	—	—	—	66,061
Other long-term investments[1]	136,004	8,864	—	(516)	—	—	—	—	—	—	—	144,352
Total investments	1,374,044	9,058	1,913	(687)	(13,735)	35,000	(24,045)	—	—	—	(655)	1,380,89
Total assets measured at fair value on a recurring basis	$1,374,044	$9,058	$1,913	$(687)	$(13,735)	$35,000	$(24,045)	$—	$—	$—	$(655)	$1,380,8
Liabilities:												
Annuity account balances[2]	$83,472	$—	$—	$(794)	$—	$—	$—	$441	$3,308	$—	$—	$81,399
Other liabilities[1]	760,890	161,318	—	(21,530)	—	—	—	—	—	—	—	621,102
Total liabilities measured at fair value on a recurring basis	$844,362	$161,318	$—	$(22,324)	$—	$—	$—	$441	$3,308	$—	$—	$702,50

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

For the three months ended March 31, 2018, there were no securities transferred into Level 3.

For the three months ended March 31, 2018, there were no securities transferred into Level 2 from Level 3.

For the three months ended March 31, 2018, there were no transfers from Level 2 to Level 1.

For the three months ended March 31, 2018, there were no transfers from Level 1 into Level 2.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 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	End Bal
	(Dollars In Thousands)											
Assets:												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$(3)	$—	$—	$—	$—	$—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	562,604	—	3,530	—	(831)	—	(2,015)	—	—	(6,643)	291	556
Corporate securities	664,046	—	7,771	—	(282)	37,259	(38,884)	—	—	(2,647)	(558)	666
Total fixed maturity securities - available-for-sale	1,226,653	—	11,301	—	(1,113)	37,259	(40,902)	—	—	(9,290)	(267)	1,2
Fixed maturity securities - trading												
Other asset-backed securities	84,563	3,474	—	(586)	—	—	(19,308)	—	—	—	609	68,
Corporate securities	5,492	34	—	—	—	—	—	—	—	—	(22)	5,5
Total fixed maturity securities - trading	90,055	3,508	—	(586)	—	—	(19,308)	—	—	—	587	74,
Total fixed maturity securities	1,316,708	3,508	11,301	(586)	(1,113)	37,259	(60,210)	—	—	(9,290)	320	1,2

Equity securities	69,010	—	2	(2,630)	—	—	—	—	—	3	(1)	66,
Other long-term investments(1)	124,325	11,061	—	(1,958)	—	—	—	—	—	—	—	133
Total investments	1,510,043	14,569	11,303	(5,174)	(1,113)	37,259	(60,210)	—	—	(9,287)	319	1,4
Total assets measured at fair value on a recurring basis	$1,510,043	$14,569	$11,303	$(5,174)	$(1,113)	$37,259	$(60,210)	$—	$—	$(9,287)	$319	$1,
Liabilities:												
Annuity account balances(2)	$87,616	$—	$—	$(887)	$—	$—	$—	$180	$2,268	$—	$—	$86
Other liabilities(1)	571,843	44,263	—	(59,494)	—	—	—	—	—	—	—	587
Total liabilities measured at fair value on a recurring basis	$659,459	$44,263	$—	$(60,381)	$—	$—	$—	$180	$2,268	$—	$—	$67

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

For the three months ended March 31, 2017, there was an immaterial amount of transfers of securities into Level 3.

For the three months ended March 31, 2017, $9.3 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 March 31, 2017.

For the three months ended March 31, 2017, there were no securities transferred from Level 2 to Level 1.

For the three months ended March 31, 2017, there were no securities transferred from Level 1 into Level 2.

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 March 31, 2018		December 31, 2017	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$6,846,633	$6,646,782	$6,817,723	$6,740,177
Policy loans	3	1,594,642	1,594,642	1,615,615	1,615,615
Fixed maturities, held-to-maturity(1)	3	2,699,826	2,674,129	2,718,904	2,776,327
Liabilities:					
Stable value product account balances	3	$4,699,614	$4,658,178	$4,698,371	$4,698,868
Future policy benefits and claims(2)	3	220,307	220,307	220,498	220,498
Other policyholders' funds(3)	3	135,202	135,921	133,508	134,253
Debt:(4)					
Bank borrowings	3	$325,000	$325,000	$—	$—
Senior Notes	2	769,776	751,951	943,370	933,926
Subordinated debt securities	2	495,324	486,595	495,289	501,215
Non-recourse funding obligations(5)	3	2,728,689	2,706,594	2,747,477	2,804,983

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 $1.6 million.

(5) As of March 31, 2018, carrying amount of $2.6 billion and a fair value of $2.7 billion related to non-recourse funding obligations issued by Golden Gate and Golden Gate V. As of December 31, 2017, carrying amount of $2.7 billion and a fair value of $2.8 billion 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 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.

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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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Derivatives related to VA contracts:		
Interest rate futures - VA	$ (16,892)	$ 3,448
Equity futures - VA	(6,428)	(30,817)
Currency futures - VA	(7,583)	(6,256)
Equity options - VA	12,016	(40,185)
Interest rate swaptions - VA	(14)	(1,469)
Interest rate swaps - VA	(63,710)	(8,957)
Total return swaps - VA	6,490	—
Embedded derivative - GLWB	56,292	33,632
Total derivatives related to VA contracts	(19,829)	(50,604)
Derivatives related to FIA contracts:		
Embedded derivative - FIA	11,330	(12,411)
Equity futures - FIA	(161)	297
Equity options - FIA	(4,669)	10,700
Total derivatives related to FIA contracts	6,500	(1,414)
Derivatives related to IUL contracts:		
Embedded derivative - IUL	9,884	(2,090)
Equity futures - IUL	136	(799)
Equity options - IUL	(1,250)	2,891
Total derivatives related to IUL contracts	8,770	2
Embedded derivative - Modco reinsurance treaties	82,658	(17,865)
Other derivatives	(40)	3
Total realized gains (losses) - derivatives	$ 78,059	$ (69,878)

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The following table presents the components of the gain or loss on derivatives that qualify as a cash flow hedging relationship.

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 March 31, 2018			
Foreign currency swaps	$ 615	$ (113)	$ —
Total	$ 615	$ (113)	$ —
For The Three Months Ended March 31, 2017			
Foreign currency swaps	$ (1,034)	$ (205)	$ —
Total	$ (1,034)	$ (205)	$ —

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify $0.4 million out of accumulated other comprehensive income into earnings during the next twelve months.

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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			
	March 31, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Foreign currency swaps	$117,178	$12,131	$117,178	$6,016
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,065,000	25,943	1,265,000	55,411
Total return swaps	448,872	18,678	190,938	135
Embedded derivative - Modco reinsurance treaties	64,798	497	64,472	1,009
Embedded derivative - GLWB	5,264,710	143,855	4,897,069	134,995
Interest rate futures	375,718	8,059	1,071,870	3,178
Equity futures	272,807	11,218	62,266	154
Currency futures	150,801	1,127	1,117	2
Equity options	5,168,294	365,097	4,436,467	403,961
Interest rate swaptions	225,000	—	225,000	14
Other	157	160	157	200
	$13,153,335	$586,765	$12,331,534	$605,075
Other liabilities				
Derivatives not designated as hedging instruments:				
Interest rate swaps	$997,500	$12,157	$597,500	$2,960
Total return swaps	—	—	243,388	318
Embedded derivative - Modco reinsurance treaties	2,375,807	126,090	2,390,539	215,247
Embedded derivative - GLWB	4,378,592	199,322	4,718,311	246,755
Embedded derivative - FIA	2,109,420	218,340	1,951,650	218,676
Embedded derivative - IUL	186,173	77,350	168,349	80,212
Interest rate futures	872,564	4,630	230,404	917
Equity futures	95,918	1,288	318,795	2,593
Currency futures	95,062	971	255,248	2,087
Equity options	3,623,922	177,557	3,112,812	237,807
	$14,734,958	$817,705	$13,986,996	$1,007,572

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 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.

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The tables below present the derivative instruments by assets and liabilities for the Company as of March 31, 2018:

	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	$442,253	$ —	$ 442,253	$ 194,876	$ 126,320	$ 121,057
Total derivatives, subject to a master netting arrangement or similar arrangement	442,253	—	442,253	194,876	126,320	121,057
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	497	—	497	—	—	497
Embedded derivative - GLWB	143,855	—	143,855	—	—	143,855
Other	160	—	160	—	—	160
Total derivatives, not subject to a master netting arrangement or similar arrangement	144,512	—	144,512	—	—	144,512
Total derivatives	586,765	—	586,765	194,876	126,320	265,569
Total Assets	$586,765	$ —	$ 586,765	$ 194,876	$ 126,320	$ 265,569

	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	$196,603	$ —	$ 196,603	$ 194,876	$ 1,727	$ —
Total derivatives, subject to a master netting arrangement or similar arrangement	196,603	—	196,603	194,876	1,727	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	126,090	—	126,090	—	—	126,090
Embedded derivative - GLWB	199,322	—	199,322	—	—	199,322
Embedded derivative - FIA	218,340	—	218,340	—	—	218,340
Embedded derivative - IUL	77,350	—	77,350	—	—	77,350
Total derivatives, not subject to a master netting arrangement or similar arrangement	621,102	—	621,102	—	—	621,102
Total derivatives	817,705	—	817,705	194,876	1,727	621,102
Repurchase agreements(1)	665,000	—	665,000	—	—	665,000
Total Liabilities	$1,482,705	$ —	$ 1,482,705	$ 194,876	$ 1,727	$ 1,286,102

(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, 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	$468,871	$ —	$ 468,871	$ 242,105	$ 108,830	$ 117,936
Total derivatives, subject to a master netting arrangement or similar arrangement	468,871	—	468,871	242,105	108,830	117,936
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,009	—	1,009	—	—	1,009
Embedded derivative - GLWB	134,995	—	134,995	—	—	134,995
Other	200	—	200	—	—	200
Total derivatives, not subject to a master netting arrangement or similar arrangement	136,204	—	136,204	—	—	136,204
Total derivatives	605,075	—	605,075	242,105	108,830	254,140
Total Assets	$605,075	$ —	$ 605,075	$ 242,105	$ 108,830	$ 254,140

	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	$246,682	$ —	$246,682	$ 242,105	$ 4,577	$—
Total derivatives, subject to a master netting arrangement or similar arrangement	246,682	—	246,682	242,105	4,577	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	215,247	—	215,247	—	—	215,247
Embedded derivative - GLWB	246,755	—	246,755	—	—	246,755
Embedded derivative - FIA	218,676	—	218,676	—	—	218,676
Embedded derivative - IUL	80,212	—	80,212	—	—	80,212
Total derivatives, not subject to a master netting arrangement or similar arrangement	760,890	—	760,890	—	—	760,890
Total derivatives	1,007,572	—	1,007,572	242,105	4,577	760,890
Repurchase agreements[(1)]	885,000	—	885,000	—	—	885,000

Total Liabilities	$1,892,572	$ —	$1,892,572	$ 242,105	$ 4,577	$1,645,890

(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 March 31, 2018, the Company’s mortgage loan holdings were approximately $6.8 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 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 March 31, 2018, assuming the loans are called at their next call dates, approximately $143.6 million of principal would become due for the remainder of 2018, $873.1 million in 2019 through 2023, $105.0 million in 2024 through 2028, and $2.0 million thereafter.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2018 and December 31, 2017, approximately $672.1 million and $669.3 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 months ended March 31, 2018 and 2017, the Company recognized $7.3 million and $6.8 million, respectively, of participating mortgage loan income.

As of March 31, 2018, none of the Company's invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. For all mortgage loans, the impact of troubled debt restructurings is generally reflected in our investment balance and in the allowance for mortgage loan credit losses. During the three months ended March 31, 2018, the Company recognized no troubled debt restructurings and the Company did not identify any loans whose principal was permanently impaired.

The Company’s mortgage loan portfolio consists of two categories of loans: 1) those not subject to a pooling and servicing agreement and 2) those subject to a contractual pooling and servicing agreement. As of March 31, 2018, the Company did not have mortgage loans not subject to a pooling and servicing agreement that 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 three months ended March 31, 2018.

As of March 31, 2018, 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 three months ended March 31, 2018.

As of March 31, 2018 and December 31, 2017, there were no allowances for mortgage loan credit losses. 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. The Company did not have any charge offs or recovery for the three months ended March 31, 2018.

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

As of March 31, 2018	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$ 814	$ —	$ —	$ 814
Number of delinquent commercial mortgage loans	1	—	—	1
As of December 31, 2017				
Commercial mortgage loans	$ 1,817	$ —	$ —	$ 1,817
Number of delinquent commercial mortgage loans	2	—	—	2

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.

Mortgage loans that were modified in a troubled debt restructuring as of March 31, 2018 and December 31, 2017 were as follows:

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
	(Dollars In Thousands)		
As of March 31, 2018			
Troubled debt restructuring:			
Commercial mortgage loans	0	$ —	$ —
As of December 31, 2017			
Troubled debt restructuring:			
Commercial mortgage loans	1	$ 418	$ 418

9. GOODWILL

The balance of goodwill for the Company as of March 31, 2018 was $793.5 million. There has been no change to goodwill during the three months ended March 31, 2018.

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 2017, the Company performed its annual evaluation of goodwill based on information as of October 1, 2017, and determined that no adjustment to impair goodwill was necessary. During the three months ended March 31, 2018, 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.

10. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

Debt and subordinated debt securities are summarized as follows:

	As of March 31, 2018		December 31, 2017	
	Outstanding Principal	Carrying Amounts	Outstanding Principal	Carrying Amounts
	(Dollars In Thousands)			
Debt (year of issue):				
Credit Facility	$325,000	$325,000	$—	$—
Capital lease obligation	1,591	1,591	1,682	1,682
6.40% Senior Notes (2007), due 2018	—	—	150,000	150,518
7.375% Senior Notes (2009), due 2019	400,000	431,015	400,000	435,806
8.45% Senior Notes (2009), due 2039	221,516	338,762	232,928	357,046
	$948,107	$1,096,368	$784,610	$945,052
Subordinated debt securities (year of issue):				
5.35% Subordinated Debentures (2017), due 2052	$500,000	$495,324	$500,000	$495,289
	$500,000	$495,324	$500,000	$495,289

During the three months ended March 31, 2018, the Company repurchased and subsequently extinguished $17.5 million (par value - $11.4 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a $0.5 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 6.00% Subordinated Debentures due 2042 and $287.5 million of 6.25% Subordinated Debentures due 2042.

The Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $1.0 billion under a Credit Facility. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $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 March 31, 2018. There was an outstanding balance of $325.0 million bearing interest at a rate of LIBOR plus 1.00% as of March 31, 2018.

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Non-Recourse Funding Obligations

Non-recourse funding obligations outstanding as of March 31, 2018, 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]	$1,981,000	$ 1,981,000	2039	4.75	%
Golden Gate II Captive Insurance Company	58,600	49,464	2052	4.29	%
Golden Gate V Vermont Captive Insurance Company[2][3]	635,000	695,836	2037	5.12	%
MONY Life Insurance Company[3]	1,091	2,389	2024	6.19	%
Total	$2,675,691	$ 2,728,689			

(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, 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]	$2,014,000	$ 2,014,000	2039	4.75	%
Golden Gate II Captive Insurance Company	58,600	49,787	2052	3.88	%
Golden Gate V Vermont Captive Insurance Company[2][3]	620,000	681,285	2037	5.12	%
MONY Life Insurance Company[3]	1,091	2,405	2024	6.19	%
Total	$2,693,691	$ 2,747,477			

(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 March 31, 2018, the fair value of securities pledged under the repurchase program was $753.6 million, and the repurchase obligation of $665.0 million was included in the Company’s consolidated condensed balance sheets (at an average borrowing rate of 173 basis points). During the three months ended March 31, 2018, the maximum balance outstanding at any one point in time related to these programs was $885.0 million. The average daily balance was $808.0 million (at an average borrowing rate of 149 basis points) during the three months ended March 31, 2018. As of December 31, 2017, the fair value of securities pledged under the repurchase program was $1,006.6 million, and the repurchase obligation of $885.0 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 142 basis points). During 2017, the maximum balance outstanding at any one point in time related to these programs was $988.5 million. The average daily balance was $624.7 million (at an average borrowing rate of 101 basis points) during the year ended December 31, 2017.

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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 March 31, 2018, securities with a market value of $107.0 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 March 31, 2018, the fair value of the collateral related to this program was $113.9 million and the Company has an obligation to return $113.9 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 March 31, 2018 and December 31, 2017:

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

	Remaining Contractual Maturity of the Agreements As of March 31, 2018 (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	$ 293,539	$ —	$ —	$ —	$ 293,539
Other asset-backed securities	—	—	—	—	—
Mortgage loans	460,072	—	—	—	460,072
Total repurchase agreements and repurchase-to-maturity transactions	753,611	—	—	—	753,611
Securities lending transactions					
Corporate securities	94,155	—	—	—	94,155
Equity securities	12,798	—	—	—	12,798
Redeemable preferred stock	75	—	—	—	75
Total securities lending transactions	107,028	—	—	—	107,028
Total securities	$ 860,639	$ —	$ —	$ —	$ 860,639

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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, 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	$ 307,633	$ —	$ —	$ —	$ 307,633
Corporate securities	—	—	—	—	—
Mortgage loans	698,974	—	—	—	698,974
Total securities	$ 1,006,607	$ —	$ —	$ —	$ 1,006,607
Securities lending transactions					
Corporate securities	$ 118,817	$ —	$ —	$ —	$ 118,817
Equity securities	5,699	—	—	—	5,699
Redeemable preferred stock	755	—	—	—	755
Total securities lending transactions	125,271	—	—	—	125,271
Total securities	$ 1,131,878	$ —	$ —	$ —	$ 1,131,878

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 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 increases the cost of future assessments or 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

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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 uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with certain co-insured 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.

12. EMPLOYEE BENEFIT PLANS

Components of the net periodic benefit cost for the three months ended March 31, 2018 and 2017, are as follows:

	For The Three Months Ended March 31,			
	2018		2017	
	Qualified Pension Plan	Nonqualified Excess Pension Plan	Qualified Pension Plan	Nonqualified Excess Pension Plan
	(Dollars In Thousands)			
Service cost — benefits earned during the period	$3,441	$ 387	$3,348	$ 334
Interest cost on projected benefit obligation	2,397	359	2,191	297
Expected return on plan assets	(4,026)	—	(3,352)	—
Amortization of prior service cost	—	—	—	—
Amortization of actuarial loss/(gain)	—	265	—	118
Preliminary net periodic benefit cost	1,812	1,011	2,187	749
Settlement/curtailment expense	—	—	—	—
Total net periodic benefit costs	$1,812	$ 1,011	$2,187	$ 749

During the three months ended March 31, 2018, the Company did not make a contribution to its defined benefit pension plan. The Company will make contributions in future periods as necessary to at least satisfy minimum funding requirements, to maintain an adjusted funding target attainment percentage ("AFTAP") of at least 80% and to avoid certain Pension Benefit Guaranty Corporation ("PBGC") reporting triggers. The Company may also make additional discretionary contributions in excess of the contribution amounts established by the current funding policy.

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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 March 31, 2018 and December 31, 2017.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2017	$25,874	$ 747	$(13,925)	$ 12,696
Other comprehensive income (loss) before reclassifications	(577,712)	487	—	(577,225)
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	681	—	—	681
Amounts reclassified from accumulated other comprehensive income (loss)(1)	11	89	—	100
Net current-period other comprehensive income (loss)	(577,020)	576	—	(576,444)
Cumulative effect adjustments	(10,552)	—	—	(10,552)
Ending Balance, March 31, 2018	$(561,698)	$ 1,323	$(13,925)	$ (574,300)

(1) See Reclassification table below for details.

(2) As of March 31, 2018, net unrealized losses reported in AOCI were offset by $340.2 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.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments(2)	Accumulated Gain and Loss Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
	(Dollars In Thousands, Net of Tax)			
Beginning Balance, December 31, 2016	$(656,322)	$ 727	$1,072	$ (654,523)
Other comprehensive income (loss) before reclassifications	700,536	(563)	(15,726)	684,247
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	7,153	—	—	7,153
Amounts reclassified from accumulated other comprehensive income (loss)(1)	642	451	501	1,594
Net current-period other comprehensive income (loss)	708,331	(112)	(15,225)	692,994
Cumulative effect adjustments	(26,135)	132	228	(25,775)
Ending Balance, December 31, 2017	$25,874	$ 747	$(13,925)	$ 12,696

(1) See Reclassification table below for details.

(2) As of December 31, 2016 and December 31, 2017, net unrealized losses reported in AOCI were offset by $424.1 million and $(6.3) 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.

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The following tables summarize the reclassifications amounts out of AOCI for the three months ended March 31, 2018 and 2017.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

For The Three Months Ended March 31, 2018	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)]	$ (113	)	Benefits and settlement expenses, net of reinsurance ceded
	(113	)	Total before tax
	24		Tax (expense) or benefit
	$ (89	)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains (losses)	$ 2,783		Realized investment gains (losses): All other investments
Impairments recognized in earnings	(3,645	)	Net impairment losses recognized in earnings
	(862	)	Total before tax
	181		Tax (expense) or benefit
	$ (681	)	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 March 31, 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)]	$ (205	)	Benefits and settlement expenses, net of reinsurance ceded
	(205	)	Total before tax
	72		Tax (expense) or benefit
	$ (133	)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains (losses)	$ 9,481		Realized investment gains (losses): All other investments
Impairments recognized in earnings	(7,831	)	Net impairment losses recognized in earnings
	1,650		Total before tax
	(578	)	Tax (expense) or benefit
	$ 1,072		Net of tax

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14. INCOME TAXES

The Company used its respective estimates for its annual 2018 and 2017 incomes in computing its effective income tax rates for the three months ended March 31, 2018 and 2017. The estimate of the annual 2018 income excluded unrealized gains and losses on equity securities due to an inability to forecast future gains and losses. The Company's effective tax rate related to continuing operations varied from the maximum federal income tax rates as follows:

	For The Three Months Ended March 31,	
	2018	2017
Statutory federal income tax rate applied to pre-tax income	21.0 %	35.0 %
State income taxes	1.2	0.6
Investment income not subject to tax	(2.8)	(3.2)
Unrealized tax positions	—	0.5
Other	(0.1)	—
	19.3 %	32.9 %

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 received an approximate $6.2 million net refund in the fourth quarter of 2017.

The resulting net adjustment to the Company's current income taxes for the years 2003 through 2011 did 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 March 31, 2018. The Company believes that in the next twelve months, none of the unrecognized tax benefits will be reduced.

In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2014. Furthermore, due to the aforementioned IRS adjustments to the Company's pre-2014 taxable income, the Company has amended 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 partially carried back this loss and received refunds for substantially all of the U.S. income taxes it paid in 2014 and 2015 and expects to 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 taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of March 31, 2018 and December 31, 2017.

In the tax year ended December 31, 2017, the Company recognized provisional impacts related to the revaluation of certain deferred tax assets under the Tax Reform Act under Staff Accounting Bulletin No. 118. The ultimate impact may differ from these provisional amounts, possibly materially, due to, among other things, additional regulatory guidance that may be issued, additional analysis, and resulting changes in interpretations and assumptions the Company has made. Any adjustments to these provisional amounts will be reported as a component of income tax expense (benefit) in the reporting period in which any such adjustments are determined. There are no such adjustments for the three months ended March 31, 2018. The accounting is expected to be complete by December 22, 2018.

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 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.

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- The Acquisitions segment focuses on acquiring, converting, and servicing policies and contracts 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, 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.
- 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 deferred policy acquisition costs ("DAC"), value of business acquired ("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.

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 for the associated period. For periods ending on and prior to December 31, 2017, a rate of 35% was used. Beginning in 2018, a statutory federal income tax rate of 21% will be used to allocate income tax expense or benefits to items excluded from pre-tax adjusted operating income (loss). 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.

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.

There were no significant intersegment transactions during the three months ended March 31, 2018 and 2017.

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The following tables present 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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Revenues		
Life Marketing	$434,916	$421,392
Acquisitions	379,094	401,367
Annuities	150,713	108,642
Stable Value Products	53,868	40,843
Asset Protection	76,375	80,083
Corporate and Other	70,866	52,970
Total revenues	$1,165,832	$1,105,297
Pre-tax Adjusted Operating Income (Loss)		
Life Marketing	$(17,849)	$18,945
Acquisitions	55,520	53,667
Annuities	40,531	53,007
Stable Value Products	29,080	23,899
Asset Protection	6,218	5,599
Corporate and Other	(20,679)	(19,728)
Pre-tax adjusted operating income	92,821	135,389
Realized (losses) gains on investments and derivatives	(1,023)	(23,040)
Income before income tax	91,798	112,349
Income tax expense	(17,686)	(36,935)
Net income	$74,112	$75,414
Pre-tax adjusted operating income	$92,821	$135,389
Adjusted operating income tax (expense) benefit	(18,044)	(44,999)
After-tax adjusted operating income	74,777	90,390
Realized (losses) gains on investments and derivatives	(1,023)	(23,040)
Income tax benefit (expense) on adjustments	358	8,064
Net income	$74,112	$75,414
Realized investment (losses) gains:		
Derivative financial instruments	$78,059	$(69,878)
All other investments	(87,599)	22,841
Net impairment losses recognized in earnings	(3,645)	(7,831)
Less: related amortization(1)	9,156	(10,744)
Less: VA GLWB economic cost	(21,318)	(21,084)
Realized (losses) gains on investments and derivatives	$(1,023)	$(23,040)

(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 March 31, 2018
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$14,744,343	$19,275,508	$20,535,539	$4,571,793
DAC and VOBA	1,374,149	90,466	800,941	6,133
Other intangibles	277,489	33,909	166,784	7,889
Goodwill	200,274	14,524	336,677	113,813
Total assets	$16,596,255	$19,414,407	$21,839,941	$4,699,628

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$1,016,586	$13,988,814	$74,132,583
DAC and VOBA	162,465	—	2,434,154
Other intangibles	130,573	35,063	651,707
Goodwill	128,182	—	793,470
Total assets	$1,437,806	$14,023,877	$78,011,914

Operating Segment Assets
As of December 31, 2017
(Dollars In Thousands)

	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$14,914,418	$19,588,133	$20,938,409	$4,569,639
DAC and VOBA	1,320,776	74,862	772,634	6,864
Other intangibles	282,361	34,548	170,117	8,056
Goodwill	200,274	14,524	336,677	113,813
Total assets	$16,717,829	$19,712,067	$22,217,837	$4,698,372

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$918,952	$15,043,597	$75,973,148
DAC and VOBA	24,441	—	2,199,577
Other intangibles	133,234	35,256	663,572
Goodwill	128,182	—	793,470
Total assets	$1,204,809	$15,078,853	$79,629,767

16. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to March 31, 2018, and through the date we filed our consolidated condensed financial statements with the United States Securities and Exchange Commission. All accounting and disclosure requirements related to subsequent events are included in our consolidated condensed financial statements.

On May 1, 2018, The Lincoln National Life Insurance Company (“Lincoln Life”) completed its previously announced acquisition (the “Closing”) of Liberty Mutual Group Inc.’s (“Liberty Mutual”) Group Benefits Business and Individual Life and Annuity Business (the “Life Business”) through the acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston (“Liberty”). In connection with the Closing and pursuant to the Master Transaction Agreement, dated January 18, 2018 (the “Master Transaction Agreement”), previously reported in the Company's Current Report on Form 8-K filed on January 23, 2018, PLICO and Protective Life and Annuity Insurance Company (“PLAIC”), a wholly owned subsidiary of PLICO, entered into reinsurance agreements (the “Reinsurance Agreements”) and related ancillary documents (including administrative services agreements and transition services agreements) providing for the reinsurance and administration of the Life Business.

Pursuant to the Reinsurance Agreements, Liberty ceded to PLICO and PLAIC the insurance policies related to the Life Business on a 100% coinsurance basis. The aggregate ceding commission for the reinsurance of the Life Business was $422.9 million. All policies issued in states other than New York were ceded to PLICO under a reinsurance agreement between Liberty and PLICO, and all policies issued in New York were ceded to PLAIC under a reinsurance agreement between Liberty and PLAIC. The aggregate statutory reserves of Liberty ceded to PLICO and PLAIC as of the closing of the Transaction were approximately

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$13.3 billion, which amount was based on initial estimates and is subject to adjustment following the Closing. Pursuant to the terms of the Reinsurance Agreements, each of PLICO and PLAIC are required to maintain assets in trust for the benefit of Liberty to secure their respective obligations to Liberty under the Reinsurance Agreements. The trust accounts were initially funded by each of PLICO and PLAIC principally with the investment assets that were received from Liberty. Additionally, PLICO and PLAIC have each agreed to provide, on behalf of Liberty, administration and policyholder servicing of the Life Business reinsured by it pursuant to administrative services agreements between Liberty and each of PLICO and PLAIC.

On May 3, 2018, the Company and PLICO (together with the Company, the “Borrowers”) entered into the First Amendment (the “First Amendment”) to the Amended and Restated Credit Agreement dated February 2, 2015 (the “Credit Agreement”) with the several lenders from time to time a party thereto (collectively, the “Lenders”) and with Regions Bank in its capacity as Administrative Agent for the Lenders (the “Administrative Agent”). The Credit Agreement, as amended by the First Amendment, continues to provide for a $1 billion, five-year unsecured revolving credit facility (the “Credit Facility”), including a $500 million sublimit for the potential issuance of letters of credit and a $50 million sublimit for swingline advances. Borrowings made available under the Credit Facility may be used for general corporate purposes, including the refinancing of indebtedness. The First Amendment, among other things, extends the commitment termination date and final maturity date under the Credit Agreement from February 2, 2020 to May 3, 2023, allows the Borrowers in certain circumstances to request that the commitment amount under the Credit Facility be increased to a maximum amount of $1.5 billion (increased from the maximum $1.25 billion amount originally provided in the Credit Agreement), and changes the reference dates and base amounts used to calculate the minimum Adjusted Consolidated Net Worth that the Company is required to maintain under the Credit Agreement.

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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, 2017, 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, 2017.

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.

- 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 distribution 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.

RECENT DEVELOPMENTS

On May 1, 2018, The Lincoln National Life Insurance Company (“Lincoln Life”) completed its previously announced acquisition (the “Closing”) of Liberty Mutual Group Inc.’s (“Liberty Mutual”) Group Benefits Business and Individual Life and Annuity Business (the “Life Business”) through the acquisition of all of the issued and outstanding capital stock of Liberty Life Assurance Company of Boston (“Liberty”). In connection with the Closing and pursuant to the Master Transaction Agreement, dated January 18, 2018 (the “Master Transaction Agreement”), previously reported in our Current Report on Form 8-K filed on January 23, 2018, PLICO and Protective Life and Annuity Insurance Company (“PLAIC”), a wholly owned subsidiary of PLICO, entered into reinsurance agreements (the “Reinsurance Agreements”) and related ancillary documents (including administrative services agreements and transition services agreements) providing for the reinsurance and administration of the Life Business.

Pursuant to the Reinsurance Agreements, Liberty ceded to PLICO and PLAIC the insurance policies related to the Life Business on a 100% coinsurance basis. The aggregate ceding commission for the reinsurance of the Life Business was $422.9 million. All policies issued in states other than New York were ceded to PLICO under a reinsurance agreement between Liberty and PLICO, and all policies issued in New York were ceded to PLAIC under a reinsurance agreement between Liberty and PLAIC. The aggregate statutory reserves of Liberty ceded to PLICO and PLAIC as of the closing of the Transaction were approximately $13.3 billion, which amount was based on initial estimates and is subject to adjustment following the Closing. Pursuant to the terms of the Reinsurance Agreements, each of PLICO and PLAIC are required to maintain assets in trust for the benefit of Liberty to secure their respective obligations to Liberty under the Reinsurance Agreements. The trust accounts were initially funded by each of PLICO and PLAIC principally with the investment assets that were received from Liberty. Additionally, PLICO and PLAIC have each agreed to provide, on behalf of Liberty, administration and policyholder servicing of the Life Business reinsured by it pursuant to administrative services agreements between Liberty and each of PLICO and PLAIC.

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, cyber-attacks, 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;

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- 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 rating organization;
- we could be forced to sell investments at a loss to cover policyholder withdrawals;
- disruption of the capital and credit markets could negatively affect our ability to meet our liquidity and financing needs;
- difficult general economic conditions could materially adversely affect our business and results of operations;
- we may be required to establish a valuation allowance against our deferred tax assets, which could 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

- the business of our company is highly regulated and is 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;
- NAIC actions, pronouncements and initiatives may affect our product profitability, reserve and capital requirements, financial condition or results of operations;
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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 fund laws, rules and regulations which could adversely affect our financial condition or results of operations;
- we are subject to insurable interest laws, rules and regulations 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;
- new and amended regulations regarding the standard of care or standard of conduct applicable to investment professionals, insurance agencies, and financial institutions that recommend or sell annuities 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;

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- changes to tax law, such as the effect of the Tax Reform Act enacted on December 22, 2017, 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.

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, 2017.

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 guaranteed living withdrawal benefits ("GLWB") embedded derivatives exclusive of the portion attributable to the economic cost of the GLWB,
- actual GLWB incurred claims, and
- the amortization of deferred policy acquisition costs ("DAC"), value of business acquired ("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 for the associated period. For periods ending on and prior to December 31, 2017 a rate of 35% was used. Beginning in 2018, a statutory federal income tax rate of 21% will be used to allocate income tax expense or benefits to items excluded from pre-tax adjusted operating income (loss). Income tax expense or benefits allocated to after-tax adjusted

operating income (loss) can vary period to period based on changes in our 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 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 policy liabilities net of associated policy assets, while DAC/VOBA and goodwill are shown in the segments to which they are attributable.
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

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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.

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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Pre-tax Adjusted Operating Income (Loss)		
Life Marketing	$(17,849)	$18,945
Acquisitions	55,520	53,667
Annuities	40,531	53,007
Stable Value Products	29,080	23,899
Asset Protection	6,218	5,599
Corporate and Other	(20,679)	(19,728)
Pre-tax adjusted operating income	92,821	135,389
Realized (losses) gains on investments and derivatives	(1,023)	(23,040)
Income before income tax	91,798	112,349
Income tax expense	(17,686)	(36,935)
Net income	$74,112	$75,414
Pre-tax adjusted operating income	$92,821	$135,389
Adjusted operating income tax (expense) benefit	(18,044)	(44,999)
After-tax adjusted operating income	74,777	90,390
Realized (losses) gains on investments and derivatives	(1,023)	(23,040)
Income tax benefit (expense) on adjustments	358	8,064
Net income	$74,112	$75,414
Realized investment (losses) gains:		
Derivative financial instruments	$78,059	$(69,878)
All other investments	(87,599)	22,841
Net impairment losses recognized in earnings	(3,645)	(7,831)
Less: related amortization(1)	9,156	(10,744)
Less: VA GLWB economic cost	(21,318)	(21,084)
Realized (losses) gains on investments and derivatives	$(1,023)	$(23,040)

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

For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017

Net income for the three months ended March 31, 2018 included a $42.6 million, or 31.4%, decrease in pre-tax adjusted operating income. The decrease consisted of a $36.8 million decrease in the Life Marketing segment, a $12.5 million decrease in the Annuities segment, and a $1.0 million decrease in the Corporate & Other segment. These decreases were partially offset by a $1.9 million increase in the Acquisitions segment, a $5.2 million increase in the Stable Value Products segment, and an increase of $0.6 million in the Asset Protection segment.

Net realized losses on investments and derivatives for the three months ended March 31, 2018 was $1.0 million.

Life Marketing segment pre-tax adjusted operating loss was $17.8 million for the three months ended March 31, 2018, representing a decrease of $36.8 million from the three months ended March 31, 2017. The decrease was primarily due to an increase in claims and lower traditional life net premiums, offset by an increase in universal life net policy fees. Life claims were approximately $33.4 million higher for the three months ended March 31, 2018 when compared to the three months ended March 31, 2017.

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- Acquisitions segment pre-tax adjusted operating income was $55.5 million for the three months ended March 31, 2018, an increase of $1.9 million as compared to the three months ended March 31, 2017, primarily due to a decrease in overall benefit expense and favorable adjustments to reinsurance premiums.
- Annuities segment pre-tax adjusted operating income was $40.5 million for the three months ended March 31, 2018, as compared to $53.0 million for the three months ended March 31, 2017, a decrease of $12.5 million, or 23.5%. This variance was primarily the result of unfavorable unlocking, an unfavorable change in single premium immediate annuities ("SPIA") mortality, and higher non-deferred expenses, partially offset by increased interest spreads. Segment results were negatively impacted by $5.2 million of unfavorable unlocking for the three months ended March 31, 2018, as compared to $1.6 million of favorable unlocking for the three months ended March 31, 2017.
- Stable Value segment pre-tax adjusted operating income was $29.1 million and increased $5.2 million, or 21.7%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The increase in adjusted operating earnings primarily resulted from higher average account values. Participating mortgage income for the three months ended March 31, 2018, was $6.9 million as compared to $6.8 million for the three months ended March 31, 2017. The adjusted operating spread, which excludes participating income, decreased by four basis points for the three months ended March 31, 2018, from the prior year, due primarily to an increase in credited interest.
- Asset Protection segment pre-tax adjusted operating income was $6.2 million, representing an increase of $0.6 million, or 11.1%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Service contract earnings increased $1.2 million primarily due to favorable loss ratios and higher investment income. Credit insurance earnings decreased $0.5 million primarily due to lower volume. Earnings from the GAP product line decreased $0.1 million.
- The Corporate and Other segment pre-tax adjusted operating loss was $20.7 million for the three months ended March 31, 2018, as compared to a pre-tax adjusted operating loss of $19.7 million for the three months ended March 31, 2017. The higher operating loss was primarily due to an increase in corporate overhead expenses, partly offset by an increase in investment income due to higher invested asset balances and improved yields.

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Gross premiums and policy fees	$487,950	$453,135
Reinsurance ceded	(220,022)	(190,335)
Net premiums and policy fees	267,928	262,800
Net investment income	135,356	137,543
Other income	31,909	26,378
Total operating revenues	435,193	426,721
Realized gains (losses) - investments	(9,047)	(5,330)
Realized gains (losses) - derivatives	8,770	1
Total revenues	434,916	421,392
BENEFITS AND EXPENSES		
Benefits and settlement expenses	361,151	332,058
Amortization of DAC/VOBA	31,654	30,415
Other operating expenses	60,237	45,303
Operating benefits and settlement expenses	453,042	407,776
Amortization related to benefits and settlement expenses	3,418	(3,165)
Amortization of DAC/VOBA related to realized gains (losses) - investments	(94)	344
Total benefits and expenses	456,366	404,955
INCOME (LOSS) BEFORE INCOME TAX	(21,450)	16,437
Less: realized gains (losses)	(277)	(5,329)
Less: amortization related to benefits and settlement expenses	(3,418)	3,165
Less: related amortization of DAC/VOBA	94	(344)
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	$(17,849)	$18,945

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Sales By Product[1]		
Traditional life	$12,592	$182
Universal life	29,759	43,189
	$42,351	$43,371
Sales By Distribution Channel		
Traditional brokerage	$35,951	$37,368
Institutional	4,169	3,819
Direct	2,231	2,184
	$42,351	$43,371
Average Life Insurance In-force[2]		
Traditional	$345,308,377	$352,440,121
Universal life	272,872,804	237,765,536
	$618,181,181	$590,205,657
Average Account Values		
Universal life	$7,716,915	$7,546,119
Variable universal life	767,121	680,920
	$8,484,036	$8,227,039

(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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Insurance companies:		
First year commissions	$ 48,352	$ 50,543
Renewal commissions	9,829	9,841
First year ceding allowances	(132)	(701)
Renewal ceding allowances	(34,775)	(42,423)
General & administrative	55,865	55,483
Taxes, licenses, and fees	10,546	8,465
Other operating expenses incurred	89,685	81,208
Less: commissions, allowances & expenses capitalized	(63,163)	(63,982)
Other insurance company operating expenses	26,522	17,226
Distribution companies:		
Commissions	23,353	19,998
Other operating expenses	10,362	8,079
Other distribution company operating expenses	33,715	28,077
Other operating expenses	$ 60,237	$ 45,303

For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017
Pre-tax adjusted operating income (loss)
Pre-tax adjusted operating loss was $17.8 million for the three months ended March 31, 2018, representing a decrease of $36.8 million from the three months ended March 31, 2017. The decrease was primarily due to an increase in claims and lower traditional life net premiums, offset by an increase in universal life net policy fees. Life claims were approximately $33.4 million higher for the three months ended March 31, 2018 when compared to the three months ended March 31, 2017.
Operating revenues
Total operating revenues for the three months ended March 31, 2018, increased $8.5 million, or 2.0%, as compared to the three months ended March 31, 2017. This increase was driven by higher policy fees and distribution company revenue.
Net premiums and policy fees
Net premiums and policy fees increased by $5.1 million, or 2.0%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, 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 decreased $2.2 million, or 1.6%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, due to lower traditional life and distribution company investment income of $1.9 million and $1.0 million, respectively, offset by higher universal life investment income of $0.7 million.
Other income
Other income increased $5.5 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017 due to higher revenue in the segment's non-insurance operations.
Benefits and settlement expenses
Benefits and settlement expenses increased by $29.1 million, or 8.8%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, due to an increase in claims, partly offset by a decrease in traditional life reserves. For the three months ended March 31, 2018, universal life unlocking increased policy benefits

and settlement expenses $3.8 million, as compared to a decrease of $0.9 million for the three months ended March 31, 2017.

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Amortization of DAC/VOBA

DAC/VOBA amortization increased $1.2 million, or 4.1%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, due to higher VOBA amortization in the universal life block, offset by lower VOBA amortization in the traditional blocks. For the three months ended March 31, 2018, universal life unlocking increased amortization $4.2 million, as compared to an increase of $0.3 million for the three months ended March 31, 2017.

Other operating expenses

Other operating expenses increased $14.9 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. This increase was driven by higher general and administrative expenses, commissions, and taxes, licenses and fees, along with a decrease in ceding allowances.

Sales

Sales for the segment decreased $1.0 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to lower sales in the universal life block, mostly offset by higher traditional life sales. The change between products was due to a shift in sales focus from a product within the universal life block to a new term life product.

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, 2017.

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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 March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$(220,022)	$(190,335)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(233,138)	(165,493)
Amortization of DAC/VOBA	(1,323)	(1,416)
Other operating expenses(1)	(33,476)	(41,338)
Total benefits and expenses	(267,937)	(208,247)
NET IMPACT OF REINSURANCE	$47,915	$17,912
Allowances received	$(34,908)	$(43,124)
Less: Amount deferred	1,432	1,786
Allowances recognized (ceded other operating expenses)(1)	$(33,476)	$(41,338)

(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 305% to 390%. The Life Marketing segment's reinsurance programs do not materially impact the "other income" line of our income statement.

As shown above, reinsurance had a favorable impact on the Life Marketing segment's operating income for the periods presented above. The impact of reinsurance is largely due to our quota share coinsurance program in place prior to mid-2005. Under that program, generally 90% of the segment's traditional new business was ceded to reinsurers. Since mid-2005, a much smaller percentage of overall term business has been ceded due to a change in reinsurance strategy on traditional business. In addition, since 2012, a much smaller percentage of the segment's new universal life business has been ceded. As a result of that change, the relative impact of reinsurance on the Life Marketing segment's overall results is expected to decrease over time. While the significance of reinsurance is expected to decline over time, the overall impact of reinsurance for a given period may fluctuate due to variations in mortality and unlocking of balances.

For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017

The higher ceded premium and policy fees for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, was caused primarily by higher ceded traditional life premiums of $22.7 million and higher universal life policy fees of $6.4 million.

Ceded benefits and settlement expenses were higher for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, due to higher ceded claims. Traditional ceded benefits and settlement expenses increased $58.4 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to higher ceded reserves and claims. Universal life ceded benefits increased $7.2 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to higher ceded claims, partially offset by lower ceded reserves. Ceded universal life claims were $32.8 million higher and ceded traditional life claims were $39.1 million higher for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.

Ceded amortization of DAC and VOBA decreased slightly for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.

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 March 31, 2018	2017
	(Dollars In Thousands)	
REVENUES		
Gross premiums and policy fees	$276,789	$281,450
Reinsurance ceded	(77,652)	(80,250)
Net premiums and policy fees	199,137	201,200
Net investment income	183,597	190,969
Other income	3,589	2,788
Total operating revenues	386,323	394,957
Realized gains (losses) - investments	(90,611)	22,905
Realized gains (losses) - derivatives	83,382	(16,495)
Total revenues	379,094	401,367
BENEFITS AND EXPENSES		
Benefits and settlement expenses	306,094	316,368
Amortization of VOBA	(1,174)	(3,085)
Other operating expenses	25,883	28,007
Operating benefits and expenses	330,803	341,290
Amortization related to benefits and settlement expenses	1,164	2,448
Amortization of VOBA related to realized gains (losses) - investments	(457)	13
Total benefits and expenses	331,510	343,751
INCOME BEFORE INCOME TAX	47,584	57,616
Less: realized gains (losses)	(7,229)	6,410
Less: amortization related to benefits and settlement expenses	(1,164)	(2,448)
Less: related amortization of VOBA	457	(13)
PRE-TAX ADJUSTED OPERATING INCOME	$55,520	$53,667

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The following table summarizes key data for the Acquisitions segment:

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Average Life Insurance In-Force(1)		
Traditional	$218,130,008	$233,273,368
Universal life	26,216,455	28,243,487
	$244,346,463	$261,516,855
Average Account Values		
Universal life	$4,160,089	$4,211,856
Fixed annuity(2)	3,545,506	3,523,668
Variable annuity	1,205,383	1,167,104
	$8,910,978	$8,902,628
Interest Spread - Fixed Annuities		
Net investment income yield	4.14 %	3.99 %
Interest credited to policyholders	3.24 %	3.31 %
Interest spread(3)	0.90 %	0.68 %

(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 March 31, 2018, as compared to The Three Months Ended March 31, 2017

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $55.5 million for the three months ended March 31, 2018, an increase of $1.9 million as compared to the three months ended March 31, 2017, primarily due to a decrease in overall benefit expense and favorable adjustments to reinsurance premiums.

Operating revenues

Net premiums and policy fees decreased $2.1 million, or 1.0%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to expected runoff of the in-force blocks of business. Net investment income decreased $7.4 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017 due to expected runoff of the in-force blocks of business.

Total benefits and expenses

Total benefits and expenses decreased $12.2 million, or 3.6%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. 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.

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, 2017.

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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 March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$ (77,652)	$ (80,250)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(83,031)	(68,210)
Amortization of value of business acquired	(201)	(117)
Other operating expenses	(8,814)	(9,122)
Total benefits and expenses	(92,046)	(77,449)
NET IMPACT OF REINSURANCE(1)	$ 14,394	$ (2,801)

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

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

The net impact of reinsurance was more favorable by $17.2 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to higher ceded claims. For the three months ended March 31, 2018, ceded revenues decreased by $2.6 million, while ceded benefits and expenses increased by $14.6 million primarily due to higher claims.

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Annuities
Segment Results of Operations
Segment results were as follows:

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Gross premiums and policy fees	$ 38,644	$ 37,883
Reinsurance ceded	—	—
Net premiums and policy fees	38,644	37,883
Net investment income	82,009	78,988
Realized gains (losses) - derivatives	(21,318)	(21,084)
Other income	43,430	43,514
Total operating revenues	142,765	139,301
Realized gains (losses) - investments	(41)	275
Realized gains (losses) - derivatives, net of economic cost	7,989	(30,934)
Total revenues	150,713	108,642
BENEFITS AND EXPENSES		
Benefits and settlement expenses	57,370	50,711
Amortization of DAC/VOBA	6,367	(559)
Other operating expenses	38,497	36,142
Operating benefits and expenses	102,234	86,294
Amortization related to benefits and settlement expenses	(77)	1,316
Amortization of DAC/VOBA related to realized gains (losses) - investments	5,202	(11,700)
Total benefits and expenses	107,359	75,910
INCOME BEFORE INCOME TAX	43,354	32,732
Less: realized gains (losses) - investments	(41)	275
Less: realized gains (losses) - derivatives, net of economic cost	7,989	(30,934)
Less: amortization related to benefits and settlement expenses	77	(1,316)
Less: related amortization of DAC/VOBA	(5,202)	11,700
PRE-TAX ADJUSTED OPERATING INCOME	$ 40,531	$ 53,007

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The following tables summarize key data for the Annuities segment:

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Sales[1]		
Fixed annuity	$418,642	$196,617
Variable annuity	88,886	113,561
	$507,528	$310,178
Average Account Values		.
Fixed annuity[2]	$8,580,851	$8,159,205
Variable annuity	13,153,489	12,855,580
	$21,734,340	$21,014,785
Interest Spread - Fixed Annuities[3]		
Net investment income yield	3.65 %	3.65 %
Interest credited to policyholders	2.51	2.53
Interest spread	1.14 %	1.12 %

(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.

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Derivatives related to VA contracts:		
Interest rate futures - VA	$(16,892)	$3,448
Equity futures - VA	(6,428)	(30,817)
Currency futures - VA	(7,583)	(6,256)
Equity options - VA	12,016	(40,185)
Interest rate swaptions - VA	(14)	(1,469)
Interest rate swaps - VA	(63,710)	(8,957)
Total return swaps - VA	6,490	—
Embedded derivative - GLWB[1]	56,292	33,632
Total derivatives related to VA contracts	(19,829)	(50,604)
Derivatives related to FIA contracts:		
Embedded derivative - FIA	11,330	(12,411)
Equity futures - FIA	(161)	297
Equity options - FIA	(4,669)	10,700
Total derivatives related to FIA contracts	6,500	(1,414)
VA GLWB economic cost[2]	21,318	21,084
Realized gains (losses) - derivatives, net of economic cost	$7,989	$(30,934)

(1) Includes impact of nonperformance risk of $19.5 million and $(14.5) million for the three months ended March 31, 2018 and 2017.

(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.).

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	As of March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
GMDB - Net amount at risk[(1)]	$ 93,678	$ 72,825
GMDB Reserves	31,334	30,944
GLWB and GMAB Reserves	55,468	111,760
Account value subject to GLWB rider	9,368,564	9,718,263
GLWB Benefit Base	10,489,544	10,560,893
GMAB Benefit Base	3,029	3,298
S&P 500® Index	2,641	2,674

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

For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017

Pre-tax adjusted operating income

Pre-tax adjusted operating income was $40.5 million for the three months ended March 31, 2018, as compared to $53.0 million for the three months ended March 31, 2017, a decrease of $12.5 million, or 23.5%. This variance was primarily the result of unfavorable unlocking, an unfavorable change in SPIA mortality, and higher non-deferred expenses, partially offset by increased interest spreads. Segment results were negatively impacted by $5.2 million of unfavorable unlocking for the three months ended March 31, 2018, as compared to $1.6 million of favorable unlocking for the three months ended March 31, 2017.

Operating revenues

Segment operating revenues increased $3.5 million, or 2.5%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to higher investment income. The higher investment income related to growth in account value. Average fixed account balances increased 5.2% and average variable account balances increased 2.3% for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.

Benefits and settlement expenses

Benefits and settlement expenses increased $6.7 million, or 13.1%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. This increase was primarily the result of an unfavorable change in SPIA mortality, higher credited interest, and an unfavorable change in guaranteed benefit reserves. Included in benefits and settlement expenses was $0.1 million of unfavorable unlocking for the three months ended March 31, 2018, as compared to $0.1 million of favorable unlocking for the three months ended March 31, 2017.

Amortization of DAC and VOBA

DAC and VOBA amortization unfavorably changed by $6.9 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The unfavorable change was primarily due to unfavorable unlocking. DAC and VOBA unlocking for the three months ended March 31, 2018, was $5.1 million unfavorable as compared to $1.4 million favorable for the three months ended March 31, 2017.

Other operating expenses

Other operating expenses increased $2.4 million, or 6.5%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Increases in non-deferred acquisition expense and commission expenses were partially offset by lower non-deferred maintenance and overhead expense.

Sales

Total sales increased $197.4 million, or 63.6%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Sales of variable annuities decreased $24.7 million, or 21.7% for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, 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 $222.0 million, or 112.9%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to an increase in single premium deferred annuities ("SPDA") sales.

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Net investment income	$ 53,893	$ 39,346
Other income	178	—
Total operating revenues	54,071	39,346
Realized gains (losses)	(203)	1,497
Total revenues	53,868	40,843
BENEFITS AND EXPENSES		
Benefits and settlement expenses	23,643	14,448
Amortization of deferred policy acquisition costs	730	456
Other operating expenses	618	543
Total benefits and expenses	24,991	15,447
INCOME BEFORE INCOME TAX	28,877	25,396
Less: realized gains (losses)	(203)	1,497
PRE-TAX ADJUSTED OPERATING INCOME	$ 29,080	$ 23,899

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Sales(1)		
GIC	$10,000	$55,000
GFA	—	200,000
	$10,000	$255,000
Average Account Values	$4,710,531	$3,590,453
Ending Account Values	$4,699,614	$3,614,225
Operating Spread		
Net investment income yield	4.58 %	4.39 %
Other income yield	0.02	—
Interest credited	(2.01)	(1.61)
Operating expenses	(0.12)	(0.11)
Operating spread	2.47 %	2.67 %
Adjusted operating spread(2)	1.87 %	1.91 %

(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 March 31, 2018, as compared to The Three Months Ended March 31, 2017
Pre-tax adjusted operating income
Pre-tax adjusted operating income was $29.1 million and increased $5.2 million, or 21.7%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The increase in adjusted operating earnings primarily resulted from higher average account values. Participating mortgage income for the three months ended March 31, 2018, was $6.9 million as compared to $6.8 million for the three months ended March 31, 2017. The adjusted operating spread, which excludes participating income, decreased by four basis points for the three months ended March 31, 2018, 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 March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Gross premiums and policy fees	$ 82,600	$ 84,691
Reinsurance ceded	(47,744)	(45,432)
Net premiums and policy fees	34,856	39,259
Net investment income	6,969	6,326
Other income	34,550	34,498
Total operating revenues	76,375	80,083
BENEFITS AND EXPENSES		
Benefits and settlement expenses	29,109	31,804
Amortization of DAC/VOBA	15,753	4,635
Other operating expenses	25,295	38,045
Total benefits and expenses	70,157	74,484
INCOME BEFORE INCOME TAX	6,218	5,599
PRE-TAX ADJUSTED OPERATING INCOME	$ 6,218	$ 5,599

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

	For The Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Sales(1)		
Credit insurance	$3,166	$4,074
Service contracts	96,503	97,834
GAP	15,596	31,347
	$115,265	$133,255
Loss Ratios(2)		
Credit insurance	29.8 %	26.2 %
Service contracts	54.4	62.1
GAP	139.2	120.7

(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 March 31, 2018, as compared to The Three Months Ended March 31, 2017
Pre-tax adjusted operating income
Pre-tax adjusted operating income was $6.2 million, representing an increase of $0.6 million, or 11.1%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Service contract earnings increased $1.2 million primarily due to favorable loss ratios and higher investment income. Credit insurance earnings decreased $0.5 million primarily due to lower volume. Earnings from the GAP product line decreased $0.1 million.

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Net premiums and policy fees

Net premiums and policy fees decreased $4.4 million, or 11.2%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Service contract premiums decreased $1.3 million primarily due to higher ceded premiums in existing distribution channels. GAP premiums decreased $2.0 million and credit insurance premiums decreased $1.1 million as a result of lower sales.

Other income

Other income increased $0.1 million, or 0.2%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017.

Benefits and settlement expenses

Benefits and settlement expenses decreased $2.7 million, or 8.5%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. Service contract claims decreased $2.5 million due to lower loss ratios. Credit insurance claims decreased $0.2 million due to lower volume. GAP claims were consistent as compared to the prior year.

Amortization of DAC and VOBA and Other operating expenses

Amortization of DAC and VOBA increased $11.1 million and other operating expenses decreased $12.8 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The changes were due to the impact of an accounting change implemented in conjunction with the adoption of ASU No. 2014-09.

Sales

Total segment sales decreased $18.0 million, or 13.5%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. GAP sales decreased $15.8 million due to discontinuing the relationship with a significant distribution partner. Service contract sales decreased $1.3 million due to lower volume resulting from previous price increases. Credit insurance sales decreased $0.9 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. 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, 2017.

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 March 31, 2018	2017
	(Dollars In Thousands)	
REVENUES		
Reinsurance ceded	$(47,744)	$(45,432)
BENEFITS AND EXPENSES		
Benefits and settlement expenses	(19,990)	(18,369)
Amortization of DAC/VOBA	(1,032)	(676)
Other operating expenses	(799)	(1,209)
Total benefits and expenses	(21,821)	(20,254)
NET IMPACT OF REINSURANCE[(1)]	$(25,923)	$(25,178)

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

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For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017

Reinsurance premiums ceded increased $2.3 million, or 5.1%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The increase was primarily due to an increase in ceded service contract premiums.

Benefits and settlement expenses ceded increased $1.6 million, or 8.8%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. 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 $0.4 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, as the result of changes in ceded activity in the service contract and credit product lines. Other operating expenses ceded decreased $0.4 million for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, as a result of changes in 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 March 31,	
	2018	2017
	(Dollars In Thousands)	
REVENUES		
Gross premiums and policy fees	$ 3,183	$ 3,427
Reinsurance ceded	(5)	(59)
Net premiums and policy fees	3,178	3,368
Net investment income	59,039	53,241
Other income	755	2,064
Total operating revenues	62,972	58,673
Realized gains (losses) - investments	8,658	(4,337)
Realized gains (losses) - derivatives	(764)	(1,366)
Total revenues	70,866	52,970
BENEFITS AND EXPENSES		
Benefits and settlement expenses	4,930	3,654
Amortization of DAC and VOBA	—	—
Other operating expenses	78,721	74,747
Total benefits and expenses	83,651	78,401
INCOME (LOSS) BEFORE INCOME TAX	(12,785)	(25,431)
Less: realized gains (losses) - investments	8,658	(4,337)
Less: realized gains (losses) - derivatives	(764)	(1,366)
PRE-TAX ADJUSTED OPERATING INCOME (LOSS)	$ (20,679)	$ (19,728)

For The Three Months Ended March 31, 2018, as compared to The Three Months Ended March 31, 2017

Pre-tax adjusted operating income (loss)

Pre-tax adjusted operating loss was $20.7 million for the three months ended March 31, 2018, as compared to a pre-tax adjusted operating loss of $19.7 million for the three months ended March 31, 2017. The higher operating loss was primarily due to an increase in corporate overhead expenses, partly offset by an increase in investment income due to higher invested asset balances and improved yields.

Operating revenues

Net investment income for the segment increased $5.8 million, or 10.9%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017. The increase was primarily due to an increase in invested asset balances and yields.

Total benefits and expenses

Total benefits and expenses increased $5.3 million or 6.7%, for the three months ended March 31, 2018, as compared to the three months ended March 31, 2017, primarily due to increases in interest expense and corporate overhead expenses.

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CONSOLIDATED INVESTMENTS

As of March 31, 2018, our investment portfolio was approximately $53.2 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 $37.4 billion, or 87.6%, of our fixed maturities as “available-for-sale” as of March 31, 2018. 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 $2.6 billion, or 6.1%, of our fixed maturities and $70.5 million of short-term investments as of March 31, 2018. 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 March 31, 2018. 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 March 31, 2018			December 31, 2017		
	(Dollars In Thousands)					
Publicly issued bonds (amortized cost: 2018 - $30,779,523; 2017 - $30,880,196)	$29,830,326	56.1	%	$30,860,541	56.5	%
Privately issued bonds (amortized cost: 2018 - $12,987,993; 2017 - $12,984,569)	12,799,217	24.1		12,939,997	23.7	
Preferred stock (amortized cost: 2018 - $97,626 ; 2017 - $97,690)	93,833	0.2		94,418	0.1	
Fixed maturities	42,723,376	80.4	%	43,894,956	80.3	%
Equity securities (cost: 2018 - $676,451; 2017 - $740,813)	681,520	1.3		754,360	1.4	
Mortgage loans	6,846,633	12.8		6,817,723	12.5	
Investment real estate	7,531	—		8,355	—	
Policy loans	1,594,642	3.0		1,615,615	3.0	
Other long-term investments	920,939	1.7		915,595	1.7	
Short-term investments	441,781	0.8		615,210	1.1	

Total investments	$53,216,422	100.0%	$54,621,814	100.0%

Included in the preceding table are $2.6 billion and $2.7 billion of fixed maturities and $70.5 million and $56.3 million of short-term investments classified as trading securities as of March 31, 2018 and December 31, 2017, 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 $2.7 billion of securities classified as held-to-maturity as of March 31, 2018 and December 31, 2017, respectively.

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Fixed Maturity Investments

As of March 31, 2018, our fixed maturity investment holdings were approximately $42.7 billion. The approximate percentage distribution of our fixed maturity investments by quality rating is as follows:

Rating	As of March 31, 2018		December 31, 2017	
	(Dollars In Thousands)			
AAA	$5,848,800	13.7 %	$5,740,115	13.1 %
AA	3,476,571	8.1	3,577,512	8.2
A	13,362,349	31.3	13,969,721	31.8
BBB	15,296,986	35.8	15,752,970	35.9
Below investment grade	2,038,844	4.8	2,135,734	4.8
Not rated[(1)]	2,699,826	6.3	2,718,904	6.2
	$42,723,376	100.0%	$43,894,956	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 March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
Corporate securities	$30,205,672	$31,400,193
Residential mortgage-backed securities	2,659,917	2,586,906
Commercial mortgage-backed securities	1,988,139	2,036,626
Other asset-backed securities	1,374,366	1,387,646
U.S. government-related securities	1,365,375	1,250,486
Other government-related securities	317,827	351,207
States, municipals, and political subdivisions	2,018,421	2,068,570
Redeemable preferred stock	93,833	94,418
Securities issued by affiliates	2,699,826	2,718,904
Total fixed income portfolio	$42,723,376	$43,894,956

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

	As of March 31, 2018	% Fair Value	As of December 31, 2017	% Fair Value
	(Dollars In Thousands)			
Banking	$4,165,556	9.9 %	$4,301,821	9.8 %
Other finance	58,718	0.1	60,697	0.1
Electric utility	3,807,591	9.0	3,977,035	9.1
Energy	3,847,300	9.1	4,009,926	9.1
Natural gas	694,907	1.6	736,626	1.7
Insurance	3,522,587	8.2	3,689,572	8.4
Communications	1,645,436	3.9	1,691,391	3.9
Basic industrial	1,552,618	3.6	1,629,349	3.7
Consumer noncyclical	3,692,177	8.6	3,816,011	8.7
Consumer cyclical	1,195,713	2.8	1,232,991	2.8
Finance companies	156,666	0.4	162,673	0.4
Capital goods	1,808,520	4.2	1,910,950	4.4
Transportation	1,161,945	2.7	1,210,272	2.8
Other industrial	234,963	0.5	239,368	0.5
Brokerage	912,479	2.1	921,295	2.1
Technology	1,696,725	4.0	1,756,746	4.0
Real estate	81,590	0.2	82,125	0.2
Other utility	64,014	0.1	65,763	0.1
Commercial mortgage-backed securities	1,988,139	4.7	2,036,626	4.6
Other asset-backed securities	1,374,366	3.2	1,387,646	3.2
Residential mortgage-backed non-agency securities	1,926,327	4.5	1,861,883	4.2
Residential mortgage-backed agency securities	733,590	1.7	725,023	1.7
U.S. government-related securities	1,365,375	3.2	1,250,486	2.8
Other government-related securities	317,827	0.7	351,207	0.8
State, municipals, and political divisions	2,018,421	4.7	2,068,570	4.7
Securities issued by affiliates	2,699,826	6.3	2,718,904	6.2
Total	$42,723,376	100.0%	$43,894,956	100.0%

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

Rating	As of March 31, 2018	December 31, 2017
	(Dollars In Thousands)	
AAA	$350,048	$355,719
AA	267,909	277,984
A	888,105	911,490
BBB	863,977	890,101
Below investment grade	217,103	228,895
Total Modco trading fixed maturities	$2,587,142	$2,664,189

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 March 31, 2018, were approximately $6.0 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 March 31, 2018 and December 31, 2017.

	As of March 31, 2018									
	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	$2,352.1	$2,387.0	$—	$—	$1,222.7	$1,256.6	$584.3	$585.4	$4,159.1	$4,229.0
AA	—	—	—	—	517.6	536.6	179.8	173.5	697.4	710.1
A	6.3	6.2	15.2	15.2	244.7	249.9	498.9	499.1	765.1	770.4
BBB	6.2	6.3	2.7	2.7	3.2	3.2	49.6	49.3	61.7	61.5
Below	77.5	77.4	199.9	201.0	—	—	61.7	61.3	339.1	339.7
	$2,442.1	$2,476.9	$217.8	$218.9	$1,988.2	$2,046.3	$1,374.3	$1,368.6	$6,022.4	$6,110.7
Rating %										
AAA	96.2 %	96.3 %	— %	— %	61.5 %	61.4 %	42.5 %	42.7 %	69.1 %	69.2 %
AA	—	—	—	—	26.0	26.2	13.1	12.7	11.6	11.6
A	0.3	0.3	7.0	6.9	12.3	12.2	36.3	36.5	12.7	12.6
BBB	0.3	0.3	1.2	1.2	0.2	0.2	3.6	3.6	1.0	1.0
Below	3.2	3.1	91.8	91.9	—	—	4.5	4.5	5.6	5.6
	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										
2014 and prior	$1,058.0	$1,070.7	$217.8	$218.9	$1,233.3	$1,269.0	$763.7	$759.6	$3,272.8	$3,318.2
2015	450.8	456.3	—	—	209.8	211.5	18.7	18.2	679.3	686.0
2016	232.4	239.2	—	—	441.4	459.1	231.9	231.9	905.7	930.2
2017	552.4	562.2	—	—	99.6	102.6	329.3	328.2	981.3	993.0
2018	148.5	148.5	—	—	4.1	4.1	30.7	30.7	183.3	183.3
Total	$2,442.1	$2,476.9	$217.8	$218.9	$1,988.2	$2,046.3	$1,374.3	$1,368.6	$6,022.4	$6,110.7

(1) Included in Residential Mortgage-Backed securities.

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	As of December 31, 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	$2,264.2	$2,268.0	$—	$—	$1,258.2	$1,271.1	$591.5	$590.5	$4,113.9	$4,129.6
AA	1.4	1.4	—	—	522.9	533.6	158.5	150.1	682.8	685.1
A	1.1	1.1	15.9	15.9	252.2	253.9	512.9	508.6	782.1	779.5
BBB	1.5	1.5	1.5	1.5	3.3	3.3	50.2	49.6	56.5	55.9
Below	92.5	92.1	208.8	209.0	—	—	74.5	73.7	375.8	374.8
	$2,360.7	$2,364.1	$226.2	$226.4	$2,036.6	$2,061.9	$1,387.6	$1,372.5	$6,011.1	$6,024.9
Rating %										
AAA	95.9 %	95.9 %	— %	— %	61.7 %	61.6 %	42.6 %	43.0 %	68.4 %	68.5 %
AA	0.1	0.1	—	—	25.7	25.9	11.4	10.9	11.4	11.4
A	—	—	7.0	7.0	12.4	12.3	37.0	37.1	13.0	12.9
BBB	0.1	0.1	0.6	0.6	0.2	0.2	3.6	3.6	0.9	0.9
Below	3.9	3.9	92.4	92.4	—	—	5.4	5.4	6.3	6.3
	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	$897.4	$898.8	$226.2	$226.4	$1,025.2	$1,039.4	$761.2	$752.4	$2,910.0	$2,917.0
2014	203.8	202.8	—	—	239.0	243.8	31.2	31.6	474.0	478.2
2015	456.4	458.4	—	—	213.7	211.9	29.4	28.7	699.5	699.0
2016	237.0	240.0	—	—	456.2	463.8	232.9	230.3	926.1	934.1
2017	566.1	564.1	—	—	102.5	103.0	332.9	329.5	1,001.5	996.6
Total	$2,360.7	$2,364.1	$226.2	$226.4	$2,036.6	$2,061.9	$1,387.6	$1,372.5	$6,011.1	$6,024.9

(1) Included in Residential Mortgage-Backed securities

The majority of our RMBS holdings as of March 31, 2018, were super senior or senior bonds in the capital structure. Our total non-agency portfolio has a weighted-average life of 12.11 years. The following table categorizes the weighted-average life for our non-agency portfolio, by category of material holdings, as of March 31, 2018:

Non-agency portfolio	Weighted-Average Life
Prime	12.69
Alt-A	3.31
Sub-prime	3.21

Mortgage Loans

We invest a portion of our investment portfolio in commercial mortgage loans. As of March 31, 2018, our mortgage loan holdings were approximately $6.8 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 March 31, 2018, assuming the loans are called at their next call dates, approximately $143.6 million of principal would become due for the remainder of 2018, $873.1 million in 2019 through 2023, $105.0 million in 2024 through 2028, and $2.0 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 March 31, 2018 and December 31, 2017, approximately $672.1 million and $669.3 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 months ended March 31, 2018 and 2017, we recognized $7.3 million and $6.8 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 March 31, 2018 and December 31, 2017, there were no allowances for mortgage loan credit losses. While our mortgage loans do not have quoted market values, as of March 31, 2018, we estimated the fair value of our mortgage loans to be $6.6 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 2.92% 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 March 31, 2018, none of the Company's invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. 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 three months ended March 31, 2018, we recognized no troubled debt restructurings and we did not identify any loans whose principal was permanently impaired.

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 March 31, 2018, the Company did not have mortgage loans not subject to a pooling and servicing agreement that 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 three months ended March 31, 2018.

As of March 31, 2018, 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 three months ended March 31, 2018.

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 March 31, 2018, 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 $1.1 billion, prior to tax and the related impact of certain insurance assets and liabilities offsets, as of March 31, 2018, and an overall net unrealized gain of $36.0 million as of December 31, 2017.

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For fixed maturity securities held that are in an unrealized loss position as of March 31, 2018, 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	$9,939,975	33.8 %	$10,173,366	32.8 %	$(233,391)	16.2 %
>90 days but <= 180 days	5,207,611	17.6	5,366,018	17.3	(158,407)	11.0
>180 days but <= 270 days	391,672	1.3	408,208	1.3	(16,536)	1.1
>270 days but <= 1 year	122,114	0.4	126,703	0.4	(4,589)	0.3
>1 year but <= 2 years	6,447,678	21.8	6,799,375	21.9	(351,697)	24.3
>2 years but <= 3 years	605,113	2.0	666,698	2.2	(61,585)	4.3
>3 years but <= 4 years	6,836,490	23.1	7,454,304	24.1	(617,814)	42.8
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	$29,550,653	100.0%	$30,994,672	100.0 %	$(1,444,019)	100.0 %

As of March 31, 2018, the Barclays Investment Grade Index was priced at 107 bps versus a 10 year average of 173 bps. Similarly, the Barclays High Yield Index was priced at 370 bps versus a 10 year average of 642 bps. As of March 31, 2018, the five, ten, and thirty-year U.S. Treasury obligations were trading at levels of 2.6%, 2.7%, and 3.0%, as compared to 10 year averages of 1.7%, 2.6%, and 3.4%, respectively.

As of March 31, 2018, 93.4% 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 March 31, 2018, there were estimated gross unrealized losses of $3.2 million related to our mortgage-backed securities collateralized by Alt-A mortgage loans. Gross unrealized losses in our securities collateralized by Alt-A residential mortgage loans as of March 31, 2018, were primarily the result of continued widening spreads, representing marketplace uncertainty arising from higher defaults in Alt-A residential mortgage loans and rating agency downgrades of securities collateralized by Alt-A residential 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 March 31, 2018, is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
Banking	$2,928,357	9.9 %	$3,013,567	9.8 %	$(85,210)	5.9 %
Other finance	37,275	0.1	40,361	0.1	(3,086)	0.2
Electric utility	3,358,549	11.5	3,592,299	11.6	(233,750)	16.2
Energy	2,307,388	7.8	2,423,585	7.8	(116,197)	8.0
Natural gas	614,596	2.1	652,025	2.1	(37,429)	2.6
Insurance	2,841,971	9.6	2,990,448	9.6	(148,477)	10.3
Communications	1,405,429	4.8	1,513,078	4.9	(107,649)	7.5
Basic industrial	999,869	3.4	1,055,087	3.4	(55,218)	3.8
Consumer noncyclical	2,938,886	9.9	3,097,456	10.0	(158,570)	11.0
Consumer cyclical	857,433	2.9	903,586	2.9	(46,153)	3.2
Finance companies	72,642	0.2	76,040	0.2	(3,398)	0.2
Capital goods	1,509,374	5.1	1,581,897	5.1	(72,523)	5.0
Transportation	1,021,678	3.5	1,074,082	3.5	(52,404)	3.6
Other industrial	189,392	0.6	203,821	0.7	(14,429)	1.0
Brokerage	628,657	2.1	646,279	2.1	(17,622)	1.2
Technology	1,011,003	3.4	1,049,908	3.4	(38,905)	2.7
Real estate	29,836	0.1	30,458	0.1	(622)	—
Other utility	45,973	0.2	47,257	0.2	(1,284)	0.1
Commercial mortgage-backed securities	1,741,151	5.9	1,799,846	5.8	(58,695)	4.1
Other asset-backed securities	273,757	0.9	283,410	0.9	(9,653)	0.7
Residential mortgage-backed non-agency securities	1,280,462	4.3	1,313,164	4.2	(32,702)	2.3
Residential mortgage-backed agency securities	541,196	1.8	556,125	1.8	(14,929)	1.0
U.S. government-related securities	1,200,197	4.1	1,250,198	4.0	(50,001)	3.5
Other government-related securities	202,472	0.7	214,098	0.7	(11,626)	0.8
States, municipals, and political divisions	1,513,110	5.1	1,586,597	5.1	(73,487)	5.1
Total	$29,550,653	100.0 %	$30,994,672	100.0 %	$(1,444,019)	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, 2017, is presented in the following table:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
Banking	$1,733,309	8.0 %	$1,758,549	7.9 %	$(25,240)	3.7 %
Other finance	54,454	0.3	58,198	0.3	(3,744)	0.5
Electric utility	3,111,719	14.3	3,242,952	14.5	(131,233)	19.2
Energy	1,397,312	6.4	1,458,690	6.5	(61,378)	9.0
Natural gas	604,431	2.8	624,203	2.8	(19,772)	2.9
Insurance	1,697,233	7.8	1,743,140	7.8	(45,907)	6.7
Communications	1,238,082	5.7	1,303,264	5.8	(65,182)	9.6
Basic industrial	581,249	2.7	603,248	2.7	(21,999)	3.2
Consumer noncyclical	2,016,112	9.3	2,077,552	9.3	(61,440)	9.0
Consumer cyclical	630,915	2.9	651,415	2.9	(20,500)	3.0
Finance companies	39,710	0.2	40,581	0.2	(871)	0.1
Capital goods	1,121,919	5.2	1,146,545	5.1	(24,626)	3.6
Transportation	791,776	3.6	812,358	3.6	(20,582)	3.0
Other industrial	174,797	0.8	185,701	0.8	(10,904)	1.6
Brokerage	380,331	1.8	384,860	1.7	(4,529)	0.7
Technology	576,855	2.7	598,112	2.7	(21,257)	3.1
Real estate	43,096	0.2	43,610	0.2	(514)	0.1
Other utility	46,731	0.1	47,514	0.2	(783)	0.3
Commercial mortgage-backed securities	1,553,928	7.2	1,584,114	7.1	(30,186)	4.4
Other asset-backed securities	220,822	1.0	226,586	1.0	(5,764)	0.8
Residential mortgage-backed non-agency securities	822,794	3.8	838,846	3.7	(16,052)	2.4
Residential mortgage-backed agency securities	360,025	1.7	367,006	1.6	(6,981)	1.0
U.S. government-related securities	1,166,342	5.4	1,198,519	5.4	(32,177)	4.7
Other government-related securities	140,124	0.6	145,071	0.6	(4,947)	0.7
States, municipals, and political divisions	1,198,015	5.5	1,243,628	5.6	(45,613)	6.7
Total	$21,702,081	100.0%	$22,384,262	100.0 %	$(682,181)	100.0 %

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The range of maturity dates for securities in an unrealized loss position as of March 31, 2018, varies, with 22.9% maturing in less than 5 years, 18.2% maturing between 5 and 10 years, and 58.9% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position as of March 31, 2018:

S&P or Equivalent Designation	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
AAA/AA/A	$17,442,833	59.0 %	$18,217,557	58.8 %	$(774,724)	53.7 %
BBB	11,312,582	38.4	11,885,322	38.3	(572,740)	39.7
Investment grade	28,755,415	97.4 %	30,102,879	97.1 %	(1,347,464)	93.4 %
BB	480,529	1.6	525,907	1.7	(45,378)	3.1
B	185,318	0.6	218,636	0.7	(33,318)	2.3
CCC or lower	129,391	0.4	147,250	0.5	(17,859)	1.2
Below investment grade	795,238	2.6 %	891,793	2.9 %	(96,555)	6.6 %
Total	$29,550,653	100.0 %	$30,994,672	100.0 %	$(1,444,019)	100.0 %

As of March 31, 2018, we held a total of 2,428 positions that were in an unrealized loss position. Included in that amount were 94 positions of below investment grade securities with a fair value of $795.2 million that were in an unrealized loss position. Total unrealized losses related to below investment grade securities were $96.6 million, $70.8 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 1.5% of invested assets.

As of March 31, 2018, securities in an unrealized loss position that were rated as below investment grade represented 2.6% of the total fair value and 6.6% of the total unrealized loss. 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 March 31, 2018:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss	% Unrealized Loss
	(Dollars In Thousands)					
<= 90 days	$227,428	28.6 %	$234,456	26.3 %	$(7,028)	29.5 %
>90 days but <= 180 days	128,478	16.2	139,348	15.6	(10,870)	14.9
>180 days but <= 270 days	50,109	6.3	57,246	6.4	(7,137)	6.1
>270 days but <= 1 year	9,720	1.2	10,473	1.2	(753)	1.1
>1 year but <= 2 years	31,900	4.0	35,655	4.0	(3,755)	3.8
>2 years but <= 3 years	103,166	13.0	124,674	14.0	(21,508)	13.4
>3 years but <= 4 years	244,437	30.7	289,941	32.5	(45,504)	31.2
>4 years but <= 5 years	—	—	—	—	—	—
>5 years	—	—	—	—	—	—
Total	$795,238	100.0 %	$891,793	100.0 %	$(96,555)	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 March 31, 2018:

Rating	Fair Value	Percent of Fair Value
	(Dollars In Thousands)	
AAA	$ 5,498,752	14.7 %
AA	3,208,662	8.6
A	12,474,244	33.3
BBB	14,433,009	38.5
Investment grade	35,614,667	95.1
BB	1,277,498	3.4
B	289,596	0.8
CCC or lower	254,647	0.7
Below investment grade	1,821,741	4.9
Total	$ 37,436,408	100.0 %

Not included in the table above are $2.4 billion of investment grade and $217.2 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 March 31, 2018. The following table summarizes our ten largest fixed maturity exposures to an individual creditor group as of March 31, 2018:

Creditor	Fair Value of Funded Securities	Unfunded Exposures	Total Fair Value
	(Dollars In Millions)		
Federal Home Loan Bank	$ 236.6	$ —	$ 236.6
Southern Co.	205.8	—	205.8
AT&T, Inc.	205.0	—	205.0
Duke Energy Corp.	202.9	—	202.9
Morgan Stanley	192.5	—	192.5
Exelon Corp.	188.1	—	188.1
Goldman Sachs Group Inc.	187.9	—	187.9
Wells Fargo & Co.	185.4	1.6	187.0
Anheuser-Busch Inbev.	185.7	—	185.7
Bank of America Corp.	181.1	0.5	181.6
Total	$ 1,971.0	$ 2.1	$ 1,973.1

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 months ended March 31, 2018, we recognized approximately $3.6 million 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 March 31, 2018. As of March 31, 2018, we had no unfunded exposure and had no direct sovereign exposure.

Financial Instrument and Country	Non-sovereign Debt Financial	Non-sovereign Debt Non-financial	Total Gross Funded Exposure
	(Dollars In Millions)		
Securities:			
United Kingdom	$601.3	$ 793.1	$ 1,394.4
Netherlands	217.1	234.5	451.6
Switzerland	233.7	98.9	332.6
France	135.3	194.5	329.8
Germany	118.3	147.6	265.9
Spain	7.3	213.5	220.8
Belgium	—	181.1	181.1
Sweden	125.2	19.7	144.9
Norway	—	97.1	97.1
Ireland	15.1	43.3	58.4
Luxembourg	—	55.2	55.2
Italy	—	43.5	43.5
Total securities	1,453.3	2,122.0	3,575.3
Derivatives:			
Germany	32.5	—	32.5
United Kingdom	22.7	—	22.7
France	11.6	—	11.6
Switzerland	2.5	—	2.5
Total derivatives	69.3	—	69.3

Total securities	$1,522.6	$ 2,122.0	$ 3,644.6

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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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Fixed maturity gains - sales	$ 8,049	$ 10,738
Fixed maturity losses - sales	(5,266)	(1,248)
Equity gains and losses	(8,786)	(9)
Impairments on fixed maturity securities	(3,645)	(5,201)
Impairments on equity securities	—	(2,630)
Modco trading portfolio	(84,709)	18,552
Other	3,113	(5,192)
Total realized gains (losses) - investments	$ (91,244)	$ 15,010
Derivatives related to VA contracts:		
Interest rate futures - VA	$ (16,892)	$ 3,448
Equity futures - VA	(6,428)	(30,817)
Currency futures - VA	(7,583)	(6,256)
Equity options - VA	12,016	(40,185)
Interest rate swaptions - VA	(14)	(1,469)
Interest rate swaps - VA	(63,710)	(8,957)
Total return swaps - VA	6,490	—
Embedded derivative - GLWB	56,292	33,632
Total derivatives related to VA contracts	(19,829)	(50,604)
Derivatives related to FIA contracts:		
Embedded derivative - FIA	11,330	(12,411)
Equity futures - FIA	(161)	297
Equity options - FIA	(4,669)	10,700
Total derivatives related to FIA contracts	6,500	(1,414)
Derivatives related to IUL contracts:		
Embedded derivative - IUL	9,884	(2,090)
Equity futures - IUL	136	(799)
Equity options - IUL	(1,250)	2,891
Total derivatives related to IUL contracts	8,770	2
Embedded derivative - Modco reinsurance treaties	82,658	(17,865)
Other derivatives	(40)	3
Total realized gains (losses) - derivatives	$ 78,059	$ (69,878)

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 months ended March 31, 2018, 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 March 31,	
	2018	2017
	(Dollars In Thousands)	
Alt-A MBS	$ —	$ —
Other MBS	(31)	(5)
Corporate securities	(3,614)	(5,196)
Equities	—	(2,630)
Other	—	—
Total	$ (3,645)	$ (7,831)

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 three months ended March 31, 2018, we sold securities in an unrealized loss position with a fair value of $57.0 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	$8,098	14.2 %	$ (934)	17.7 %
>90 days but <= 180 days	47,721	83.7	(4,181)	79.4
>180 days but <= 270 days	—	—	—	—
>270 days but <= 1 year	—	—	—	—
>1 year	1,165	2.1	(152)	2.9
Total	$56,984	100.0 %	$ (5,267)	100.0 %

For the three months ended March 31, 2018, we sold securities in an unrealized loss position with a fair value (proceeds) of $57.0 million. The losses realized on the sale of these securities were $5.3 million. We made the decision to exit these holdings in conjunction with our overall asset liability management process.

For the three months ended March 31, 2018, we sold securities in an unrealized gain position with a fair value of $142.1 million. The gains realized on the sale of these securities were $8.0 million.

The $3.1 million of other realized gains recognized for the three months ended March 31, 2018, included $3.4 million of realized gains associated with our mortgage loan portfolio, partnership gains of $0.1 million, fixed asset losses of $0.1 million, and real estate losses of $0.2 million, respectively.

For the three months ended March 31, 2018, net losses of $84.7 million, primarily related to changes in fair value on our Modco trading portfolios, were included in realized gains and losses. Of the $84.7 million for the three months ended March 31, 2018, approximately $2.5 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 gains of $82.7 million, during the three months ended March 31, 2018. The gains during the three months ended March 31, 2018, were due to the credit spreads widening and treasury yields increasing.

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 months ended March 31, 2018, we experienced net realized losses on derivatives related to VA contracts of approximately $19.8 million. These net losses on derivatives related to VA contracts were affected by capital market impacts, changes in our non-performance risk, and variations in actual sub-account fund performance from the indices included in our hedging program during the three months ended March 31, 2018.

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We also use various swaps and other types of derivatives to mitigate risk related to other exposures. For the three months ended March 31, 2018, these contracts generated immaterial losses.
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 $140.0 million dividend during the three months ended March 31, 2018, and do not expect to pay a dividend for the remainder of 2018.
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 March 31, 2018. There was an outstanding balance of $325.0 million bearing interest at a rate of LIBOR plus 1.00% as of March 31, 2018.
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 March 31, 2018, our total cash and invested assets were $53.5 billion. The life insurance subsidiaries were committed as of March 31, 2018, to fund mortgage loans in the amount of $699.6 million.

Our positive cash flows 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 $96.0 million of cash and short-term investments, and our subsidiaries held approximately $610.5 million in cash and short-term investments as of March 31, 2018.

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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 Three Months Ended March 31,	
	2018	2017
	(Dollars In Thousands)	
Net cash (used in) provided by operating activities	$ (92,111)	$ 40,018
Net cash provided by (used in) investing activities	8,552	(359,771)
Net cash provided by financing activities	138,973	380,948
Total	$ 55,414	$ 61,195

For The Three Months Ended March 31, 2018 as compared to the Three Months Ended March 31, 2017

Net cash (used in) 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 and policy fees collected from our insurance and investment products exceed benefit payments and redemptions, 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 provided by (used in) investing activities - Changes in cash from investing activities primarily related to our investment portfolio.

Net cash provided by financing activities - Changes in cash from financing activities included $238.8 million of outflows from secured financing liabilities for the three months ended March 31, 2018, as compared to the $29.5 million of inflows for the three months ended March 31, 2017 and $372.3 million inflows of investment product and universal life net activity as compared to $349.8 million in the prior year. Net activity related to the credit facility resulted in inflows of $163.6 million for the three months ended March 31, 2018, as compared to $156.5 million of inflows for three months ended March 31, 2017. Net repayment of non-recourse funding obligations equaled $18.0 million during the three months ended March 31, 2018, as compared to $11.0 million during the three months ended March 31, 2017. The Company paid a dividend during the three month period ended March 31, 2018 of $140.0 million, as compared to a dividend of $143.8 million during the three months ended March 31, 2017.

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 March 31, 2018, 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 March 31, 2018, the fair value of securities pledged under the repurchase program was $753.6 million and the repurchase obligation of $665.0

million was included in our consolidated condensed balance sheets (at an average borrowing rate of 173 basis points). During the three months ended March 31, 2018, the maximum balance outstanding at any one point in time related to these programs was $885.0 million. The average daily balance was $808.0 million (at an average borrowing rate of 149 basis points) during the three months ended March 31, 2018. As of December 31, 2017, the fair value of securities pledged under the repurchase program was $1,006.6 million and the repurchase obligation of $885.0 million was included in our consolidated condensed balance sheets (at an average borrowing rate of 142 basis points). During 2017, the maximum balance outstanding at any one point in time related to these programs was $988.5 million. The average daily balance was $624.7 million (at an average borrowing rate of 101 basis points) during the year ended December 31, 2017.

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 March 31, 2018, securities with a market value of $107.0 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 March 31, 2018, the fair value of the collateral related to this program was $113.9 million and we have an obligation to return $113.9 million of collateral to the securities borrowers.

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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 without prior approval of the insurance commissioner of the state of domicile. 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 2018 is approximately $853.2 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 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 equity 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 months ended March 31, 2018, we ceded premiums to third party reinsurers amounting to $345.4 million. In addition, we had receivables from reinsurers amounting to $5.1 billion as of March 31, 2018. 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 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 established a Variable Annuity Issues Working Group to examine company use of variable annuity

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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 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.

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 March 31, 2018, 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 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.

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As of March 31, 2018, 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 3.47%.

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 March 31, 2018, we carried a $6.7 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.

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)	$1,411,736	$57,230	$785,925	$37,436	$531,145
Non-recourse funding obligations(2)	4,537,137	274,628	639,274	646,513	2,976,722
Subordinated debt securities(3)	1,419,160	26,750	53,500	53,500	1,285,410
Stable value products(4)	4,932,320	1,324,421	2,386,621	1,081,314	139,964
Operating leases(5)	26,236	4,482	7,693	6,305	7,756
Home office lease(6)	76,849	76,849	—	—	—
Mortgage loan and investment commitments	812,206	698,358	113,848	—	—
Secured financing liabilities(7)	779,043	779,043	—	—	—
Policyholder obligations(8)	42,614,456	10,879,827	3,761,140	3,689,030	24,284,459
Total(9)	$56,609,143	$14,121,588	$7,748,001	$5,514,098	$29,225,456

(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, $1.7 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, $2.7 billion relates to the Golden Gate transaction. These cash outflows are matched and predominantly offset by the cash inflows Golden Gate receives from notes issued by a nonconsolidated variable interest entity. 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.

(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.

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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, inflation risk, currency exchange risk, volatility risk, and equity market risk. See Note 6, Derivative Financial Instruments, to the consolidated 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.

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 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 our analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into our risk management program.

Derivative instruments expose us to credit and market risk and could result in material changes from period to period. We attempt to minimize our credit risk by entering into transactions with highly rated counterparties. We manage the market risk 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 risk management strategies. 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 swaptions.

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 VA 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

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

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different than prevailing interest rates. As of March 31, 2018, we had outstanding mortgage loan commitments of $699.6 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.

The tables below present 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 March 31, 2018, and December 31, 2017:

Credited Rate Summary
As of March 31, 2018

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%	$207	$1,281	$ 1,998	$3,486
>3% - 4%	4,177	937	8	5,122
>4% - 5%	1,966	13	1	1,980
>5% - 6%	197	—	—	197
Subtotal	6,547	2,231	2,007	10,785
Fixed Annuities				
1%	$525	$268	$ 755	$1,548
>1% - 2%	469	285	22	776
>2% - 3%	1,849	63	4	1,916
>3% - 4%	250	—	—	250
>4% - 5%	268	—	—	268
>5% - 6%	2	—	—	2
Subtotal	3,363	616	781	4,760
Total	$9,910	$2,847	$ 2,788	$15,545
Percentage of Total	64 %	18 %	18 %	100 %

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Credited Rate Summary
As of December 31, 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%	$206	$1,252	$ 2,006	$3,464
>3% - 4%	4,146	993	8	5,147
>4% - 5%	1,987	13	1	2,001
>5% - 6%	199	—	—	199
Subtotal	6,538	2,258	2,015	10,811
Fixed Annuities				
1%	$571	$239	$ 540	$1,350
>1% - 2%	473	331	70	874
>2% - 3%	1,897	63	4	1,964
>3% - 4%	254	—	—	254
>4% - 5%	271	—	—	271
>5% - 6%	2	—	—	2
Subtotal	3,468	633	614	4,715
Total	$10,006	$2,891	$ 2,629	$15,526
Percentage of Total	64 %	19 %	17 %	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 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.

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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.

(b) Changes in internal control over financial reporting

There were no changes in the Company’s internal control over financial reporting during the three months ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II

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, 2017, which could materially affect the Company’s business, financial condition, or future results of operations which are discussed more fully below.

Risks Related to the Financial Environment

The Company may be required to establish a valuation allowance against its deferred tax assets, which could have a material adverse effect on the Company's results of operations, financial condition, and capital position.

Deferred tax assets are attributable to certain differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets represent future savings of taxes that would otherwise be paid in cash. In general, the realization of the deferred tax assets is dependent upon the generation of sufficient future ordinary and capital taxable income. If it is determined that a certain deferred tax asset cannot be realized, then a deferred tax valuation allowance must be established, with a corresponding charge to either adjusted operating income or other comprehensive income (depending on the nature of the deferred tax asset).

Based on the Company's current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize its material deferred tax assets net of any existing valuation allowance. The Company has recognized valuation allowances of $5.9 million and $5.0 million as of March 31, 2018 and December 31, 2017, respectively, related to state operating loss and interest expense carryforwards which are more likely than not to expire unutilized. If future events differ from the Company's current forecasts, an additional valuation allowance may need to be established, which could have a material adverse effect on the Company's results of operations, financial condition, or capital position.

The Company could be adversely affected by an inability to access FHLB lending.

Certain Company subsidiaries are members of the Federal Home Loan Bank (the "FHLB") of Cincinnati and the FHLB of New York. Membership provides these Company subsidiaries with access to FHLB financial services, including advances that provide an attractive funding source for short-term borrowing and for the sale of funding agreements. The extent to which these services are available could be impacted by legislative or regulatory action at the state or federal level. It is unclear at this time whether or to what extent additional or new legislation or regulatory action regarding continued access to FHLB financial services will be enacted or adopted. Any developments that limit access to FHLB financial services could have a material adverse effect on the Company.

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 National Association of Insurance Commissioners (the "NAIC") risk-based capital formula. Most of these factors are outside of the Company's control.

The NAIC is currently considering several changes to the formula used to calculate risk-based capital. One of the changes under consideration relates to the corporate tax rate. Previously, the NAIC risk-based capital formula used a tax factor that generally assumed a 35% corporate tax rate. In 2018, the maximum corporate tax rate was set at 21%. The NAIC's Capital Adequacy Task Force and its working groups have stated their intention to update the risk-based capital formula to reflect the lower corporate tax rate. Another contemplated change would update the factors used to calculate required capital for bonds. While the extent and timing of either such change is unknown, both changes would likely increase required capital upon becoming effective, which in turn would decrease the statutory risk-based capital ratios of U.S. life insurance companies, including the Company and its subsidiaries. Ultimately, the changes contemplated by the NAIC could have an individually or cumulatively material adverse effect on the Company's financial condition and/or results of operations.

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.

Industry and Regulatory Related Risks

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 periodically 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"). 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.

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 2020) and that, upon adoption, domestic regulators request that insurers ceding business to variable annuity captives recapture such business and dissolve such captives. If 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 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.

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Laws, regulations and initiatives related to unreported deaths and unclaimed property and death benefits may result in operational burdens, fines, unexpected payments or escheatments.

Since 2012, various states have enacted laws that require life insurers to search for unreported deaths. The National Conference of Insurance Legislators ("NCOIL") has adopted the Model Unclaimed Life Insurance Benefits Act (the "Unclaimed Benefits Act") and legislation or regulations have been enacted in numerous states that are similar to the Unclaimed Benefits Act, although each state's version differs in some respects. The Unclaimed Benefits Act, if adopted by any state, imposes new requirements on insurers to periodically compare their life insurance and annuity contracts and retained asset accounts against the U.S. Social Security Administration's Death Master File or similar databases (a "Death Database"), investigate any potential matches to confirm the death and determine whether benefits are due, and to attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. Other states in which the Company does business may also consider adopting legislation similar to the Unclaimed Benefits Act. The Company cannot predict whether such legislation will be proposed or enacted in additional states.

The Uniform Laws Commission has adopted revisions to the Uniform Unclaimed Property Act in a manner likely to impact state unclaimed property laws and requirements, though it is not clear at this time to what extent or whether requirements will conflict with otherwise imposed search requirements. Other life insurance industry associations and regulatory associations are also considering these matters. Certain states have amended or may amend their unclaimed property laws to require insurers to compare in-force and certain terminated life insurance policies, annuity contracts, and retained asset accounts against a Death Database, to investigate potential matches to determine whether the named insured is deceased, to attempt to locate and pay beneficiaries any unclaimed benefits required to be paid, and, if no beneficiary can be located, to escheat policy benefits to the appropriate state as unclaimed property. The enactment of such unclaimed property laws may require the Company to incur significant expenses, including benefits with respect to terminated policies for which no reserves are currently held and unanticipated operational expenses. Any of the foregoing could have a material adverse effect on the Company's financial condition and results of operations.

A number of state treasury departments and administrators of unclaimed property have audited life insurance companies for compliance with unclaimed property laws. The focus of the audits has been to determine whether there have been maturities of policies or contracts, or policies that have exceeded limiting age with respect to which death benefits or other payments under the policies should be treated as unclaimed property that should be escheated to the state. In addition, the audits have sought to identify unreported deaths of insureds. There is no clear basis in previously existing law for treating an unreported death as giving rise to a policy benefit that would be subject to unclaimed property procedures. A number of life insurers, however, have entered into resolution agreements with state treasury departments and administrators of unclaimed property under which the life insurers agreed to procedures for comparing their previously issued 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, in some cases at a negotiated rate, to the state if the beneficiary could not be found, and paying penalties to the state, if required. The amounts publicly reported to have been paid to beneficiaries and/or escheated to the states have been substantial.

State insurance regulators have initiated targeted multi-state examinations of life insurance companies with respect to the companies' claims paying practices and use of a Death Database to identify unreported deaths in their life insurance policies, annuity contracts and retained asset accounts, despite having 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. 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 systems and 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 substantial administrative and/or examination fees to the insurance regulators in connection with the settlement or consent agreements.

Certain of the Company's subsidiaries as well as certain other insurance companies from whom the Company has coinsured blocks of life insurance and annuity policies are subject to unclaimed property audits and/or targeted multi-state examinations by insurance regulators similar to those described above. It is possible that the audits, examinations and/or the enactment of state laws similar to the Unclaimed Benefits Act could result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws, payment of administrative penalties and/or examination fees to state authorities, and changes to the Company's procedures for identifying unreported deaths and escheatment of abandoned property. It is possible any such additional payments and any costs related to changes in Company procedures could materially impact the Company's financial condition and/or results of operations. It is also possible that life insurers, including the Company, may be subject to claims, regulatory actions, law enforcement actions, and civil litigation arising from their prior business practices, unclaimed property practices or related audits and examinations. Any resulting liabilities, payments or costs, including initial and ongoing costs of changes to the Company's procedures or systems, could be significant and could have a material adverse effect on the Company's financial condition and/or results of operations.

During December 2012, the West Virginia Treasurer filed actions against the Company's subsidiaries Protective Life Insurance Company and West Coast Life Insurance Company in West Virginia state court (State of West Virginia ex rel. John D. Perdue v. Protective Life Insurance Company; State of West Virginia ex rel. John D. Perdue v. West Coast Life Insurance Company; Defendants' Motions to Dismiss granted on December 27, 2013; Notice of Appeal filed on January 27, 2014; dismissal reversed by the West Virginia Supreme Court of Appeals on June 16, 2015; Petition for Rehearing filed by Defendant insurance companies denied on September 21, 2015). The actions, which also name numerous other life insurance companies, allege that the companies

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violated the West Virginia Uniform Unclaimed Property Act, seek to compel compliance with the Act, and seek payment of unclaimed property, interest, and penalties. While the legal theory or theories that may give rise to liability in the West Virginia Treasurer litigation are uncertain, it is possible that other jurisdictions may pursue similar actions. The Company does not currently believe that losses, if any, arising from the West Virginia Treasurer litigation will be material. The Company cannot, however, predict whether other jurisdictions will pursue similar actions or if they do, whether such actions will have a material impact on the Company's financial condition and/or results of operations.

New and amended regulations regarding the standard of care or standard of conduct applicable to investment professionals, insurance agencies, and financial institutions that recommend or sell annuities 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.

Sales of life insurance policies, contracts, and annuities offered by the Company are subject to regulations relating to sales practices adopted by a variety of federal and state regulatory authorities. Certain annuities and life insurance policies such as variable annuities and variable universal life insurance are regulated under the federal securities laws administered by the U.S. Securities and Exchange Commission (the “SEC”). On April 18, 2018, the SEC voted to propose rulemakings and interpretations relating to the standard of conduct applicable to broker-dealers, investment advisers, and their representatives when making certain recommendations to retail customers. Specifically, under the proposed regulations, a broker-dealer would be required to act in the best interest of a retail customer when recommending any securities transaction or investment strategy involving securities to a retail customer. The SEC also proposed an interpretation reaffirming and, in some cases, clarifying its views of the fiduciary duty that investment advisers owe to their clients. Another SEC proposal would require broker-dealers and investment advisers to provide each customer with a summary of the nature of the customer’s relationship with the investment professional, as well as a restriction on the use of the terms “adviser” and “advisor” by broker-dealers.

In addition, 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.

In April of 2016, the U.S. Department of Labor (the “DOL”) 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 DOL also issued amendments to long-standing exemptions from the provisions of ERISA and the Code that prohibit fiduciaries from engaging in certain types of transactions (“Prohibited Transaction Exemptions”) and adopted new Prohibited Transaction Exemptions.

Organizations that opposed the DOL’s fiduciary regulations have filed lawsuits aimed at overturning them. On March 15, 2018, the U.S. Court of Appeals for the Fifth Circuit issued a ruling vacating all aspects of the DOL’s fiduciary “rule,” including the changes to the definition of “investment advice fiduciary,” the creation of the Best Interest Contract Exemption, and the amendments to existing Prohibited Transaction Exemptions. This ruling is subject to challenge on appeal by the DOL or an intervening third party, however, and other courts considering the same or similar issues may reach a different legal conclusion.

In addition to the foregoing, the NAIC is considering revisions to the Suitability in Annuity Transactions Model Regulation which, if adopted by regulators, would impose a stricter standard of care upon insurers who sell annuities. Likewise, several states are considering legislation or regulatory measures that would implement new requirements and standards applicable to the sale of annuities and, in some cases, life insurance products. These standards vary widely in scope, applicability and timing of implementation. The adoption and enactment of these or any revised standards as law or regulation could have a material adverse effect upon the manner in which the Company's products are sold.

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. Any of the foregoing regulatory, legislative or judicial measures or the reaction to such activity by consumers or other members of the insurance industry 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.

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 advisers. These examinations or investigations often focus on the activities of the registered representatives and registered investment advisers 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.

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.

The Company's ability to enter into certain transactions is influenced by how such a transaction might affect Dai-ichi Life's taxation in Japan.

Changes to tax law, such as the effect of the Tax Reform Act enacted on December 22, 2017, or interpretations of existing tax law could adversely affect the Company and its ability to compete with non-insurance products or reduce the demand for certain insurance products.

In general, existing law exempts policyholders from current taxation on the increase in value of most insurance and annuity products during these products' accumulation phase. This favorable tax treatment provides some of the Company's products with a competitive advantage over products offered by non-insurance companies. To the extent that the law is revised to either reduce the tax-deferred status of life insurance and annuity products, or to establish the tax-deferred status of competing products, then all life insurance companies, including the Company's subsidiaries, would be adversely affected with respect to their ability to sell their products. Furthermore, such changes would generally cause increased surrenders of existing life insurance and annuity products. For example, a change in law that further restricts the deductibility of interest expense when a business owns a life insurance product would result in increased surrenders of these products.

The Company is subject to corporate income, excise, franchise, and premium taxes. Federal tax law provides certain benefits to the Company, such as the deferral of current taxation on derivatives' and securities' economic income and the current deduction for future policy benefits and claims. The Tax Cuts and Jobs Act (the "Tax Reform Act"), which was enacted in December 2017, will require the Company to report higher amounts of taxable income both now and in the future. However, the legislation also significantly reduced the corporate income tax rate. Overall, the Company expects to pay less income tax in the future.

The Company's mid-2005 transition from relying on reinsurance for newly-written traditional life products to reinsuring some of these products' reserves into its captive insurance companies resulted in a net reduction in its current taxes, offset by an increase in its deferred taxes. The resulting benefit of reduced current taxes is attributed to the applicable life products and is an important component of the profitability of these products. The Tax Reform Act, with its overall lower tax rate, has decreased the economic tax benefit associated with these products. Ultimately, the profitability and competitive position of these products is dependent on the Company’s ability to continue deducting its provision for future policy benefits and claims and the Company's ability to generate taxable income.

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

During the quarter ended March 31, 2018, 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 March 31, 2018, 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	
2(a)*	Master Transaction Agreement, dated as of January 18, 2018, by and among Protective Life Insurance Company, Protective Life Corporation, The Lincoln National Life Insurance Company, Lincoln National Corporation, Liberty Mutual Insurance Company, Liberty Mutual Fire Insurance Company and Liberty Mutual Group Inc., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 22, 2018 (No. 001-11339).
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).
10	Amendment One to the Protective Life Corporation Long-Term Incentive Plan filed herewith. †
10(b)*	First Amendment to Amended and Restated Credit Agreement, dated as of May 3, 2018, among Protective Life Corporation and Protective Life Insurance Company, as Borrowers, the several lenders from time to time thereto, and Regions Bank, as Administrative Agent for Lenders, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 9, 2018 (No. 001-11339).
12	Computation of Ratios of Consolidated Earnings to Fixed Charges.
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 March 31, 2018, filed on May 11, 2018, formatted in XBRL: (i) the Consolidated Condensed Statements of Income, (ii) the Consolidated Condensed Statements of Comprehensive Income (Loss), (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.

† Management contract or compensatory plan or arrangement

* Incorporated by Reference

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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: May 11, 2018 By:/s/ PAUL R. WELLS

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