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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number 001-11339

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

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

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

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

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

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

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

Large accelerated filer o Accelerated Filer o

Non-accelerated filer x   Smaller Reporting Company o

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

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

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FOR QUARTERLY PERIOD ENDED JUNE 30, 2016

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

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

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

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See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

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

See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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

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

See Notes to Consolidated Condensed Financial Statements

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

1. BASIS OF PRESENTATION

Basis of Presentation

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

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for the interim periods presented herein. Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and six months ended June 30, 2016 (Successor Company) are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2016 (Successor Company). The year-end consolidated condensed financial data included herein was derived from audited financial statements but does not include all disclosures required by GAAP within this report. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (Successor Company).

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

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (Successor Company). There were no significant changes to the Company's accounting policies during the six months ended June 30, 2016 (Successor Company).

Accounting Pronouncements Recently Adopted

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

ASU No. 2015-03-Interest-Imputation of Interest. The objective of this Update is to eliminate diversity in practice related to the presentation of debt issuance costs. The amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for
debt issuance costs are not affected by the

amendments in this Update. The Update is effective for fiscal years beginning after December 15, 2015, and requires revised presentation of debt issuance costs in all periods presented in the financial statements. The Update did not impact the Company's financial position or results of operations, and the Company is prepared to comply with the revised guidance in future periods.

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

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

Accounting Pronouncements Not Yet Adopted

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

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

ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The

additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The Company does not anticipate that the additional disclosures introduced in this Update will be material to its financial statements.

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

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

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

3. REINSURANCE AND FINANCING TRANSACTIONS

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

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

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

contracts that it issues or holds pursuant to ASC 944.

4. DAI-ICHI MERGER

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

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

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

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

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Treatment of certain acquisition related costs

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

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

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

Treatment of Benefit Plans

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

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

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

5. MONY CLOSED BLOCK OF BUSINESS

In 1998, MONY Life Insurance Company ("MONY") converted from a mutual insurance company to a stock corporation ("demutualization"). In connection with its demutualization, an accounting mechanism known as a closed

block (the “Closed Block”) was established for certain individuals’ participating policies in force as of the date of demutualization. Assets, liabilities, and earnings of the Closed Block are specifically identified to support its participating policyholders. The Company acquired the Closed Block in conjunction with the acquisition of MONY in 2013.

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

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

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

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

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

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

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

Reconciliation of the policyholder dividend obligation is as follows:

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

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

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Closed Block revenues and expenses were as follows:

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

6. INVESTMENT OPERATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

	Successor Company			
	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Due in one year or less	$750,175	$750,605	$—	$—
Due after one year through five years	6,892,759	6,932,132	—	—
Due after five years through ten years	7,793,745	7,908,634	—	—
Due after ten years	21,230,047	20,471,063	2,779,280	2,853,788
	$36,666,726	$36,062,434	$2,779,280	$2,853,788

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

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

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

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

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

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

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The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2016 (Successor Company):

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

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

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

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

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

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

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The following table includes the gross unrealized losses and fair value of the Company's investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2015 (Successor Company):

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

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

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

As of June 30, 2016 (Successor Company), the Company had securities in its available-for-sale portfolio which were rated below investment grade of $1.8 billion and had an amortized cost of $1.9 billion. In addition, included in the Company's trading portfolio, the Company held $270.8 million of securities which were rated below investment grade. Approximately $325.5 million of the available-for-sale and trading securities that were below investment grade were not publicly traded.

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

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

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

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

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

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

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

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

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

Variable Interest Entities

The Company holds certain investments in entities in which its ownership interests could possibly be considered variable interests under Topic 810 of the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC" or "Codification") (excluding debt and equity securities held as trading, available for sale, or held to maturity). The Company reviews the characteristics of each of these applicable entities and compares those characteristics to applicable criteria to determine whether the entity is a VIE. If the entity is determined to be a VIE,

the Company then performs a detailed review to determine whether the interest would be considered a variable interest under the guidance. The Company then performs a qualitative review of all variable interests with the entity and determines whether the Company is the primary beneficiary. ASC 810 provides that an entity is the primary beneficiary of a VIE if the entity has 1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and 2) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

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

The activity most significant to Red Mountain is the issuance of a note in connection with a financing transaction involving Golden Gate V Vermont Captive Insurance Company ("Golden Gate V") in which Golden Gate V issued non-recourse funding obligations to Red Mountain and Red Mountain issued a note (the "Red Mountain Note") to Golden Gate V. For details of this transaction, see Note 12, Debt and Other Obligations. The Company had the power, via its 100% ownership through an affiliate, to direct the activities of the VIE, but did not have the obligation to absorb losses related to the primary risks or sources of variability to the VIE. The variability of loss would be borne primarily by the third party in its function as provider of credit enhancement on the Red Mountain Note. Accordingly, it was determined that the Company is not the primary beneficiary of the VIE. The

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

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

use in pricing the asset or liability.

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

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

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

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 (Successor Company):

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

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

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Determination of fair values

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

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the six months ended June 30, 2016 (Successor Company).

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

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

Asset-Backed Securities

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

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

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

as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, 7) credit ratings of the securities, 8) liquidity premium, and 9) paydown rate.

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

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

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

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

Equities

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

Other Long-Term Investments and Other Liabilities

Other long-term investments and other liabilities consist entirely of free-standing and embedded derivative financial instruments. Refer to Note 8, Derivative Financial Instruments for additional information related to derivatives. Derivative financial instruments are valued using exchange prices, independent broker quotations, or pricing valuation models, which utilize market data inputs. Excluding embedded derivatives, as of June 30, 2016 (Successor Company), 100% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest rate and

equity market volatility indices, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analyses.

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

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

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

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

The embedded derivatives are carried at fair value in “other long-term investments” and “other liabilities” on the Company’s consolidated condensed balance sheet. The changes in fair value are recorded in earnings as “Realized investment gains (losses)—Derivative financial instruments”. Refer to Note 8, Derivative Financial Instruments for more information related to each embedded derivatives gains and losses.

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

The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near- term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the National Association of Insurance Commissioners 1994 Variable Annuity MGDB Mortality Table with company experience, with attained age factors varying from 44.5% - 100%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

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

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

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

Annuity Account Balances

The Company records certain of its FIA reserves at fair value. The fair value is considered a Level 3 valuation. The FIA valuation model calculates the present value of future benefit cash flows less the projected future profits to quantify the net liability that is held as a reserve. This calculation is done using multiple risk neutral stochastic equity scenarios. The cash flows are discounted using LIBOR plus a credit spread. Best estimate assumptions are used for partial withdrawals, lapses, expenses and asset earned rate with a risk margin applied to each. These assumptions are reviewed at least annually as a part of the formal unlocking process. If an event were to occur within a quarter that would make the assumptions unreasonable, the assumptions would be reviewed within the quarter.

The discount rate for the fixed indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for June 30, 2016 (Successor Company), ranged from a one month rate of 0.68%, a 5 year rate of 1.82%, and a 30 year rate of 3.03%. A credit spread component is also included in the calculation to accommodate non-performance risk.

Separate Accounts

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

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Valuation of Level 3 Financial Instruments

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

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

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

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

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

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

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

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

	Successor Company Fair Value As of December 31, 2015 (Dollars In Thousands)	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				
Other asset-backed securities	$ 587,031	Discounted cash flow	Liquidity premium	0.27% - 1.49% (0.42%)
			Paydown rate	10.20% - 14.72% (13.11%)
Corporate securities	875,810	Discounted cash flow	Spread over treasury	0.10% - 19.00% (2.61%)
Liabilities:				
Embedded derivatives - GMWB(1)	$ 181,612	Actuarial cash flow model	Mortality	1994 MGDB table with company experience
			Lapse	0.3% - 15%, depending on product/duration/funded status of guarantee
			Utilization	99%. 10% of policies have a one-time over-utilization of 400%
			Nonperformance risk	0.18% - 1.04%
Annuity account balances(2)	92,512	Actuarial cash flow model	Asset earned rate	4.53% - 5.67%
			Expenses	$81 per policy
			Withdrawal rate	2.20%
			Mortality	1994 MGDB table with company experience
			Lapse	2.2% - 33.0%, depending on duration/surrender charge period
			Return on assets	1.50% - 1.85% depending on surrender charge period
			Nonperformance risk	0.18% - 1.04%
Embedded derivative - FIA	100,329	Actuarial cash flow model	Expenses	$81.50 per policy
			Withdrawal rate	1.1% - 4.5% depending on duration and tax qualification
			Mortality	1994 MGDB table with company experience
			Lapse	2.5% - 40.0%, depending on duration/surrender

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

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

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

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

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

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

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

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

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

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

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

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

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2016 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Other asset-backed securities	537,831	—	769	—	(8,350)	9,597	(7,629)	—	—	—	923
Corporate securities	833,737	925	16,189	—	(694)	9,558	(57,123)	—	—	(16,773)	(2,676)
Total fixed maturity securities - available-for-sale	1,371,571	925	16,958	—	(9,044)	19,155	(64,752)	—	—	(16,773)	(1,753)
Fixed maturity securities - trading											
Other asset-backed securities	150,683	1,822	—	(8)	—	—	(609)	—	—	—	76
Corporate securities	5,677	24	—	—	—	10,908	1	—	—	—	(23)
Total fixed maturity securities - trading	156,360	1,846	—	(8)	—	10,908	(608)	—	—	—	53
Total fixed maturity securities	1,527,931	2,771	16,958	(8)	(9,044)	30,063	(65,360)	—	—	(16,773)	(1,700)
Equity securities	69,728	—	—	—	—	22	—	—	—	—	—
Other long-term investments[1]	66,696	1,568	—	(19,265)	—	—	—	—	—	—	—

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

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

For the three months ended June 30, 2016 (Successor Company), there were $27.2 million of securities transferred into Level 3.

For the three months ended June 30, 2016 (Successor Company), $44.0 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 June 30, 2016 (Successor Company).

For the three months ended June 30, 2016 (Successor Company), no securities were transferred from Level 2 to Level 1.

For the three months ended June 30, 2016 (Successor Company), no securities were transferred from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the six months ended June 30, 2016 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Other asset-backed securities	587,031	6,859	769	—	(21,407)	9,597	(58,449)	—	—	7,457	1,284
Corporate securities	902,119	925	31,111	(4,135)	(6,981)	25,558	(81,865)	—	—	(77,952)	(5,63
Total fixed maturity securities - available-for-sale	1,489,153	7,784	31,880	(4,135)	(28,388)	35,155	(140,314)	—	—	(70,495)	(4,35
Fixed maturity securities - trading											
Other asset-backed securities	152,912	2,050	—	(942)	—	—	(2,212)	—	—	172	(16
Corporate securities	18,225	332	—	(259)	—	10,908	(4,071)	—	—	(8,479)	(69
Total fixed maturity securities - trading	171,137	2,382	—	(1,201)	—	10,908	(6,283)	—	—	(8,307)	(85
Total fixed maturity securities	1,660,290	10,166	31,880	(5,336)	(28,388)	46,063	(146,597)	—	—	(78,802)	(4,43
Equity securities	69,763	—	—	—	—	22	—	—	—	(36)	1
Other long-term investments[1]	96,830	1,568	—	(49,399)	—	—	—	—	—	—	—

Total investments	1,826,883	11,734	31,880	(54,735)	(28,388)	46,085	(146,597)	—	—	(78,838)	(4,43
Total assets measured at fair value on a recurring basis	$1,826,883	$11,734	$31,880	$(54,735)	$(28,388)	$46,085	$(146,597)	$—	$—	$(78,838)	$(4,4
Liabilities:											
Annuity account balances[2]	$92,512	$—	$—	$(1,096)	$—	$—	$—	$250	$5,038	$—	$—
Other liabilities[1]	585,556	15,585	—	(402,113)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$678,068	$15,585	$—	$(403,209)	$—	$—	$—	$250	$5,038	$—	$—

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

For the six months ended June 30, 2016 (Successor Company), $71.3 million of securities were transferred into Level 3.

For the six months ended June 30, 2016 (Successor Company), $150.2 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 June 30, 2016 (Successor Company).

For the six months ended June 30, 2016 (Successor Company), $12.2 million of securities were transferred from Level 2 to Level 1.

For the six months ended June 30, 2016 (Successor Company), $0.1 million of securities were transferred from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended June 30, 2015 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Other asset-backed securities	600,132	—	165	(92)	(9,323)	—	(87)	—	—	—	90
Corporate securities	1,283,142	3,656	4,001	(687)	(24,247)	89,929	(219,148)	—	—	(21,803)	(3,412
Total fixed maturity securities - available-for-sale	1,883,277	3,656	4,166	(779)	(33,570)	89,929	(219,235)	—	—	(21,803)	(3,322
Fixed maturity securities - trading											
Other asset-backed securities	170,500	589	—	(5,173)	—	—	(5,468)	—	—	—	146
Corporate securities	19,614	140	—	(233)	—	—	(161)	—	—	—	(44
Total fixed maturity securities - trading	190,114	729	—	(5,406)	—	—	(5,629)	—	—	—	102
Total fixed maturity securities	2,073,391	4,385	4,166	(6,185)	(33,570)	89,929	(224,864)	—	—	(21,803)	(3,220
Equity securities	69,951	—	—	—	—	—	(231)	—	—	—	—
	122,894	46,702	—	—	—	—	—	—	—	—	—

Other long-term investments[1]											
Total investments	2,266,236	51,087	4,166	(6,185)	(33,570)	89,929	(225,095)	—	—	(21,803)	(3,220
Total assets measured at fair value on a recurring basis	$2,266,236	$51,087	$4,166	$(6,185)	$(33,570)	$89,929	$(225,095)	$—	$—	$(21,803)	$(3,220
Liabilities:											
Annuity account balances[2]	$97,108	$—	$—	$(911)	$—	$—	$—	$72	$2,913	$—	$—
Other liabilities[1]	627,515	224,194	—	(24,444)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$724,623	$224,194	$—	$(25,355)	$—	$—	$—	$72	$2,913	$—	$—

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

For the three months ended June 30, 2015 (Successor Company), there were no securities transferred into Level 3.

For the three months ended June 30, 2015 (Successor Company), $21.8 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 June 30, 2015 (Successor Company).

For the three months ended June 30, 2015 (Successor Company), there were no securities transferred from Level 2 to Level 1.

For the three months ended June 30, 2015 (Successor Company), there were no securities transferred from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the period of February 1, 2015 to June 30, 2015 (Successor Company), for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses							
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other
	(Dollars In Thousands)										
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—
Other asset-backed securities	603,646	—	165	(92)	(12,891)	—	(127)	—	—	—	184
States, municipals, and political subdivisions	3,675	—	—	—	—	—	(3,675)	—	—	—	—
Corporate securities	1,307,259	4,291	15,619	(687)	(24,247)	111,929	(254,935)	—	—	(41,853)	(5,94
Total fixed maturity securities - available-for-sale	1,914,583	4,291	15,784	(779)	(37,138)	111,929	(258,737)	—	—	(41,853)	(5,76
Fixed maturity securities - trading											
Other asset-backed securities	169,473	3,949	—	(5,173)	—	—	(7,876)	—	—	—	221
Corporate securities	25,130	174	—	(299)	—	—	(5,584)	—	—	—	(105
Total fixed maturity securities - trading	194,603	4,123	—	(5,472)	—	—	(13,460)	—	—	—	116
	2,109,186	8,414	15,784	(6,251)	(37,138)	111,929	(272,197)	—	—	(41,853)	(5,64

Total fixed maturity securities											
Equity securities	73,044	—	—	—	—	—	(231)	—	—	—	(3,09
Other long-term investments[1]	93,274	76,342	—	(20)	—	—	—	—	—	—	—
Total investments	2,275,504	84,756	15,784	(6,271)	(37,138)	111,929	(272,428)	—	—	(41,853)	(8,73
Total assets measured at fair value on a recurring basis	$2,275,504	$84,756	$15,784	$(6,271)	$(37,138)	$111,929	$(272,428)	$—	$—	$(41,853)	$(8,7
Liabilities:											
Annuity account balances[2]	$98,279	$—	$—	$(1,544)	$—	$—	$—	$86	$4,731	$—	$—
Other liabilities[1]	742,130	358,811	—	(44,446)	—	—	—	—	—	—	—
Total liabilities measured at fair value on a recurring basis	$840,409	$358,811	$—	$(45,990)	$—	$—	$—	$86	$4,731	$—	$—

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

For the period of February 1, 2015 to June 30, 2015 (Successor Company), there were no transfers of securities into Level 3.

For the period of February 1, 2015 to June 30, 2015 (Successor Company), $41.9 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were no longer available in previous periods but were priced by independent pricing services or brokers as of June 30, 2015 (Successor Company).

For the period of February 1, 2015 to June 30, 2015 (Successor Company), $90.4 million of securities were transferred from Level 2 to Level 1.

For the period of February 1, 2015 to June 30, 2015 (Successor Company), there were no transfers from Level 1.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for period of January 1, 2015 to January 31, 2015 (Predecessor Company), for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses								
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance
	(Dollars In Thousands)											
Assets:												
Fixed maturity securities available-for-sale												
Residential mortgage-backed securities	$3	$—	$—	$—	$—	$—	$—	$—	$—	$—	$—	$3
Other asset-backed securities	563,961	—	—	—	(3,867)	—	(32)	—	—	43,205	379	603,646
U.S. government-related securities	—	—	—	—	—	—	—	—	—	—	—	—
States, municipals, and political subdivisions	3,675	—	—	—	—	—	—	—	—	—	—	3,675
Corporate securities	1,325,683	—	12,282	—	(23,029)	—	(7,062)	—	—	—	(615)	1,307,259
Total fixed maturity securities - available-for-sale	1,893,322	—	12,282	—	(26,896)	—	(7,094)	—	—	43,205	(236)	1,914,583
Fixed maturity securities - trading												
Other asset-backed securities	169,461	586	—	(139)	—	—	(472)	—	—	—	37	169,473
Corporate securities	24,744	602	—	(196)	—	—	(20)	—	—	—	—	25,130
Total fixed maturity securities - trading	194,205	1,188	—	(335)	—	—	(492)	—	—	—	37	194,603
Total fixed maturity securities	2,087,527	1,188	12,282	(335)	(26,896)	—	(7,586)	—	—	43,205	(199)	2,109,186
Equity securities	73,054	—	—	—	(10)	—	—	—	—	—	—	73,044
Other long-term investments(1)	67,894	753	—	(25,902)	—	—	—	—	—	—	—	42,745
Short-term investments	—	—	—	—	—	—	—	—	—	—	—	—
Total investments	2,228,475	1,941	12,282	(26,237)	(26,906)	—	(7,586)	—	—	43,205	(199)	2,224,975

Total assets measured at fair value on a recurring basis	$2,228,475	$1,941	$12,282	$(26,237)	$(26,906)	$—	$(7,586)	$—	$—	$43,205	$(199)	$2,224,975
Liabilities:												
Annuity account balances(2)	$97,825	$—	$—	$(536)	$—	$—	$—	$7	$419	$—	$—	$97,949
Other liabilities(1)	754,852	61	—	(253,773)	—	—	—	—	—	—	—	1,008,564
Total liabilities measured at fair value on a recurring basis	$852,677	$61	$—	$(254,309)	$—	$—	$—	$7	$419	$—	$—	$1,106,513

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

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), $43.2 million of securities were transferred into Level 3. This amount was transferred from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of January 31, 2015 (Predecessor Company). All transfers are recognized as of the end of the period.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), there were no transfers from Level 3 to Level 2.

For the period of January 1, 2015 to January 31, 2015 (Predecessor Company), there were no transfers from Level 2 to Level 1 and there were no transfers out of Level 1.

Total realized and unrealized gains (losses) on Level 3 assets and liabilities are primarily reported in either realized investment gains (losses) within the consolidated condensed statements of income (loss) or other comprehensive income (loss) within shareowner’s equity based on the appropriate accounting treatment for the item.

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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.

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:

		Successor Company			
		As of June 30, 2016		As of December 31, 2015	
	Fair Value Level	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
		(Dollars In Thousands)			
Assets:					
Mortgage loans on real estate	3	$5,748,675	$5,735,650	$5,662,812	$5,529,803
Policy loans	3	1,670,218	1,670,218	1,699,508	1,699,508
Fixed maturities, held-to-maturity [1]	3	2,779,280	2,853,788	593,314	515,000
Liabilities:					
Stable value product account balances	3	$2,838,674	$2,855,064	$2,131,822	$2,124,712
Annuity account balances	3	10,678,701	10,221,680	10,719,862	10,274,571
Debt:					
Bank borrowings	3	$360,000	$360,000	$485,000	$485,000
Senior Notes	2	1,037,236	996,213	1,103,806	1,020,025
Subordinated debt securities	2	445,023	466,385	448,763	457,275
Non-recourse funding obligations [2]	3	2,863,409	2,938,559	685,684	614,380

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) Of this carrying amount, $2.8 billion, fair value of $2.8 billion, as of June 30, 2016 (Successor Company) and $500.0 million, fair value of $495.5 million, as of December 31, 2015 (Successor Company), relates 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 Annuity account balances

The Company estimates the fair value of stable value product account balances and annuity account balances 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.

8. 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, inflation 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. The Company’s inflation risk management strategy involves the use of swaps that requires the Company to pay a fixed rate and receive a floating rate that is based on changes in the Consumer Price Index (“CPI”).

Derivatives Related to Risk Mitigation of Certain Annuity Contracts

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

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

Accounting for Derivative Instruments

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

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

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

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

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

- In connection with the issuance of inflation-adjusted funding agreements, the Company has entered into swaps to essentially convert the floating CPI-linked interest rate on these agreements to a fixed rate. The Company pays a fixed rate on the swap and receives a floating rate primarily determined by the period's change in the CPI. The amounts that are received on the swaps are almost equal to the amounts that are paid on the agreements. None of these positions were held as of June 30, 2016 (Successor Company), as these funding agreements and correlating swaps matured in June of 2015.

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, interest rate, currency, and volatility futures to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, 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 uses equity options, variance swaps, and volatility options to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products. In general, the cost of such benefits varies with the level of equity markets and overall volatility.

- The Company uses interest rate swaps and interest rate swaptions to mitigate the risk related to certain guaranteed minimum benefits, including GMWB, within its VA products.

- The Company markets certain VA products with a GMWB rider. The GMWB 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 and overall volatility.

- The Company uses equity 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.

- The Company markets certain fixed indexed annuity products. The FIA component is considered an embedded derivative, 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, not considered to be clearly and closely related to the host contract.

Other Derivatives

- The Company uses certain interest rate swaps to mitigate the price volatility of fixed maturities. None of these positions were held as of June 30, 2016 (Successor Company).

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- 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.

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

Realized investment gains (losses) - derivative financial instruments

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Derivatives related to VA contracts:					
Interest rate futures - VA	$31,266	$(14,183)	$69,067	$(14,231)	$ 1,413
Equity futures - VA	(21,328)	(5,267)	(24,556)	(37,736)	9,221
Currency futures - VA	11,112	(8,709)	4,954	(2,572)	7,778
Equity options - VA	(3,232)	(3,550)	13,072	(25,324)	3,047
Interest rate swaptions - VA	(749)	2,547	(2,983)	(8,781)	9,268
Interest rate swaps - VA	81,554	(121,167)	207,147	(175,958)	122,710
Embedded derivative - GMWB	(161,402)	132,657	(337,253)	245,917	(207,018)
Total derivatives related to VA contracts	(62,779)	(17,672)	(70,552)	(18,685)	(53,581)
Derivatives related to FIA contracts:					
Embedded derivative - FIA	710	290	(1,452)	(2,293)	1,769
Equity futures - FIA	651	123	2,033	307	(184)
Volatility futures - FIA	—	25	—	29	—
Equity options - FIA	735	1,226	(4,827)	5,601	(2,617)
Total derivatives related to FIA contracts	2,096	1,664	(4,246)	3,644	(1,032)
Derivatives related to IUL contracts:					
Embedded derivative - IUL	(96)	1,538	(834)	1,795	(486)
Equity futures - IUL	47	9	(172)	23	3
Equity options - IUL	241	(78)	214	62	(115)
Total derivatives related to IUL contracts	192	1,469	(792)	1,880	(598)
Embedded derivative - Modco reinsurance treaties	(22,820)	109,131	(81,175)	141,322	(68,026)
Other derivatives	(55)	11	(100)	83	(37)
Total realized gains (losses) - derivatives	$(83,366)	$94,603	$(156,865)	$128,244	$ (123,274)

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The following table sets forth realized investments gains and losses for the Modco trading portfolio that is included in realized investment gains (losses) — all other investments.

Realized investment gains (losses) - all other investments

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Modco trading portfolio(1)	$76,201	$(108,741)	154,355	$(141,901)	$ 73,062

(1)The Company elected to include the use of alternate disclosures for trading activities.

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	Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	Amount and Location of (Losses) Recognized in Income (Loss) on Derivatives
	(Effective Portion)	(Effective Portion)	(Ineffective Portion)
		Benefits and settlement expenses	Realized investment gains (losses)
		(Dollars In Thousands)	
Successor Company			
For The Three Months Ended June 30, 2015			
Inflation	$(95)	$(41)	$77
Total	$(95)	$(41)	$77
February 1, 2015 to June 30, 2015			
Inflation	$(131)	$(131)	$73
Total	$(131)	$(131)	$73
Predecessor Company			
January 1, 2015 to January 31, 2015			
Inflation	$13	$(36)	$(7)
Total	$13	$(36)	$(7)

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The table below present 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:

	Successor Company			
	As of June 30, 2016		As of December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)		(Dollars In Thousands)	
Other long-term investments				
Derivatives not designated as hedging instruments:				
Interest rate swaps	$1,640,000	$255,439	$1,435,000	$66,408
Embedded derivative - Modco reinsurance treaties	64,201	1,850	64,593	1,215
Embedded derivative - GMWB	1,992,225	47,149	3,769,601	95,614
Interest rate futures	1,155,001	35,366	282,373	1,537
Equity futures	190,058	752	262,485	1,275
Currency futures	314,256	15,915	226,936	2,499
Equity options	2,725,744	269,217	2,198,340	179,458
Interest rate swaptions	225,000	681	225,000	3,663
Other	298	249	242	347
	$8,306,783	$626,618	$8,464,570	$352,016
Other liabilities				
Derivatives not designated as hedging instruments:				
Interest rate swaps	$270,000	$3,215	$475,000	$16,579
Embedded derivative - Modco reinsurance treaties	2,457,293	239,350	2,473,427	178,362
Embedded derivative - GMWB	8,480,468	566,026	6,539,658	277,236
Embedded derivative - FIA	1,313,404	119,997	1,110,790	100,329
Embedded derivative - IUL	77,879	46,711	57,760	29,629
Interest rate futures	—	—	793,763	1,539
Equity futures	582,493	7,461	233,412	2,599
Currency futures	64,445	1,805	46,692	1,115
Equity options	1,459,533	60,551	1,205,204	22,167
	$14,705,515	$1,045,116	$12,935,706	$629,555

9. 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 12, 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 June 30, 2016 (Successor Company):

	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	Cash Collateral Received	Net Amount
	(Dollars In Thousands)					
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	$577,370	$ —	$ 577,370	$ 66,347	$ 336,163	$ 174,860
Total derivatives, subject to a master netting arrangement or similar arrangement	577,370	—	577,370	66,347	336,163	174,860
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,850	—	1,850	—	—	1,850
Embedded derivative - GMWB	47,149	—	47,149	—	—	47,149
Other	249	—	249	—	—	249
Total derivatives, not subject to a master netting arrangement or similar arrangement	49,248	—	49,248	—	—	49,248
Total derivatives	626,618	—	626,618	66,347	336,163	224,108
Total Assets	$626,618	$ —	$ 626,618	$ 66,347	$ 336,163	$ 224,108

	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	Cash Collateral Paid	Net Amount
	(Dollars In Thousands)					
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	$73,032	$ —	$ 73,032	$ 66,347	$ 6,685	$ —
Total derivatives, subject to a master netting arrangement or similar arrangement	73,032	—	73,032	66,347	6,685	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	239,350	—	239,350	—	—	239,350
Embedded derivative - GMWB	566,026	—	566,026	—	—	566,026
Embedded derivative - FIA	119,997	—	119,997	—	—	119,997
Embedded derivative - IUL	46,711	—	46,711	—	—	46,711
Total derivatives, not subject to a master netting arrangement or similar arrangement	972,084	—	972,084	—	—	972,084

Total derivatives	1,045,116	—	1,045,116	66,347	6,685	972,084
Repurchase agreements[1]	160,000	—	160,000	—	—	160,000
Total Liabilities	$1,205,116	$ —	$1,205,116	$ 66,347	$ 6,685	$1,132,084

(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, 2015 (Successor Company):

	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	Cash Collateral Received	Net Amount
	(Dollars In Thousands)					
Offsetting of Derivative Assets						
Derivatives:						
Free-Standing derivatives	$254,840	$ —	$ 254,840	$ 42,382	$ 105,842	$ 106,616
Total derivatives, subject to a master netting arrangement or similar arrangement	254,840	—	254,840	42,382	105,842	106,616
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	1,215	—	1,215	—	—	1,215
Embedded derivative - GMWB	95,614	—	95,614	—	—	95,614
Other	347	—	347	—	—	347
Total derivatives, not subject to a master netting arrangement or similar arrangement	97,176	—	97,176	—	—	97,176
Total derivatives	352,016	—	352,016	42,382	105,842	203,792
Total Assets	$352,016	$ —	$ 352,016	$ 42,382	$ 105,842	$ 203,792

	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	Cash Collateral Paid	Net Amount
	(Dollars In Thousands)					
Offsetting of Derivative Liabilities						
Derivatives:						
Free-Standing derivatives	$43,999	$ —	$43,999	$ 42,382	$ 1,617	$—
Total derivatives, subject to a master netting arrangement or similar arrangement	43,999	—	43,999	42,382	1,617	—
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	178,362	—	178,362	—	—	178,362
Embedded derivative - GMWB	277,236	—	277,236	—	—	277,236
Embedded derivative - FIA	100,329	—	100,329	—	—	100,329
Embedded derivative - IUL	29,629	—	29,629	—	—	29,629
Total derivatives, not subject to a master netting arrangement or similar arrangement	585,556	—	585,556	—	—	585,556

Total derivatives	629,555	—	629,555	42,382	1,617	585,556
Repurchase agreements[1]	438,185	—	438,185	—	—	438,185
Total Liabilities	$ 1,067,740	$ —	$ 1,067,740	$ 42,382	$ 1,617	$ 1,023,741

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

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10. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of June 30, 2016 (Successor Company), the Company's mortgage loan holdings were approximately $5.7 billion. The Company has specialized in making loans on either credit-oriented commercial properties or credit-anchored strip shopping centers and apartments. The Company's underwriting procedures relative to its commercial loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

As of February 1, 2015, all mortgage loans were measured at fair value. Each mortgage loan was individually analyzed to determine the fair value. Each loan was either analyzed and assigned a discount rate or given an impairment, based on whether facts and circumstances which, as of the acquisition date, indicated less than full projected collections of contractual principal and interest payments. Various market factors were considered in determining the net present value of the expected cash flow stream or underlying real estate collateral, including the characteristics of the borrower, the underlying collateral, underlying credit worthiness of the tenants, and tenant payment history. Known events and risks, such as refinancing risks, were also considered in the fair value determination. In certain cases, fair value was based on the net present value of the expected cash flow stream or the underlying value of the real estate collateral.

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 June 30, 2016 (Successor Company), assuming the loans are called at their next call dates, approximately $42.7 million of principal would become due for the remainder of 2016, $922.1 million in 2017 through 2021, $238.1 million in 2022 through 2026, and $11.1 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 June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company), approximately $522.8 million and $449.2 million, respectively, of the Company's total mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and January 1, 2015 to January 31, 2015 (Predecessor Company), the Company recognized $5.7 million, $12.5 million, $3.3 million, $5.1 million, and $0.1 million, respectively, of participating mortgage loan income.

As of June 30, 2016 (Successor Company), approximately $1.0 million of invested assets consisted of nonperforming mortgage loans, restructured mortgage loans, or mortgage loans that were foreclosed and were converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. During the six months ended June 30, 2016 (Successor Company), the Company did not enter into certain mortgage loan transactions that were accounted for as troubled debt restructurings under Topic 310 of the FASB ASC. If the Company had troubled debt restructurings, these transactions would include either the acceptance of assets in satisfaction of principal during the respective periods or at a future date, and were the result of agreements between the creditor and the debtor. During the six months ended June 30, 2016 (Successor Company), the Company did not accept or agree to accept assets in satisfaction of principal. As of June 30, 2016 (Successor Company), the Company did not have any mortgage loan transactions accounted for as troubled debt restructurings.

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 June 30, 2016 (Successor Company), $1.0 million of mortgage loans not subject to a pooling and servicing agreement were nonperforming mortgage loans, restructured, or mortgage loans that were foreclosed and were converted to real estate properties. The Company did not foreclose on any nonperforming loans not subject to a pooling and servicing agreement during the six months ended June 30, 2016 (Successor Company).

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

As of June 30, 2016 (Successor Company), the Company had an allowance for mortgage loan credit losses of $3.9 million and no allowance as of December 31, 2015 (Successor Company). 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

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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.

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:

	Successor Company		Predecessor Company
	As of June 30, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)
Beginning balance	$ —	$ —	$ 5,720
Charge offs	—	(2,561)	(861)
Recoveries	—	(638)	(2,359)
Provision	3,850	3,199	—
Ending balance	$ 3,850	$ —	$ 2,500

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.

Successor Company As of June 30, 2016	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$9,167	$ —	$ 1,034	$ 10,201
Number of delinquent commercial mortgage loans	3	—	1	4
As of December 31, 2015				
Commercial mortgage loans	$6,002	$ 1,033	$ —	$ 7,035

Number of delinquent commercial mortgage loans	6	1	—	7

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

Successor Company As of June 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
	(Dollars In Thousands)					
Commercial mortgage loans:						
With no related allowance recorded	$1,034	$ 1,067	$ —	$ 1,034	$ —	$ —
With an allowance recorded	12,313	12,301	3,850	6,156	190	199
As of December 31, 2015						
Commercial mortgage loans:						
With no related allowance recorded	$1,694	$ 1,728	$ —	$ 847	$ 104	$ 117
With an allowance recorded	—	—	—	—	—	—

As of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company), the Company did not carry any mortgage loans that have been modified in a troubled debt restructuring.

11. GOODWILL

As permitted by ASC Topic 805, Business Combinations, the Company measured its assets and liabilities at fair value on the date of the Merger, February 1, 2015. The purchase price in excess of the fair value of assets and liabilities of the Company resulted in the establishment of goodwill as of the date of the Merger. As of February 1, 2015 (Successor Company), the Company established an aggregate goodwill balance of $735.7 million. During the measurement period subsequent to February 1, 2015, the Company has made adjustments to provisional amounts related to certain tax balances that resulted in a decrease to goodwill of $3.3 million from the amount recorded at the Merger date. This reduction in Goodwill was applied to the Life Marketing segment's goodwill. The balance of goodwill associated with the Merger as of June 30, 2016 (Successor Company) and December 31, 2015 (Successor Company) was $732.4 million. There has been no change in the goodwill during the six months ended June 30, 2016 (Successor Company).

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 2015, the Company performed its annual evaluation of goodwill based on information as of September 30, 2015 (Successor Company) and determined that no adjustment to impair goodwill was necessary. During the six months ended June 30, 2016 (Successor Company), 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. Accordingly, no impairment to the Company's goodwill balance has been recorded.

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12. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt Securities

In conjunction with the Merger and in accordance with ASC Topic 805, the Company adjusted the carrying value of debt to fair value as of the date of the Merger, February 1, 2015. This resulted in the Company establishing premiums and discounts on its outstanding debt, subordinated debentures and non-recourse funding obligations. The carrying value of the Company's revolving line of credit approximates fair value due to the nature of the borrowings and the fact the Company pays a variable rate of interest that reflects current market conditions. The fair value of the Company's senior notes, subordinated debt, and non-recourse funding obligations associated with Golden Gate II Captive Insurance Company and MONY Life Insurance Company, were determined using market prices as of February 1, 2015. The fair value of the Golden Gate V non-recourse funding obligation was determined using a discounted cash flow model with inputs derived from comparable financial instruments. The premiums and discounts established as of February 1, 2015 are amortized over the expected life of the instruments using the effective interest method. The amortization of premiums and discounts are recorded as a component of interest expense and are recorded in "Other operating expenses" on the Company's Consolidated Condensed Statements of Income.

Debt and subordinated debt securities are summarized as follows:

	Successor Company	
	As of June 30, 2016	As of December 31, 2015
	(Dollars In Thousands)	
Debt (year of issue):		
Revolving Line of Credit	$360,000	$ 485,000
6.40% Senior Notes (2007), due 2018	159,684	162,671
7.375% Senior Notes (2009), due 2019	463,962	473,127
8.45% Senior Notes (2009), due 2039	413,590	468,008
	$1,397,236	$ 1,588,806
Subordinated debt securities (year of issue):		
6.25% Subordinated Debentures (2012), due 2042, callable 2017	$292,947	$ 295,833
6.00% Subordinated Debentures (2012), due 2042, callable 2017	152,076	152,930
	$445,023	$ 448,763

During the six months ended June 30, 2016 (Successor Company), the Company repurchased $52.8 million (par value - $33.8 million) of the Company's 8.45% Senior Notes due 2039. These repurchases resulted in a $7.4 million pre-tax gain for the Company. The gain is recorded in other income in the consolidated condensed statements of income.

During the period of February 1, 2015 to December 31, 2015 (Successor Company), the Company called and redeemed the entire $103.1 million of outstanding principal amount of the Company's 6.125% Subordinated Debentures due 2034.

On February 2, 2015, the Company amended and restated the Credit Facility (the "Credit Facility"). Under the Credit Facility, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $1.0 billion. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $1.25 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company's Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent's Prime rate, (y) 0.50% above the Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the

Company's Senior Debt. The Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company's Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The initial facility fee rate was 0.15% on February 2, 2015, and was adjusted to 0.125% upon the Company's subsequent ratings upgrade on February 2, 2015. 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 June 30, 2016 (Successor Company). There was an outstanding balance of $360.0 million bearing interest at a rate of LIBOR plus 1.00% as of June 30, 2016 (Successor Company). As of June 30, 2016 (Successor Company), PLICO has used $30.0 million of borrowing capacity by executing a Letter of Credit under the Credit Facility for the benefit on an affiliated captive reinsurance subsidiary of the Company. This Letter of Credit had not been drawn upon as of June 30, 2016 (Successor Company).

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Non-Recourse Funding Obligations

Golden Gate Captive Insurance Company

On January 15, 2016, Golden Gate Captive Insurance Company (“Golden Gate”), a Vermont special purpose financial insurance company and a wholly owned subsidiary of PLICO, and Steel City, LLC (“Steel City”), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance $2.188 billion of “XXX” reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and WCL, a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of $2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of $2.188 billion. Through the structure, Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the “Risk-Takers”) provide credit enhancement to the Steel City Notes for the 18-year term in exchange for credit enhancement fees. The transaction is “non-recourse” to PLICO, WCL and the Company, meaning that none of these companies, other than Golden Gate, are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. As of June 30, 2016 (Successor Company), the aggregate principal balance of the Steel City Notes was $2.153 billion. In connection with this transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. The support agreements provide that amounts would become payable by the Company if Golden Gate’s annual general corporate expenses were higher than modeled amounts, certain reinsurance rates applicable to the subject business increase beyond modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into a separate agreement to guarantee payment of certain fee amounts in connection with the credit enhancement of the Steel City Notes. As of June 30, 2016 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate had a $2.153 billion outstanding non-recourse funding obligation as of June 30, 2016 (Successor Company). This non-recourse funding obligation matures in 2034 and accrues interest at a fixed annual rate of 4.75%

Prior to this transaction, Golden Gate had three series of non-recourse funding obligations with a total outstanding balance of $800 million. The Company held the entire outstanding balance of non-recourse funding obligations. Series A1 non-recourse funding obligations had a balance of $400 million and accrued interest at 7.375%, the Series A2 non-recourse funding obligations had a balance of $100 million and accrued interest at 8.00%, and the Series A3 non-recourse funding obligations had a balance of $300 million and accrued interest at 8.45%. As a result of the transaction described above, the $800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes.

Golden Gate II Captive Insurance Company

Golden Gate II Captive Insurance Company (“Golden Gate II”), a South Carolina special purpose financial captive insurance company and a wholly owned by PLICO, had $575 million of outstanding non-recourse funding obligations as of June 30, 2016 (Successor Company). These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of our affiliates own a portion of these securities. As of June 30, 2016 (Successor Company), securities related to $133.6 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $441.4 million of the non-recourse funding obligations were held by the Company and its affiliates. The Company has entered into certain support agreements with Golden Gate II obligating the Company to make capital contributions or provide support

related to certain of Golden Gate II's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate II. These support agreements provide that amounts would become payable by the Company to Golden Gate II if its annual general corporate expenses were higher than modeled amounts or if Golden Gate II's investment income on certain investments or premium income was below certain actuarially determined amounts. As of June 30, 2016 (Successor Company), no payments have been made under these agreements, however, certain support agreement obligations to Golden Gate II of approximately $1.5 million have been collateralized by the Company. Re-evaluation and, if necessary, adjustments of any support agreement collateralization amounts occur annually during the first quarter pursuant to the terms of the support agreements.

During the six months ended June 30, 2016 (Successor Company), the Company and its affiliates repurchased $11.3 million of its outstanding non-recourse funding obligations, at a discount. These repurchases did not result in a material gain or loss for the Company. During the period of February 1, 2015 to June 30, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company), the Company did not repurchase any of its outstanding non-recourse funding obligations.

Golden Gate V Vermont Captive Insurance Company

On October 10, 2012, Golden Gate V, a Vermont special purpose financial insurance company, and Red Mountain, both wholly owned subsidiaries of PLICO, entered into a 20-year transaction to finance up to $945 million of "AXXX" reserves related to a block of universal life insurance policies with secondary guarantees issued by our direct wholly owned subsidiary PLICO and indirect wholly owned subsidiary, West Coast Life Insurance Company ("WCL"). Golden Gate V issued non-recourse funding obligations to Red Mountain, and Red Mountain issued a note with an initial principal amount of $275 million, increasing to a maximum of $945 million in 2027, to Golden Gate V for deposit to a reinsurance trust supporting Golden Gate V's obligations under a reinsurance agreement with WCL, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. Through the structure, Hannover Life Reassurance Company of America ("Hannover

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Re"), the ultimate risk taker in the transaction, provides credit enhancement to the Red Mountain note for the 20-year term in exchange for a fee. The transaction is "non-recourse" to Golden Gate V, Red Mountain, WCL, PLICO and the Company, meaning that none of these companies are liable for the reimbursement of any credit enhancement payments required to be made. As of June 30, 2016 (Successor Company), the principal balance of the Red Mountain note was $535 million. Future scheduled capital contributions to prefund credit enhancement fees amount to approximately $134.2 million and will be paid in annual installments through 2031. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate V or Red Mountain. The support agreements provide that amounts would become payable by the Company if Golden Gate V's annual general corporate expenses were higher than modeled amounts or in the event write-downs due to other-than-temporary impairments on assets held in certain accounts exceed defined threshold levels. Additionally, the Company has entered into separate agreements to indemnify Golden Gate V with respect to material adverse changes in non-guaranteed elements of insurance policies reinsured by Golden Gate V, and to guarantee payment of certain fee amounts in connection with the credit enhancement of the Red Mountain note. As of June 30, 2016 (Successor Company), no payments have been made under these agreements.

In connection with the transaction outlined above, Golden Gate V had a $535 million outstanding non-recourse funding obligation as of June 30, 2016 (Successor Company). This non-recourse funding obligation matures in 2037, has scheduled increases in principal to a maximum of $945 million, and accrues interest at a fixed annual rate of 6.25%.

Non-recourse funding obligations outstanding as of June 30, 2016 (Successor Company), on a consolidated basis, are shown in the following table:

Issuer	Carrying Value[1]	Maturity Year	Year-to-Date Weighted-Avg Interest Rate	
	(Dollars In Thousands)			
Golden Gate Captive Insurance Company[2][3]	$ 2,153,000	2039	4.75	%
Golden Gate II Captive Insurance Company	109,050	2052	1.44	%
Golden Gate V Vermont Captive Insurance Company[2][3]	598,863	2037	5.12	%
MONY Life Insurance Company[3]	2,496	2024	6.19	%
Total	$ 2,863,409			

(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

Letters of Credit

Golden Gate III Vermont Captive Insurance Company

Golden Gate III Vermont Captive Insurance Company ("Golden Gate III"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement (the "Reimbursement Agreement") with UBS AG, Stamford Branch ("UBS"), as issuing lender. Under the original Reimbursement Agreement, dated April 23, 2010, UBS issued a letter of credit (the "LOC") in the initial amount of $505 million to a trust for the benefit of WCL. The Reimbursement Agreement was subsequently amended and restated effective November 21, 2011 (the "First Amended and Restated Reimbursement Agreement"), to replace the existing LOC with one or more letters of credit from UBS, and to extend the maturity date from April 1, 2018, to

April 1, 2022. On August 7, 2013, Golden Gate III entered into a Second Amended and Restated Reimbursement Agreement with UBS (the “Second Amended and Restated Reimbursement Agreement”), which amended and restated the First Amended and Restated Reimbursement Agreement. Under the Second and Amended and Restated Reimbursement Agreement a new LOC in an initial amount of $710 million was issued by UBS in replacement of the existing LOC issued under the First Amended and Restated Reimbursement Agreement. The term of the LOC was extended from April 1, 2022 to October 1, 2023, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from $610 million to $720 million in 2015 if certain conditions had been met. On June 25, 2014, Golden Gate III entered into a Third Amended and Restated Reimbursement Agreement with UBS (the “Third Amended and Restated Reimbursement Agreement”), which amended and restated the Second Amended and Restated Reimbursement Agreement. Under the Third Amended and Restated Reimbursement Agreement, a new LOC in an initial amount of $915 million was issued by UBS in replacement of the existing LOC issued under the Second Amended and Restated Reimbursement Agreement. The term of the LOC was extended from October 1, 2023 to April 1, 2025, subject to certain conditions being satisfied including scheduled capital contributions being made to Golden Gate III by one of its affiliates. The maximum stated amount of the LOC was increased from $720 million to $935 million in 2015. The LOC is held in trust for the benefit of WCL, and supports certain obligations of Golden Gate III to WCL under an indemnity reinsurance agreement originally effective April 1, 2010, as amended and restated on November 21, 2011, and as further amended and restated on August 7, 2013 and on June 25, 2014 to include additional blocks of policies, and pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. The LOC balance reached its scheduled peak amount of $935 million in 2015 and remained as this level as of June 30, 2016 (Successor Company), pursuant to the terms of the Third Amended and Restated Reimbursement Agreement. The term of the LOC is expected to be approximately 15 years from the original issuance date. This transaction is “non- recourse” to WCL, PLICO, and the Company, meaning that none of these companies other than

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Golden Gate III are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate III obligating the Company to make capital contributions or provide support related to certain of Golden Gate III's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate III. Future scheduled capital contributions amount to approximately $122.5 million and will be paid in three installments with the last payment occurring in 2021, and these contributions may be subject to potential offset against dividend payments as permitted under the terms of the Third Amended and Restated Reimbursement Agreement. The support agreements provide that amounts would become payable by the Company to Golden Gate III if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate III. Pursuant to the terms of an amended and restated letter agreement with UBS, the Company has continued to guarantee the payment of fees to UBS as specified in the Third Amended and Restated Reimbursement Agreement. As of June 30, 2016 (Successor Company), no payments have been made under these agreements.

Golden Gate IV Vermont Captive Insurance Company

Golden Gate IV Vermont Captive Insurance Company ("Golden Gate IV"), a Vermont special purpose financial insurance company and wholly owned subsidiary of PLICO, is party to a Reimbursement Agreement with UBS AG, Stamford Branch, as issuing lender. Under the Reimbursement Agreement, dated December 10, 2010, UBS issued an LOC in the initial amount of $270 million to a trust for the benefit of WCL. The LOC balance, in accordance with the terms of the Reimbursement Agreement, reached its scheduled peak amount of $790 million as of June 30, 2016 (Successor Company). The term of the LOC is expected to be 12 years from the original issuance date (stated maturity of December 30, 2022). The LOC was issued to support certain obligations of Golden Gate IV to WCL under an indemnity reinsurance agreement, pursuant to which WCL cedes liabilities relating to the policies of WCL and retrocedes liabilities relating to the policies of PLICO. This transaction is "non-recourse" to WCL, PLICO, and the Company, meaning that none of these companies other than Golden Gate IV are liable for reimbursement on a draw of the LOC. The Company has entered into certain support agreements with Golden Gate IV obligating the Company to make capital contributions or provide support related to certain of Golden Gate IV's expenses and in certain circumstances, to collateralize certain of the Company's obligations to Golden Gate IV. The support agreements provide that amounts would become payable by the Company to Golden Gate IV if its annual general corporate expenses were higher than modeled amounts or if specified catastrophic losses occur during defined time periods with respect to the policies reinsured by Golden Gate IV. The Company has also entered into a separate agreement to guarantee the payments of LOC fees under the terms of the Reimbursement Agreement. As of June 30, 2016 (Successor Company), no payments have been made under these agreements.

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 June 30, 2016 (Successor Company), the fair value of securities pledged under the repurchase program was $177.5 million and the repurchase obligation of $160.0 million was included in the Company's consolidated condensed balance sheets (at an average borrowing rate of 42 basis points). During the six months ended

June 30, 2016 (Successor Company), the maximum balance outstanding at any one point in time related to these programs was $725.0 million. The average daily balance was $464.5 million (at an average borrowing rate of 40 basis points) during the six months ended June 30, 2016 (Successor Company). As of December 31, 2015 (Successor Company), the fair value of securities pledged under the repurchase program was $479.9 million and the repurchase obligation of $438.2 million was included in the Company's consolidated condensed balance sheets. During 2015, the maximum balance outstanding at any one point in time related to these programs was $912.7 million. The average daily balance was $540.3 million and $77.4 million (at an average borrowing rate of 20 and 16 basis points) during the period of February 1, 2015 to December 31, 2015 (Successor Company) and the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

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The following table provides the amount of collateral pledged for repurchase agreements, grouped by asset class, as of June 30, 2016 (Successor Company):

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

	Remaining Contractual Maturity of the Agreements As of June 30, 2016 (Successor Company) (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	$ —	$ —	$ —	$ —	$ —
State and municipal securities	—	—	—	—	—
Other asset-backed securities	—	—	—	—	—
Corporate securities	—	—	—	—	—
Equity securities	—	—	—	—	—
Non-U.S. sovereign debt	—	—	—	—	—
Mortgage loans	177,463	—	—	—	177,463
Other asset-backed securities	—	—	—	—	—
Total borrowings	$ 177,463	$ —	$ —	$ —	$ 177,463

13. 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 insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. In addition, from time to time, companies may be asked to contribute amounts beyond prescribed limits. Most insurance guaranty fund laws provide that an assessment may be excused or deferred if it would threaten an insurer’s own financial strength. The Company does not believe its insurance guaranty fund assessments will be materially different from amounts already provided for in the financial statements.

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

enforcement or regulatory actions or other actions resulting from such investigations. The Company, in the ordinary course of business, is involved in such matters.

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

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, the Appeals Division 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. As a result, pending a routine review by Congress' Joint Committee on Taxation, the Company expects to receive an approximate $6.2 million net tax refund in a future period. This refund will not materially affect the Company's effective tax rate.

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Certain of the Company’s insurance subsidiaries, as well as certain other insurance companies for which the Company has coinsured blocks of life insurance and annuity policies, are under audit for compliance with the unclaimed property laws of a number of states. The audits are being conducted on behalf of the treasury departments or unclaimed property administrators in such states. The focus of the audits is on whether there have been unreported deaths, maturities, or policies that have exceeded limiting age with respect to which death benefits or other payments under life insurance or annuity policies should be treated as unclaimed property that should be escheated to the state. The Company is presently unable to estimate the reasonably possible loss or range of loss that may result from the audits due to a number of factors, including uncertainty as to the legal theory or theories that may give rise to liability, the early stages of the audits being conducted, and, with respect to one block of life insurance policies that is co-insured by a subsidiary of the Company, uncertainty as to whether the Company or other companies are responsible for the liabilities, if any, arising in connection with such policies. The Company will continue to monitor the matter for any developments that would make the loss contingency associated with the audits probable or 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 it is reasonably possible 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 estimates the range of such fees to be from $0 to $4.5 million.

14. EMPLOYEE BENEFIT PLANS

Beginning with the December 31, 2015 measurement, the Company changed its method used to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefits by applying a spot rate approach. Historically, the Company utilized a single weighted average discount rate derived from a selected yield curve used to measure the benefit obligation as of the measurement date. Under the new spot rate approach, the actual calculation of service and interest cost will reflect an array of spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot rates from the selected yield curve. This new approach does not affect the measurement of the total benefit obligation.

Components of the net periodic benefit cost for the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) are as follows:

Successor Company	Predecessor Company

	For The Three Months Ended June 30, 2016		For The Three Months Ended June 30, 2015		For The Six Months Ended June 30, 2016		February 1, 2015 to June 30, 2015		January 1, 2015 to January 31, 2015	
	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan	Defined Benefit Pension Plan	Excess Benefit Plan
	(Dollars In Thousands)								(Dollars In Thousands)	
Service cost — benefits earned during the period	$2,906	$313	$2,973	$ 333	$5,812	$625	$4,955	$555	$ 974	$ 95
Interest cost on projected benefit obligation	2,737	438	2,433	408	5,474	877	4,055	680	1,002	140
Expected return on plan assets	(3,605)	—	(3,642)	—	(7,211)	—	(6,070)	—	(1,293)	—
Amortization of prior service cost	—	—	—	—	—	—	—	—	(33)	1
Amortization of actuarial losses	—	—	—	—	—	—	—	—	668	138
Preliminary net periodic benefit cost	2,038	751	1,764	741	4,075	1,502	2,940	1,235	1,318	374
Settlement/curtailment expense	—	1,500	—	—	—	1,500	—	—	—	—
Total net periodic benefit cost	$2,038	$2,251	$1,764	$ 741	$4,075	$3,002	$2,940	$1,235	$ 1,318	$ 374

On May 5, 2016, the Board of Directors of Protective Life Corporation decided to convert the accrued benefit payable under the excess benefit plan as of March 31, 2016 to John D. Johns, the Company's Chairman and Chief Executive Officer, into a lump sum amount. Upon the completion of the final terms of the conversion agreement, the lump sum amount will be allocated to a book entry account that will be treated as though it were a deferral account under the Company’s deferred compensation plan for officers. Mr. Johns will continue to accrue benefits with respect to his continued service as an employee of the Company after March 31, 2016 in a manner that is consistent with the provisions of the excess benefit plan. The conversion event will require the Company to re-measure the excess benefit plan and will result in settlement expense recognition upon the completion of the

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final conversion agreement. The Company estimates that the re-measurement of the excess benefit plan will result in the recognition of $1.5 million in settlement expense, which has been accrued during the three months ended June 30, 2016 (Successor Company). Financial re-measurement of the excess benefit plan will be performed as soon as the conversion agreement is in place.

During the six months ended June 30, 2016 (Successor Company), 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. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage ("AFTAP") of at least 80% and to avoid certain Pension Benefit Guaranty Corporation ("PBGC") reporting triggers.

15. 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 June 30, 2016 (Successor Company), December 31, 2015 (Successor Company), and January 31, 2015 (Predecessor Company).

Successor Company	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, 2015	$(1,247,065)	$ —	$ 5,931	$(1,241,134)
Other comprehensive income (loss) before reclassifications	1,022,377	—	—	1,022,377
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	(2,572)	—	—	(2,572)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(12,287)	—	—	(12,287)
Net current-period other comprehensive income (loss)	1,007,518	—	—	1,007,518
Ending Balance, June 30, 2016	$(239,547)	$ —	$ 5,931	$(233,616)

(1) See Reclassification table below for details.
(2) As of June 30, 2016 net unrealized losses reported in AOCI were offset by $139.3 million due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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Changes in Accumulated Other Comprehensive Income (Loss) by Component

Successor Company	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, February 1, 2015	$—	$ —	$ —	$—
Other comprehensive income (loss) before reclassifications	(1,264,034)	(86)	5,931	(1,258,189)
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	(393)	—	—	(393)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	17,362	86	—	17,448
Net current-period other comprehensive income (loss)	(1,247,065)	—	5,931	(1,241,134)
Ending Balance, December 31, 2015	$(1,247,065)	$ —	$ 5,931	$(1,241,134)

(1) See Reclassification table below for details.
(2) As of December 31, 2015, net unrealized losses reported in AOCI were offset by $623.0 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

Predecessor Company	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, 2014	$1,484,169	$ (82)	$ (66,011)	$ 1,418,076
Other comprehensive income (loss) before reclassifications	482,370	9	(12,527)	469,852
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings	(243)	—	—	(243)
Amounts reclassified from accumulated other comprehensive income (loss)(1)	(4,166)	23	502	(3,641)
Net current-period other comprehensive income (loss)	477,961	32	(12,025)	465,968
Ending Balance, January 31, 2015	$1,962,130	$ (50)	$ (78,036)	$ 1,884,044

(1) See Reclassification table below for details.
(2) As of January 31, 2015 net unrealized losses reported in AOCI were offset by $(492.6) million due to the impact those net unrealized losses would have had on certain of the Company's insurance assets and liabilities if the net unrealized losses had been recognized in net income.

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The following tables summarize the reclassifications amounts out of AOCI for the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Successor Company For The Three Months Ended June 30, 2016	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 16,932	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(967)	Net impairment losses recognized in earnings
	15,965	Total before tax
	(5,588)	Tax (expense) or benefit
	$ 10,377	Net of tax

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Successor Company For The Six Months Ended June 30, 2016	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Consolidated Condensed Statements of Income
	(Dollars In Thousands)	
Unrealized gains and losses on available-for-sale securities		
Net investment gains (losses)	$ 22,487	Realized investment gains (losses): All other investments
Impairments recognized in earnings	(3,584)	Net impairment losses recognized in earnings
	18,903	Total before tax
	(6,616)	Tax (expense) or benefit
	$ 12,287	Net of tax

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Successor Company For The Three Months Ended June 30, 2015	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)	$ (41	)	Benefits and settlement expenses, net of reinsurance ceded
	(41	)	Total before tax
	14		Tax (expense) or benefit
	$ (27	)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains (losses)	$ 3,360		Realized investment gains (losses): All other investments
Impairments recognized in earnings	(5,734	)	Net impairment losses recognized in earnings
	(2,374	)	Total before tax
	831		Tax (expense) or benefit
	$ (1,543	)	Net of tax

(1) See Note 8, Derivative Financial Instruments for additional information.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Successor Company February 1, 2015 to June 30, 2015	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)	$ (131	)	Benefits and settlement expenses, net of reinsurance ceded
	(131	)	Total before tax
	45		Tax (expense) or benefit
	$ (86	)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains (losses)	$ 3,733		Realized investment gains (losses): All other investments
Impairments recognized in earnings	(5,734	)	Net impairment losses recognized in earnings
	(2,001	)	Total before tax
	700		Tax (expense) or benefit
	$ (1,301	)	Net of tax

(1) See Note 8, Derivative Financial Instruments for additional information.

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Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Predecessor Company January 1, 2015 to January 31, 2015	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)	$ (36	)	Benefits and settlement expenses, net of reinsurance ceded
	(36	)	Total before tax
	13		Tax (expense) or benefit
	$ (23	)	Net of tax
Unrealized gains and losses on available-for-sale securities			
Net investment gains (losses)	$ 6,891		Realized investment gains (losses): All other investments
Impairments recognized in earnings	(481	)	Net impairment losses recognized in earnings
	6,410		Total before tax
	(2,244	)	Tax (expense) or benefit
	$ 4,166		Net of tax
Postretirement benefits liability adjustment			
Amortization of net actuarial gain/(loss)	$ (808	)	Other operating expenses
Amortization of prior service credit/(cost)	31		Other operating expenses
Amortization of transition asset/(obligation)	5		Other operating expenses
	(772	)	Total before tax
	270		Tax (expense) or benefit
	$ (502	)	Net of tax

(1) See Note 8, Derivative Financial Instruments for additional information.

16. EARNINGS PER SHARE (PREDECESSOR COMPANY)

As of February 1, 2015, the Company became a wholly owned subsidiary of Dai-ichi Life, and for the periods after February 1, 2015, there was no market for the Company's common stock and therefore the Company will no longer disclose earnings per share information.

For periods prior to February 1, 2015, basic earnings per share was computed by dividing net income by the weighted-average number of common shares outstanding during the period, including shares issuable under various deferred compensation plans. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares and dilutive potential common shares outstanding during the period, assuming the shares were not anti-dilutive, including shares issuable under various stock-based compensation plans and stock purchase contracts.

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A reconciliation of the numerators and denominators of the basic and diluted earnings per share is presented below for the period of January 1, 2015 to January 31, 2015 (Predecessor Company):

	Predecessor Company January 1, 2015 to January 31, 2015 (Dollars In Thousands, Except Per Share Amounts)
Calculation of basic earnings per share:	
Net income	$ 1,509
Average shares issued and outstanding	79,343,253
Issuable under various deferred compensation plans	1,109,595
Weighted shares outstanding - basic	80,452,848
Per share:	
Net income - basic	$ 0.02
Calculation of diluted earnings per share:	
Net income	$ 1,509
Weighted shares outstanding - basic	80,452,848
Stock appreciation rights (“SARs”)	64,570
Issuable under various other stock-based compensation plans	935,382
Restricted stock units	306,487
Weighted shares outstanding - diluted	81,759,287
Per share:	
Net income - diluted	$ 0.02

17. INCOME TAXES

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

	Successor Company		Predecessor Company
	As of June 30, 2016	February 1, 2015 to December 31, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)		(Dollars In Thousands)
Balance, beginning of period	$ 13,138	$ 137,593	$ 193,244
Additions for tax positions of the current year	1,218	2,213	(5,010)
Additions for tax positions of prior years	—	1,811	7,724
Reductions of tax positions of prior years:			
Changes in judgment	—	(16,416)	(58,365)
Settlements during the period	(4,911)	(112,063)	—
Lapses of applicable statute of limitations	—	—	—
Balance, end of period	$ 9,445	$ 13,138	$ 137,593

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 of 2015, the IRS proposed favorable and unfavorable adjustments to the Company's 2008 through 2011 reported taxable income. The Company agreed to these adjustments. The resulting net adjustment to the Company's current income taxes for the years 2003 through 2011 will not materially affect the Company or its effective tax rate. The Company is currently under audit by the IRS for the years 2012 and 2013. The audit adjustments received as of June 30, 2016 related to the 2012 and 2013 years will not materially impact the Company or its effective tax rate. These agreements with the IRS are the primary cause for the reductions of unrecognized tax benefits shown in the chart above.

The Company believes that it is possible in the next 12 months, approximately $0.5 million of these unrecognized tax benefits will be reduced due to time lapse and the closure of the statute of limitations.

In general, the Company is no longer subject to income tax examinations by taxing authorities for tax years that began before 2012. Nevertheless, certain of these pre-2012 years have pending U.S. tax refunds. Due to their size, these refunds are being reviewed by Congress' Joint Committee on Taxation. Furthermore, due to the aforementioned IRS adjustments to the Company's pre-2012 taxable income, the Company is amending certain of its 2003 through 2011 state income tax returns. Such amendments will cause such years to remain open, pending the states' acceptances of the returns. At this time, the Company believes that the Joint Committee's review of its U.S. tax refunds and the states' acceptance of its amending returns will be completed this year. The underlying statutes of limitations are expected to close in due course on or before June 30, 2017.

During the six months ended June 30, 2016 (Successor Company), the Company entered into a reinsurance transaction, as discussed in Note 3, Reinsurance and Financing Transactions. This transaction is expected to generate an operating loss on the Company’s consolidated 2016 US income tax return. The Company has evaluated its ability to carry this loss back to receive refunds of previously-paid taxes, plus utilize the remaining loss in future years. The Company expects to receive refunds for substantially all of the US income taxes that it paid in 2014 and 2015, as well as fully utilize the remaining operating loss carryforward during the carryforward period. Based on the Company’s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient 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 June 30, 2016.

The Company used its respective estimates of its annual 2016 and 2015 incomes in computing its effective income tax rates for the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company). The effective tax rates for the three and six months ended June 30, 2016 (Successor Company), the three months June 30, 2015 (Successor Company) the period of February 1, 2015 to June 30, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company) were 33.5%, 33.2%, 34.1%, 33.2%, and (27.7)%, respectively. The recorded tax benefit for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) included the benefit associated with the re-measurement of the unrecognized tax benefits discussed above.

18. OPERATING SEGMENTS

The Company has several operating segments, each having a strategic focus. An operating segment is distinguished by products, channels of distribution, and/or other strategic distinctions. The Company periodically evaluates its operating segments, as prescribed in the ASC Segment Reporting Topic, and makes adjustments to its segment reporting as needed. There were no changes to the Company’s operating segments made or required to be made as a result of the Merger on February 1, 2015. A brief description of each segment follows.

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

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment’s primary focus is on life insurance policies and annuity products that were sold to individuals. The level of the segment’s acquisition activity is predicated upon many factors, including available capital, operating capacity,

potential return on capital, and market dynamics. Policies acquired through the Acquisitions segment are typically blocks of business where no new policies are being marketed. Therefore earnings and account values are expected to decline as the result of lapses, deaths, and other terminations of coverage unless new acquisitions are made.

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

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

- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers' investments in automobiles, recreational vehicles, watercraft, and powersports. In addition, the segment markets a guaranteed asset protection ("GAP") product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.

- 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

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investment-related transactions, the operations of several small subsidiaries, and the repurchase of obligations and debt on the open market.

The Company uses the same accounting policies and procedures to measure segment operating income (loss) and assets as it uses to measure consolidated net income and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives net of the amortization related to DAC, VOBA, and benefits and settlement expenses. Operating earnings exclude changes in the GMWB embedded derivatives (excluding the portion attributed to economic cost), actual GMWB incurred claims and the related amortization of DAC/VOBA attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of the Company's business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/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 and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), the period of February 1, 2015 to June 30, 2015 (Successor Company), and the period of January 1, 2015 to January 31, 2015 (Predecessor Company).

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The following tables summarize financial information for the Company's segments (Predecessor and Successor periods are not comparable):

	Successor Company				Predecessor Company
	For the Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Revenues					
Life Marketing	$412,892	$379,122	$821,974	$651,298	$ 145,595
Acquisitions	453,848	363,985	878,655	622,774	139,761
Annuities	97,243	145,085	235,657	248,454	7,884
Stable Value Products	26,237	16,656	56,139	26,998	8,181
Asset Protection	67,487	69,680	131,735	113,707	21,953
Corporate and Other	58,694	44,233	119,154	77,857	17,535
Total revenues	$1,116,401	$1,018,761	$2,243,314	$1,741,088	$ 340,909
Segment Operating Income (Loss)					
Life Marketing	$24,562	$6,651	$38,263	$10,076	$ (1,618)
Acquisitions	45,285	37,876	113,938	73,946	20,134
Annuities	56,901	49,189	110,530	87,374	13,164
Stable Value Products	15,178	9,349	29,626	15,464	4,529
Asset Protection	5,462	5,897	10,761	9,944	2,420
Corporate and Other	(16,737)	(9,881)	(30,457)	(7,996)	(10,144)
Total segment operating income	130,651	99,081	272,661	188,808	28,485
Realized investment (losses) gains - investments[1]	100,889	(115,706)	184,050	(158,639)	89,815
Realized investment (losses) gains - derivatives	(62,879)	113,535	(116,208)	159,568	(117,118)
Income tax (expense) benefit	(56,541)	(33,070)	(113,035)	(63,036)	327
Net income	$112,120	$63,840	$227,468	$126,701	$ 1,509
All other investment gains (losses)	$87,816	$(108,071)	$166,927	$(143,127)	$ 80,672
Less: amortization related to DAC/VOBA and benefits and settlement expenses	(13,073)	7,635	(17,123)	15,512	(9,143)
Realized investment gains (losses) - investments	$100,889	$(115,706)	$184,050	$(158,639)	$ 89,815
Derivative financial instruments gains (losses)	$(83,366)	$94,603	$(156,865)	$128,244	$ (123,274)
Less: VA GMWB economic cost	(20,487)	(18,932)	(40,657)	(31,324)	(6,156)
Realized investment gains (losses) - derivatives	$(62,879)	$113,535	$(116,208)	$159,568	$ (117,118)

(1) Includes credit related other-than-temporary impairments of $1.0 million, $3.6 million, $5.7 million, $5.7 million, and $0.5 million for the three and six months ended June 30, 2016 (Successor Company), the three months ended June 30, 2015 (Successor Company), for the period of February 1, 2015 to June 30, 2015 (Successor Company), and for the

period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

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	Operating Segment Assets As of June 30, 2016 (Successor Company) (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$13,916,859	$20,052,484	$20,264,882	$2,711,452
Deferred policy acquisition costs and value of business acquired	1,134,643	93,983	625,628	4,353
Other intangibles	310,809	38,380	190,116	9,056
Goodwill	200,274	14,524	336,677	113,813
Total assets	$15,562,585	$20,199,371	$21,417,303	$2,838,674

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$953,996	$13,720,582	$71,620,255
Deferred policy acquisition costs and value of business acquired	32,377	—	1,890,984
Other intangibles	76,782	—	625,143
Goodwill	67,155	—	732,443
Total assets	$1,130,310	$13,720,582	$74,868,825

	Operating Segment Assets As of December 31, 2015 (Successor Company) (Dollars In Thousands)			
	Life Marketing	Acquisitions	Annuities	Stable Value Products
Investments and other assets	$13,258,639	$19,879,988	$19,926,108	$2,006,263
Deferred policy acquisition costs and value of business acquired	1,119,515	(178,662)	578,742	2,357
Other intangibles	319,623	39,658	196,780	9,389
Goodwill	200,274	14,524	336,677	113,813
Total assets	$14,898,051	$19,755,508	$21,038,307	$2,131,822

	Asset Protection	Corporate and Other	Total Consolidated
Investments and other assets	$897,326	$9,583,991	$65,552,315
Deferred policy acquisition costs and value of business acquired	36,856	—	1,558,808
Other intangibles	79,681	—	645,131
Goodwill	67,155	—	732,443
Total assets	$1,081,018	$9,583,991	$68,488,697

19. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to June 30, 2016 (Successor Company), 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.

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, 2015 (Successor Company), 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, 2015 (Successor Company).

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 (“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, 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 as prescribed in the Accounting Standards Codification (“ASC”) Segment Reporting Topic, and make adjustments to our segment reporting as needed. There were no changes to our operating segments made or required to be made as a result of the Merger on February 1, 2015.

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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 marketing organizations, and affinity groups.

- Acquisitions - We focus on acquiring, converting, and servicing policies 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 and credit life and disability insurance to protect consumers' investments in automobiles, recreational vehicles, watercraft, and powersports. In addition, this segment markets a guaranteed asset protection ("GAP") product. GAP coverage covers the difference between the loan pay-off amount and an asset's actual cash value in the case of a total loss.

- 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, various investment-related transactions, the operations of several small subsidiaries, and the repurchase of obligations and debt on the open market.

RECENT DEVELOPMENTS

On January 15, 2016, PLICO completed the transaction contemplated by the Master Agreement, dated September 30, 2015 (the "Master Agreement"), with Genworth Life and Annuity Insurance Company ("GLAIC"), as previously reported in the Company's Current Reports on Form 8-K filed October 1, 2015 and January 15, 2016. Pursuant to the Master Agreement, effective January 1, 2016, PLICO entered into a reinsurance agreement (the "Reinsurance Agreement") under the terms of which PLICO coinsures certain term life insurance business of GLAIC (the "GLAIC Block"). In connection with the reinsurance transaction, on January 15, 2016, Golden Gate Captive Insurance Company ("Golden Gate"), a wholly owned subsidiary of PLICO, and Steel City, LLC ("Steel City"), a newly formed wholly owned subsidiary of the Company, entered into an 18-year transaction to finance $2.188 billion of "XXX" reserves related to the acquired GLAIC Block and the other term life insurance business reinsured to Golden Gate by PLICO and West Coast Life Insurance Company ("WCL"), a direct wholly owned subsidiary of PLICO. Steel City issued notes with an aggregate initial principal amount of $2.188 billion to Golden Gate in exchange for a surplus note issued by Golden Gate with an initial principal amount of $2.188 billion. Through the structure, Hannover Life Reassurance Company

of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and Nomura Americas Re Ltd. (collectively, the "Risk-Takers") provide credit enhancement to the Steel City notes for the 18-year term in exchange for credit enhancement fees. The transaction is "non-recourse" to PLICO, WCL and the Company, meaning that none of these companies are liable to reimburse the Risk-Takers for any credit enhancement payments required to be made. In connection with the transaction, the Company has entered into certain support agreements under which it guarantees or otherwise supports certain obligations of Golden Gate or Steel City, including a guarantee of the fees to the Risk-Takers. The estimated average annual expense of the credit enhancement under generally accepted accounting principles is approximately $3.1 million, after-tax. As a result of the financing transaction described above, the $800 million of Golden Gate Series A Surplus Notes held by the Company were contributed to PLICO and then subsequently contributed to Golden Gate, which resulted in the extinguishment of these notes. Also on January 15, 2016, Golden Gate paid an extraordinary dividend of $300 million to PLICO as approved by the Vermont Department of Regulation.

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 the risks of natural and man-made disasters and catastrophes, diseases, epidemics, pandemics, malicious acts, cyber-attacks, terrorist acts and climate change could adversely affect our operations and results;

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- a disruption affecting the electronic systems of the Company or those on whom the Company relies could adversely affect our business, financial condition and results of operations;
- confidential information maintained in the systems of the Company or other parties upon which the Company relies could be compromised or misappropriated, damaging our business and reputation and adversely affecting our financial condition and results of operations;
- our results and financial condition may be negatively affected should actual experience differ from management's assumptions and estimates;
- we may not realize our anticipated financial results from our acquisitions strategy;
- assets allocated to the MONY Closed Block benefit only the holders of certain policies; adverse performance of Closed Block assets or adverse experience of Closed Block liabilities may negatively affect us;
- we are dependent on the performance of others;
- our risk management policies, practices, and procedures could leave us exposed to unidentified or unanticipated risks, which could negatively affect our business or result in losses;
- our strategies for mitigating risks arising from our day-to-day operations may prove ineffective resulting in a material adverse effect on our results of operations and financial condition;

Financial Environment

- interest rate fluctuations and sustained periods of low interest rates could negatively affect our interest earnings and spread income, or otherwise impact our business;
- our investments are subject to market and credit risks, which could be heightened during periods of extreme volatility or disruption in financial and credit markets;
- equity market volatility could negatively impact our business;
- our use of derivative financial instruments within our risk management strategy may not be effective or sufficient;
- credit market volatility or disruption could adversely impact our financial condition or results from operations;
- our ability to grow depends in large part upon the continued availability of capital;
- we could be adversely affected by a ratings downgrade or other negative action by a ratings organization;
- 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 materially adversely affect 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 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 that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control;
- we operate as a holding company and depend on the ability of our subsidiaries to transfer funds to us to meet our obligations;

Industry and Regulation

- we are highly regulated and are subject to routine audits, examinations, and actions by regulators, law enforcement agencies, and self-regulatory organizations;

- we may be subject to regulations influenced by or related to 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;
- regulatory actions, interpretations and pronouncements related to Actuarial Guidelines XXXVIII may have an adverse effect on our ability to sell certain universal life products and reserving requirements;
- 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 and insurable interest laws, and the laws, rules and regulations of state, federal and foreign regulators that could adversely affect our financial condition or results of operations;
- the Healthcare Act and related regulations could adversely affect our results of operations or financial condition;
- laws, rules and regulations promulgated in connection with the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act may adversely affect our results of operations or financial condition;
- regulations issued by the Department of Labor on April 6, 2016, expanding the definition of "investment advice fiduciary" under ERISA and creating and revising several prohibited transactions exemptions for investment activities in light of that expanded definition, may have a material adverse impact on our ability to sell annuities and other products, to retain in-force business and on our financial condition or results of operations;
- we may be subject to regulation, investigations, enforcement actions, fines and penalties imposed by the SEC, FINRA and other federal and international regulators in connection with our business operations;

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- changes to tax law or interpretations of existing tax law could adversely affect our ability to compete with non-insurance products or reduce the demand for certain insurance products;
- financial services companies are frequently the targets of legal proceedings, including class action litigation, which could result in substantial judgments;
- the financial services and insurance industries are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny;
- new accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact us;
- if our business does not perform well, we may be required to recognize an impairment of our goodwill and indefinite lived intangible assets which could adversely affect our results of operations or financial condition;
- use of reinsurance introduces variability in our statements of income;
- our reinsurers could fail to meet assumed obligations, increase rates, terminate agreements, or be subject to adverse developments that could affect us;
- our policy claims fluctuate from period to period resulting in earnings volatility;
- we operate in a mature, highly competitive industry, which could limit our ability to gain or maintain our position in the industry and negatively affect profitability;
- our ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business; and
- we may not be able to protect our intellectual property and may be subject to infringement claims.

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

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, 2015 (Successor Company).

RESULTS OF OPERATIONS

We use the same accounting policies and procedures to measure segment operating income (loss) and assets as we use to measure consolidated net income and assets. Segment operating income (loss) is income before income tax, excluding realized gains and losses on investments and derivatives, net of the amortization related to DAC, VOBA, and benefits and settlement expenses. Segment operating income (loss) also excludes changes in the GMWB embedded derivatives (excluding the portion attributed to economic cost), actual GMWB incurred claims and the related amortization of DAC attributed to each of these items.

Segment operating income (loss) represents the basis on which the performance of our business is internally assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of DAC/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.

However, segment operating income (loss) should not be viewed as a substitute for net income calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In addition, our segment operating income (loss) measures may not be comparable to similarly titled measures reported by other companies.

We periodically review and update as appropriate our key assumptions on products using the ASC Financial Services-Insurance Topic, including future mortality, expenses, lapses, premium persistency, benefit utilization, investment yields, interest spreads, and equity market returns. Changes to these assumptions result in adjustments which increase or decrease DAC/VOBA amortization and/or benefits and expenses. The periodic review and updating of assumptions is referred to as "unlocking". When referring to DAC/VOBA amortization unlocking on products covered under the ASC Financial Services-Insurance Topic, the reference is to changes in all balance sheet components amortized over estimated gross profits or revenues.

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The following table presents a summary of results and reconciles segment operating income (loss) to consolidated net income (Predecessor and Successor periods are not comparable):

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Segment Operating Income (Loss)					
Life Marketing	$24,562	$6,651	$38,263	$10,076	$ (1,618)
Acquisitions	45,285	37,876	113,938	73,946	20,134
Annuities	56,901	49,189	110,530	87,374	13,164
Stable Value Products	15,178	9,349	29,626	15,464	4,529
Asset Protection	5,461	5,897	10,761	9,944	2,420
Corporate and Other	(16,736)	(9,881)	(30,457)	(7,996)	(10,144)
Total segment operating income	130,651	99,081	272,661	188,808	28,485
Realized investment gains (losses) - investments [1]	100,889	(115,706)	184,050	(158,639)	89,815
Realized investment gains (losses) - derivatives	(62,879)	113,535	(116,208)	159,568	(117,118)
Income tax (expense) benefit	(56,541)	(33,070)	(113,035)	(63,036)	327
Net income	$112,120	$63,840	$227,468	$126,701	$ 1,509
All other investment gains (losses)	$87,816	$(108,071)	$166,927	$(143,127)	$ 80,672
Less: amortization related to DAC/VOBA and benefits and settlement expenses	(13,073)	7,635	(17,123)	15,512	(9,143)
Realized investment gains (losses) - investments	$100,889	$(115,706)	$184,050	$(158,639)	$ 89,815
Derivative financial instruments gains (losses)	$(83,366)	$94,603	$(156,865)	$128,244	$ (123,274)
Less: VA GMWB economic cost	(20,487)	(18,932)	(40,657)	(31,324)	(6,156)
Realized investment gains (losses) - derivatives	$(62,879)	$113,535	$(116,208)	$159,568	$ (117,118)

(1) Includes credit related other-than-temporary impairments of $1.0 million, $3.6 million, $5.7 million, $5.7 million, and $0.5 million for the three and six months ended June 30, 2016 (Successor Company), for the three months ended June 30, 2015 (Successor Company), for the period of February 1, 2015 to June 30, 2015 (Successor Company), and for the period of January 1, 2015 to January 31, 2015 (Predecessor Company), respectively.

For The Three Months Ended June 30, 2016 as compared to The Three Months Ended June 30, 2015 (Successor Company)

Net income was $112.1 million and operating income was $130.7 million for the three months ended June 30, 2016.

We experienced net realized gains of $4.5 million for the three months ended June 30, 2016. The gains realized were primarily related to $53.4 million of gains related to the net activity of the modified coinsurance portfolio, $16.9 million of gains related to investment securities sale activity, net gains of $0.2 million of derivatives related to IUL contracts, and net gains of $2.1 million of derivatives related to FIA contracts. Partially offsetting these gains were $1.0 million of other-than-temporary impairment credit-related losses, net losses of $62.8 million of derivatives related to variable annuity contracts, and net losses of $4.4 million loss related to other investment and derivative activity.

- Life Marketing segment operating income was $24.6 million for the three months ended June 30, 2016, representing an increase of $17.9 million from the three months ended June 30, 2015. The increase was primarily due to higher universal life policy fees and higher investment income. These increases were partially offset by an increase in reserves from growth in retained universal life insurance in-force.

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- Acquisitions segment operating income was $45.3 million for the three months ended June 30, 2016, an increase of $7.4 million as compared to the three months ended June 30, 2015, primarily due to the addition of the GLAIC reinsurance transaction completed on January 15, 2016. The GLAIC transaction added $9.0 million to segment operating income for the three months ended June 30, 2016. This was partly offset by the expected runoff of the in-force blocks of business.

- Annuities segment operating income was $56.9 million for the three months ended June 30, 2016, as compared to $49.2 million for the three months ended June 30, 2015, an increase of $7.7 million, or 15.7%. This variance was primarily the result of lower credited interest and favorable single premium immediate annuities (“SPIA”) mortality offset by lower investment income and lower fee and other income from the variable annuities ("VA") line of business.

- Stable Value Products segment operating income was $15.2 million and increased $5.8 million, or 62.3%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. The increase in operating earnings resulted from an increase in participating mortgage income, higher operating spreads, and increased average account values. Participating mortgage income for the three months ended June 30, 2016 was $3.9 million as compared to $0.5 million for the three months ended June 30, 2015. The adjusted operating spread, which excludes participating income, decreased by 4 basis points for the three months ended June 30, 2016 over the prior year, due primarily to an increase in credited interest.

- Asset Protection segment operating income was $5.5 million, representing a decrease of $0.4 million, or 7.4%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. Earnings from the guaranteed asset protection (“GAP”) product line decreased $0.6 million primarily resulting from higher losses. Credit insurance earnings decreased $0.4 million primarily due to unfavorable underwriting income. Service contract earnings increased $0.6 million primarily due to favorable underwriting income.

- The Corporate and Other segment operating loss was $16.7 million for the three months ended June 30, 2016, as compared to an operating loss of $9.9 million for the three months ended June 30, 2015. The decrease was primarily due to a $4.4 million decrease in core net investment income.

For The Six Months Ended June 30, 2016 (Successor Company)

Net income was $227.5 million and operating income was $272.7 million for the six months ended June 30, 2016.

We experienced net realized gains of $10.1 million for the six months ended June 30, 2016. The gains realized were primarily related to $73.2 million of gains related to the net activity of the modified coinsurance portfolio and $22.5 million of gains related to investment securities sale activity. Partially offsetting these gains were $3.6 million of other-than-temporary impairment credit-related losses, net losses of $70.6 million of derivatives related to variable annuity contracts, net losses of $6.4 million loss related to other investment and derivative activity, net losses of $0.8 million of derivatives related to IUL contracts, and net losses of $4.2 million of derivatives related to FIA contracts.

- Life Marketing segment operating income was $38.3 million which consisted of universal life operating income of $39.4 million, traditional life operating income of $5.0 million, and an operating loss of $6.1 million in other lines.

- Acquisitions segment operating income was $113.9 million. This included expected runoff of the in-force blocks of business and $17.8 million in operating income associated with the GLAIC reinsurance transaction that was completed on January 15, 2016.

- Annuities segment operating income was $110.5 million which included $59.8 million of variable annuity operating earnings, $59.5 million of fixed annuity operating earnings, and a $8.7 million loss in other annuity earnings. The fixed annuity results were positively impacted by $11.3 million of favorable SPIA mortality.

- Stable Value Products segment operating income of $29.6 million was primarily due to activity in average account values, participating mortgage income, and operating spread. Participating mortgage income was $9.2 million and the adjusted operating spread, which excludes participating income, was 177 basis points.

- Asset Protection segment operating income was $10.8 million which consisted of service contract earnings of $8.0 million, GAP product earnings of $1.6 million, and credit insurance earnings of $1.2 million.

- The Corporate and Other segment's $30.5 million operating loss was primarily due to $144.5 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by $107.9 million of investment income which represents income on assets supporting our equity capital and held-to-maturity notes, as well as a $7.4 million gain on the extinguishment of debt.

For The Period of February 1, 2015 to June 30, 2015 (Successor Company)

Net income was $126.7 million and operating income was $188.8 million for the period of February 1, 2015 to June 30, 2015.

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We experienced net realized losses of $14.9 million for the period of February 1, 2015 to June 30, 2015. The losses realized were primarily related to $5.7 million of other-than-temporary impairment credit-related losses, net losses of $18.7 million of derivatives related to variable annuity contracts, and $0.6 million of losses related to the net activity of the modified coinsurance portfolio. Partially offsetting these losses were $3.7 million of gains related to investment securities sale activity, net gains of $3.6 million of derivatives related to FIA contracts, and net gains of $1.9 million related to IUL contracts, and net gains of $0.9 million loss related to other investment and derivative activity.

- Life Marketing segment operating income was $10.1 million which consisted of universal life operating income of $19.8 million, traditional life operating loss of $2.5 million, and an operating loss of $7.2 million in other lines.

- Acquisitions segment operating income was $73.9 million. This included expected runoff of the in force blocks of business.

- Annuities segment operating income was $87.4 million which included $44.4 million of fixed annuity operating earnings and $49.7 million of variable annuity operating earnings. The fixed annuity results were positively impacted by $4.8 million of favorable SPIA mortality.

- Stable Value Products segment operating income of $15.5 million was primarily due to activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was $1.7 million and the adjusted operating spread, which excludes participating income, was 171 basis points.

- Asset Protection segment operating income was $9.9 million which consisted of service contract earnings of $6.0 million, GAP product earnings of $2.6 million, and credit insurance earnings of $1.3 million.

- The Corporate and Other segment's $8.0 million operating loss was primarily due to $78.3 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by $69.7 million of investment income which represents income on assets supporting our equity capital.

For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)

Net income was $1.5 million and operating income was $28.5 million for the period of January 1, 2015 to January 31, 2015.

We experienced net realized losses of $42.6 million for the period of January 1, 2015 to January 31, 2015. The losses realized for the period of January 1, 2015 to January 31, 2015, were primarily related to $0.5 million for other-than-temporary impairment credit-related losses, net losses of $53.6 million of derivatives related to variable annuity contracts, net losses of $1.0 million of derivatives related to FIA contracts, and net losses of $0.6 million of derivatives related to IUL contracts. Partially offsetting these losses were $6.9 million of gains related to investment securities sale activity, $5.0 million of gains related to the net activity of the modified coinsurance portfolio, and net gains of $1.2 million related to other investment and derivative activity.

- Life Marketing segment operating loss was $1.6 million. Included in that amount was a traditional life operating loss of $3.4 million, universal life earnings of $1.2 million, and operating earnings of $0.6 million in other lines.

- Acquisitions segment operating income was $20.1 million. This included expected runoff of the in force blocks of business.

- Annuities segment operating income was $13.2 million. Included in that amount was $2.8 million of unfavorable SPIA mortality results and $2.3 million of unfavorable unlocking, primarily related to the VA line of business.

- Stable Value Products segment operating income of $4.5 million was primarily due activity in average account values, operating spread, and participating mortgage income. Participating mortgage income was $0.1 million and the adjusted operating spread, which excludes participating income, was 276 basis points.

- Asset Protection segment operating income was $2.4 million which consisted of $1.3 million in service contract earnings, $0.9 million in GAP product earnings, and credit insurance earnings of $0.2 million.

- The Corporate and Other segment's $10.1 million operating loss was primarily due to $20.5 million of other operating expense which is primarily interest expense and corporate overhead expenses. These expenses were partially offset by $10.7 million of investment income which represents income on assets supporting our equity capital.

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Life Marketing

Segment Results of Operations

Segment results were as follows:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
REVENUES					
Gross premiums and policy fees	$448,991	$439,717	$889,740	$683,395	$ 136,068
Reinsurance ceded	(204,157)	(211,296)	(387,881)	(279,679)	(51,142)
Net premiums and policy fees	244,834	228,421	501,859	403,716	84,926
Net investment income	131,653	120,556	259,907	198,811	47,460
Other income	28,525	30,992	56,872	49,073	12,810
Total operating revenues	405,012	379,969	818,638	651,600	145,196
Realized gains (losses) - investments	7,687	(2,315)	4,127	(2,182)	997
Realized gains (losses) - derivatives	193	1,468	(791)	1,880	(598)
Total revenues	412,892	379,122	821,974	651,298	145,595
BENEFITS AND EXPENSES					
Benefits and settlement expenses	303,136	291,619	623,979	514,349	123,525
Amortization of deferred policy acquisition costs and value of business acquired	31,024	33,428	63,740	53,575	4,584
Other operating expenses	46,290	48,271	92,656	73,600	18,705
Operating benefits and settlement expenses	380,450	373,318	780,375	641,524	146,814
Amortization related to benefits and settlement expenses	3,331	1,110	(1,840)	1,519	(346)
Amortization of DAC/VOBA related to realized gains (losses) - investments	284	10	30	41	229
Total benefits and expenses	384,065	374,438	778,565	643,084	146,697
INCOME (LOSS) BEFORE INCOME TAX	28,827	4,684	43,409	8,214	(1,102)
Less: realized gains (losses)	7,880	(847)	3,336	(302)	399
Less: amortization related to benefits and settlement expenses	(3,331)	(1,110)	1,840	(1,519)	346
Less: related amortization of DAC/VOBA	(284)	(10)	(30)	(41)	(229)
OPERATING INCOME (LOSS)	$24,562	$6,651	$38,263	$10,076	$ (1,618)

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

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Sales By Product					
Traditional life	$268	$101	$671	$211	$42
Universal life	41,770	39,860	81,277	63,346	11,473
BOLI	—	15	—	15	—
	$42,038	$39,976	$81,948	$63,572	$11,515
Sales By Distribution Channel					
Traditional brokerage	$36,541	$33,267	$70,742	$52,791	$9,724
Institutional	3,884	4,990	8,015	8,268	1,472
Direct	1,613	1,719	3,191	2,513	319
	$42,038	$39,976	$81,948	$63,572	$11,515
Average Life Insurance In-force(1)					
Traditional	$366,712,353	$384,532,759	$371,454,097	$387,972,086	$391,411,413
Universal life	205,932,631	166,142,960	195,945,075	159,730,340	153,317,720
	$572,644,984	$550,675,719	$567,399,172	$547,702,426	$544,729,133
Average Account Values					
Universal life	$7,410,278	$7,287,291	$7,382,726	$7,269,132	$7,250,973
Variable universal life	597,855	599,483	586,026	586,870	574,257
	$8,008,133	$7,886,774	$7,968,752	$7,856,002	$7,825,230

(1) Amounts are not adjusted for reinsurance ceded.

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Operating expenses detail

Other operating expenses for the segment were as follows:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Insurance companies:					
First year commissions	$48,222	$42,762	$96,355	$71,431	$ 14,109
Renewal commissions	9,325	8,544	18,067	13,396	2,513
First year ceding allowances	(939)	(927)	(1,788)	(1,435)	(49)
Renewal ceding allowances	(40,347)	(39,288)	(78,556)	(68,140)	(12,364)
General & administrative	53,529	52,789	105,936	84,763	17,467
Taxes, licenses, and fees	8,234	7,736	15,665	12,910	2,508
Other operating expenses incurred	78,024	71,616	155,679	112,925	24,184
Less: commissions, allowances & expenses capitalized	(60,333)	(53,791)	(119,049)	(87,875)	(17,059)
Other insurance company operating expenses	17,691	17,825	36,630	25,050	7,125
Marketing companies:					
Commissions	20,306	22,552	40,281	35,439	8,233
Other operating expenses	8,293	7,894	15,745	13,111	3,347
Other marketing company operating expenses	28,599	30,446	56,026	48,550	11,580
Other operating expenses	$46,290	$48,271	$92,656	$73,600	$ 18,705

For The Three Months Ended June 30, 2016 as compared to The Three Months Ended June 30, 2015 (Successor Company)

Segment operating income

Operating income was $24.6 million for the three months ended June 30, 2016, representing an increase of $17.9 million from the three months ended June 30, 2015. The increase was primarily due to higher universal life policy fees and higher investment income. These increases were partially offset by an increase in reserves from growth in retained universal life insurance in-force.

Operating revenues

Total operating revenues for the three months ended June 30, 2016, increased $25.0 million, or 6.6%, as compared to the three months ended June 30, 2015. This increase was driven by higher premiums and policy fees due to continued growth in the universal life block. Higher investment income due to increases in net in-force reserves also contributed to the increase.

Net premiums and policy fees

Net premiums and policy fees increased by $16.4 million, or 7.2%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to an increase in policy fees associated with continued growth in universal life business. This increase is partially offset by a decrease in traditional life premiums.

Net investment income

Net investment income in the segment increased $11.1 million, or 9.2%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. Of the increase in net investment income, $7.1 million was the result of a net increase in universal life reserves. Traditional life investment income increased $3.3 million due to lower reserve funding costs and higher reserves.

Other income

Other income decreased $2.5 million, or 8.0%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, primarily due to lower revenue in the segment's non-insurance operations.

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Benefits and settlement expenses

Benefits and settlement expenses increased by $11.5 million, or 3.9%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to an increase in reserves and claims from growth in retained universal life insurance in-force, partly offset by a smaller increase in traditional reserves.

Amortization of DAC/VOBA

DAC/VOBA amortization decreased $2.4 million, or 7.2%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, partially due to the impact of unlocking. For the three months ended June 30, 2016, universal life and BOLI unlocking decreased amortization $0.6 million, as compared to a decrease of $0.1 million for the three months ended June 30, 2015.

Other operating expenses

Other operating expenses decreased $2.0 million for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. This decrease lower new business acquisition costs after capitalization and lower marking company expenses of $1.8 million. These decreases were largely offset by higher general administrative expenses of $0.7 million along with an increase in taxes, license and fees of $0.5 million.

Sales

Sales for the segment increased $2.1 million for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. Universal life sales increased $1.9 million primarily due to an expansion in distribution partners and focused efforts with existing partners.

For The Six Months Ended June 30, 2016 (Successor Company)

Segment operating income

Life Marketing segment operating income was $38.3 million which consisted of universal life operating income of $39.4 million, traditional life operating income of $5.0 million, and an operating loss of $6.1 million in other lines.

Net premiums and policy fees

Net premiums and policy fees were $501.9 million for the six months ended June 30, 2016. Included in this amount are traditional life net premiums of $213.2 million and universal life policy fees of $288.2 million.

Net investment income

Net investment income was $259.9 million for the six months ended June 30, 2016. Included in this amount is traditional life net investment income of $38.5 million and universal life investment income of $214.2 million.

Other income

Other income was $56.9 million for the six months ended June 30, 2016. This amount is primarily comprised of revenue in the segment’s non-insurance operations.

Benefits and settlement expenses

Benefit and settlement expenses were $624.0 million for the six months ended June 30, 2016. This amount includes traditional life benefit and settlement expenses of $172.4 million and universal life benefit and settlement expenses of $447.4 million, including $154.9 million of interest on funds for universal life policies.

Amortization of DAC and VOBA

DAC and VOBA amortization was $63.7 million for the six months ended June 30, 2016.

Other operating expenses

Other operating expenses were $92.7 million for the six months ended June 30, 2016. Other operating expenses for the insurance companies reflect commissions of $114.4 million, general and administrative expenses of $106.0 million, and taxes, licenses, and fees of $15.7 million, partly offset by ceding allowances of $80.3 million and capitalization of $119.1 million. Marketing company expenses were $56.0 million for the six months ended June 30, 2016.

Sales

Sales for the segment were $81.9 million for the six months ended June 30, 2016, comprised primarily of universal life sales.

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For The Period of February 1, 2015 to June 30, 2015 (Successor Company)

Segment operating income

Life Marketing segment operating income was $10.1 million which consisted of universal life operating income of $19.8 million, traditional life operating loss of $2.5 million, and an operating loss of $7.2 million in other lines.

Net premiums and policy fees

Net premiums and policy fees were $403.7 million for the period of February 1, 2015 to June 30, 2015. Included in this amount are traditional life net premiums of $212.9 million and universal life policy fees of $190.6 million.

Net investment income

Net investment income was $198.8 million for the period of February 1, 2015 to June 30, 2015. Included in this amount is traditional life net investment income of $26.0 million and universal life investment income of $167.4 million.

Other income

Other income was $49.1 million for the period of February 1, 2015 to June 30, 2015. This amount is primarily comprised of revenue in the segment's non-insurance operations.

Benefits and settlement expenses

Benefit and settlement expenses were $514.3 million for the period of February 1, 2015 to June 30, 2015. This amount includes traditional life benefit and settlement expenses of $182.6 million and universal life benefit and settlement expenses of $331.5 million, including $131.6 million of interest on funds for universal life policies.

Amortization of DAC and VOBA

DAC and VOBA amortization was $53.6 million for the period of February 1, 2015 to June 30, 2015.

Other operating expenses

Other operating expenses were $73.6 million for the period of February 1, 2015 to June 30, 2015. Other operating expenses for the insurance companies reflect commissions of $84.8 million, general and administrative expenses of $84.8 million, and taxes, licenses, and fees of $12.9 million, partly offset by ceding allowances of $69.6 million and capitalization of $87.9 million. Marketing company expenses were $48.6 million for the period of February 1, 2015 to June 30, 2015.

Sales

Sales for the segment were $63.6 million for the period of February 1, 2015 to June 30, 2015, comprised primarily of universal life sales.

For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)

Segment operating income

Segment operating loss was $1.6 million. Included in that amount was a traditional life operating loss of $3.4 million, universal life earnings of $1.2 million, and operating earnings of $0.6 million in other lines.

Net premiums and policy fees

Net premiums and policy fees were $84.9 million for the period of January 1, 2015 to January 31, 2015. This amount is comprised of traditional life net premiums of $41.8 million and universal life policy fees of $43.1 million.

Net investment income

Net investment income was $47.5 million for the period of January 1, 2015 to January 31, 2015. Included in this amount is traditional life net investment income of $6.3 million and universal life investment income of $40.1 million.

Other income

Other income was $12.8 million for the period of January 1, 2015 to January 31, 2015. This amount is primarily comprised of revenue in the segment’s non-insurance operations.

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Benefits and settlement expenses

Benefit and settlement expenses were $123.5 million for the period of January 1, 2015 to January 31, 2015. This amount includes traditional life benefit and settlement expenses of $44.7 million, including an elevated level of claims and universal life benefit and settlement expenses of $77.7 million, partly comprised of $25.7 million of interest on funds for universal life policies.

Amortization of DAC and VOBA

DAC and VOBA amortization was $4.6 million for the period of January 1, 2015 to January 31, 2015.

Other operating expenses

Other operating expenses were $18.7 million for the period of January 1, 2015 to January 31, 2015. Other operating expenses for the insurance companies reflect commissions of $16.6 million, general and administrative expenses of $17.5 million, and taxes of $2.5 million, partly offset by ceding allowances of $12.4 million and capitalization of $17.1 million. Marketing company expenses were $11.6 million for the period of January 1, 2015 to January 31, 2015.

Sales

Sales for the segment were $11.5 million for the period of January 1, 2015 to January 31, 2015, almost entirely comprised of universal life sales.

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 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, 2015 (Successor Company).

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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

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
REVENUES					
Reinsurance ceded	$(204,157)	$(211,296)	$(387,881)	$(279,679)	$ (51,142)
BENEFITS AND EXPENSES					
Benefits and settlement expenses	(172,367)	(188,990)	(375,732)	(250,725)	(58,501)
Amortization of DAC/VOBA	(1,735)	(1,389)	(3,380)	(2,183)	(3,766)
Other operating expenses (1)	(39,425)	(38,066)	(76,111)	(66,104)	(11,728)
Total benefits and expenses	(213,527)	(228,445)	(455,223)	(319,012)	(73,995)
NET IMPACT OF REINSURANCE	$9,370	$17,149	$67,342	$39,333	$ 22,853
Allowances received	$(41,286)	$(40,214)	$(80,344)	$(69,576)	$ (12,413)
Less: Amount deferred	1,861	2,148	4,233	3,472	685
Allowances recognized (ceded other operating expenses)(1)	$(39,425)	$(38,066)	$(76,111)	$(66,104)	$ (11,728)

(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 100% to 340%. 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 June 30, 2016 as compared to The Three Months Ended June 30, 2015 (Successor Company)

The lower ceded premium and policy fees for 2016 as compared to 2015 was caused primarily by lower ceded traditional life premiums of $10.0 million and higher universal life policy fees of $3.3 million. Ceded traditional premium for the three months ended June 30, 2016, decreased from the three months ended June 30, 2015, primarily due to fluctuations in the number of policies entering their post level period. Ceded universal life policy fees for three months ended June 30, 2016, increased from the three months ended June 30, 2015, with the increase in the direct universal life policy fees.

Ceded benefits and settlement expenses were lower for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to a smaller increase in ceded reserves, partly offset by higher universal life ceded claims. Traditional ceded benefits decreased $9.7 million for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, primarily due to a smaller increase in post level ceded reserves and lower ceded death benefits. Universal life ceded benefits decreased $6.4 million for the three months ended June 30, 2016, as compared to the three months ended

June 30, 2015, due to a smaller increase in ceded reserves, partly offset by an increase in ceded claims. Ceded universal life claims were $9.1 million higher for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015.

Ceded amortization of DAC and VOBA increased for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, primarily due to the differences in unlocking between the two periods.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

For The Six Months Ended June 30, 2016 (Successor Company)

The ceded premiums were primarily comprised of ceded traditional life premiums of $181.8 million and universal life premiums of $204.8 million.

Ceded benefits and settlement expenses were $375.7 million for the six months ended June 30, 2016. This amount is driven by ceded claims. Traditional life ceded benefits activity of $186.7 million was due to ceded death benefits, slightly offset by ceded reserves. Universal life ceded benefits of $189.8 million were largely comprised of $186.1 million in ceded universal life claims during the period.

Ceded amortization of DAC and VOBA activity was $3.4 million for the six months ended June 30, 2016.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

For The Period of February 1, 2015 to June 30, 2015 (Successor Company)

The ceded premiums were primarily comprised of ceded traditional life premiums of $113.7 million and universal life premiums of $165.5 million.

Ceded benefits and settlement expenses were $250.7 million for the period of February 1, 2015 to June 30, 2015. This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional life ceded benefits activity of $105.5 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded benefits of $145.6 million were largely comprised of $124.0 million in ceded universal life claims during the period.

Ceded amortization of DAC and VOBA activity was $2.2 million for the period of February 1, 2015 to June 30, 2015.

For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)

The ceded premiums were primarily comprised of ceded traditional life premiums of $22.6 million and universal life premiums of $27.2 million. Traditional life ceded premiums for the period January 1, 2015 to January 31, 2015 were impacted by runoff and a number of policies with post level activity.

Ceded benefits and settlement expenses were $58.5 million for the period of January 1, 2015 to January 31, 2015. This amount is driven by ceded claims, partly offset by change in ceded reserves. Traditional life ceded benefits activity of $29.3 million was due to ceded death benefits, partly offset by ceded reserves. Universal life ceded benefits of $30.0 million were mainly comprised of $30.4 million in ceded universal life claims during the period.

Ceded amortization of DAC and VOBA activity was $3.8 million for the period of January 1, 2015 to January 31, 2015.

Ceded other operating expenses reflect the impact of reinsurance allowances on net income.

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Acquisitions

Segment Results of Operations

Segment results were as follows:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
REVENUES					
Gross premiums and policy fees	$296,109	$280,570	$596,617	$472,472	$ 88,855
Reinsurance ceded	(91,405)	(96,158)	(177,827)	(144,718)	(26,512)
Net premiums and policy fees	204,704	184,412	418,790	327,754	62,343
Net investment income	189,014	175,815	376,669	289,507	71,088
Other income	2,721	3,173	5,452	5,364	1,240
Total operating revenues	396,439	363,400	800,911	622,625	134,671
Realized gains (losses) - investments	81,478	(107,997)	159,603	(140,624)	73,601
Realized gains (losses) - derivatives	(24,069)	108,582	(81,859)	140,773	(68,511)
Total revenues	453,848	363,985	878,655	622,774	139,761
BENEFITS AND EXPENSES					
Benefits and settlement expenses	312,194	300,336	619,728	506,183	100,693
Amortization of value of business acquired	10,185	968	9,092	838	4,803
Other operating expenses	28,775	24,220	58,153	41,658	9,041
Operating benefits and expenses	351,154	325,524	686,973	548,679	114,537
Amortization related to benefits and settlement expenses	2,957	4,859	5,688	7,268	1,233
Amortization of VOBA related to realized gains (losses) - investments	2	(18)	4	(28)	230
Total benefits and expenses	354,113	330,365	692,665	555,919	116,000
INCOME (LOSS) BEFORE INCOME TAX	99,735	33,620	185,990	66,855	23,761
Less: realized gains (losses)	57,409	585	77,744	149	5,090
Less: amortization related to benefits and settlement expenses	(2,957)	(4,859)	(5,688)	(7,268)	(1,233)
Less: related amortization of VOBA	(2)	18	(4)	28	(230)
OPERATING INCOME	$45,285	$37,876	$113,938	$73,946	$ 20,134

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The following table summarizes key data for the Acquisitions segment:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Average Life Insurance In-Force(1)					
Traditional	$245,874,701	$176,915,702	$227,143,714	$178,507,100	$ 182,177,575
Universal life	29,853,251	32,315,549	30,094,770	32,693,540	33,413,557
	$275,727,952	$209,231,251	$257,238,484	$211,200,640	$ 215,591,132
Average Account Values					
Universal life	$4,272,980	$4,457,553	$4,293,031	$4,473,467	$ 4,486,843
Fixed annuity(2)	3,567,836	3,653,446	3,575,371	3,674,635	3,712,578
Variable annuity	1,173,275	1,383,149	1,190,594	1,396,888	1,396,587
	$9,014,091	$9,494,148	$9,058,996	$9,544,990	$ 9,596,008
Interest Spread - UL & Fixed Annuities					
Net investment income yield	4.44 %	4.30 %	4.44 %	4.32 %	5.73 %
Interest credited to policyholders	4.00 %	4.09 %	4.02 %	4.04 %	4.05 %
Interest spread(3)	0.44 %	0.21 %	0.42 %	0.28 %	1.68 %

(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 June 30, 2016 as compared to The Three Months Ended June 30, 2015 (Successor Company)

Segment operating income

Operating income was $45.3 million for the three months ended June 30, 2016, an increase of $7.4 million as compared to the three months ended June 30, 2015, primarily due to the addition of the GLAIC reinsurance transaction completed on January 15, 2016. The GLAIC transaction added $9.0 million to segment operating income for the three months ended June 30, 2016. This was partly offset by the expected runoff of the in-force blocks of business.

Operating revenues

Net premiums and policy fees increased $20.3 million, or 11.0%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, primarily due to the premiums associated with the GLAIC reinsurance transaction more than offsetting expected runoff related to other blocks of business. Net investment income increased $13.2 million, or 7.5%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, due to the $14.2 million impact of the GLAIC reinsurance transaction, partly offset by expected

runoff of the in-force business.

Total benefits and expenses

Total benefits and expenses increased $23.7 million, or 7.2%, for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015. The increase was primarily due to the GLAIC reinsurance transaction, which increased operating benefits and expenses $36.4 million. This was partly offset by expected runoff of the in-force business.

For The Six Months Ended June 30, 2016 (Successor Company)

Segment operating income

Operating income was $113.9 million. This included expected runoff of the in-force blocks of business and $17.8 million in operating income associated with the GLAIC reinsurance transaction that was completed on January 15, 2016.

Operating revenues

Operating revenues for the segment were $800.9 million and included net premiums and policy fees of $418.8 million, net investment income of $376.7 million, and other income of $5.5 million. The segment experienced expected runoff in the current period.

Operating revenues from the GLAIC transaction were $94.8 million and included net premiums and policy fees of $66.1 million and net investment income of $28.7 million.

Total benefits and expenses

Total benefits and expenses were $692.7 million, primarily due to operating benefits and expenses of $687.0 million. Operating benefits and expenses included benefits and settlement expenses of $619.7 million, amortization of VOBA of $9.1 million, and other operating expenses of $58.2 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed $5.7 million to total benefits and expenses.

Total benefits and expenses from the GLAIC transaction were $77.1 million. Operating benefits and expenses included benefits and settlement expenses of $61.7 million, amortization of VOBA of $6.5 million, and other operating expenses of $8.9 million from this transaction.

For The Period of February 1, 2015 to June 30, 2015 (Successor Company)

Segment operating income

Operating income was $73.9 million. This included expected runoff of the in force blocks of business.

Operating revenues

Operating revenues for the segment were $622.6 million and included net premiums and policy fees of $327.8 million, net investment income of $289.5 million, and other income of $5.4 million. The segment experienced expected runoff in the current period.

Total benefits and expenses

Total benefits and expenses were $555.9 million, primarily due to operating benefits and expenses of $548.7 million. Operating benefits and expenses included benefits and settlement expenses of $506.2 million, amortization of VOBA of $0.8 million, and other operating expenses of $41.7 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed $7.2 million to total benefits and expenses.

For The Period of January 1, 2015 to January 31, 2015 (Predecessor Company)

Segment operating income

Operating income was $20.1 million. This included expected runoff of the in force blocks of business.

Operating revenues

Operating revenues for the segment were $134.7 million and included net premiums and policy fees of $62.3 million, net investment income of $71.1 million, and other income of $1.2 million. The segment experienced expected runoff in the current period.

Total benefits and expenses

Total benefits and expenses were $116.0 million, primarily due to operating benefits and expenses of $114.5 million. Operating benefits and expenses included benefits and settlement expenses of $100.7 million, amortization of VOBA of $4.8 million, and other operating expenses of $9.0 million. The net impact of amortization related to benefits and settlement expenses and amortization of VOBA related to realized gains (losses) on investments contributed $1.5 million to total benefits and expenses.

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, 2015 (Successor Company).

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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

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
REVENUES					
Reinsurance ceded	$(91,405)	$(96,158)	$(177,827)	$(144,718)	$ (26,512)
BENEFITS AND EXPENSES					
Benefits and settlement expenses	(69,700)	(87,775)	(134,223)	(122,064)	(25,832)
Amortization of value of business acquired	(77)	(76)	(195)	(85)	(233)
Other operating expenses	(10,902)	(11,312)	(21,989)	(19,597)	(3,647)
Total benefits and expenses	(80,679)	(99,163)	(156,407)	(141,746)	(29,712)
NET IMPACT OF REINSURANCE [1]	$(10,726)	$3,005	$(21,420)	$(2,972)	$ 3,200

(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 is less favorable by $13.7 million for the three months ended June 30, 2016, as compared to the three months ended June 30, 2015, primarily due to lower ceded claims. In the three months ended June 30, 2016, ceded revenues decreased by $4.8 million, while ceded benefits and expenses decreased by $18.5 million primarily due to lower claims.

The net impact of reinsurance activity for the six months ended June 30, 2016 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

The net impact of reinsurance activity for the period of February 1, 2015 to June 30, 2015 (Successor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

The net impact of reinsurance activity for the period of January 1, 2015 to January 31, 2015 (Predecessor Company) was primarily due to ceded premiums in relation to ceded benefits and settlement expenses. Ceded benefits and settlement expenses were primarily driven by ceded claims.

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Annuities

Segment Results of Operations

Segment results were as follows:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
REVENUES					
Gross premiums and policy fees	$36,455	$38,272	$72,010	$63,219	$ 12,473
Reinsurance ceded	—	—	—	—	—
Net premiums and policy fees	36,455	38,272	72,010	63,219	12,473
Net investment income	80,142	82,854	159,423	133,785	37,189
Realized gains (losses) - derivatives	(20,487)	(18,932)	(40,657)	(31,324)	(6,156)
Other income	40,458	41,394	78,711	68,523	12,980
Total operating revenues	136,568	143,588	269,487	234,203	56,486
Realized gains (losses) - investments	871	(1,427)	311	(2,032)	(145)
Realized gains (losses) - derivatives, net of economic cost	(40,196)	2,924	(34,141)	16,283	(48,457)
Total revenues	97,243	145,085	235,657	248,454	7,884
BENEFITS AND EXPENSES					
Benefits and settlement expenses	47,990	63,435	98,940	96,354	27,485
Amortization of deferred policy acquisition costs and value of business acquired	(3,212)	(3,320)	(8,298)	(5,724)	5,911
Other operating expenses	34,889	34,284	68,315	56,199	9,926
Operating benefits and expenses	79,667	94,399	158,957	146,829	43,322
Amortization related to benefits and settlement expenses	3,228	(737)	2,970	(1,349)	3,128
Amortization of DAC/VOBA related to realized gains (losses) - investments	(22,875)	2,411	(23,975)	8,061	(13,617)
Total benefits and expenses	60,020	96,073	137,952	153,541	32,833
INCOME (LOSS) BEFORE INCOME TAX	37,223	49,012	97,705	94,913	(24,949)
Less: realized gains (losses) - investments	871	(1,427)	311	(2,032)	(145)
Less: realized gains (losses) - derivatives, net of economic cost	(40,196)	2,924	(34,141)	16,283	(48,457)
Less: amortization related to benefits and settlement expenses	(3,228)	737	(2,970)	1,349	(3,128)
Less: related amortization of DAC/VOBA	22,875	(2,411)	23,975	(8,061)	13,617
OPERATING INCOME	$56,901	$49,189	$110,530	$87,374	$ 13,164

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The following tables summarize key data for the Annuities segment:

	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Sales					
Fixed annuity	$171,231	$111,131	$380,536	$153,607	$ 28,335
Variable annuity	151,583	361,559	325,097	545,706	59,115
	$322,814	$472,690	$705,633	$699,313	$ 87,450
Average Account Values					
Fixed annuity(1)	$8,210,847	$8,285,451	$8,245,283	$8,255,571	$ 8,171,438
Variable annuity	12,282,904	12,711,950	12,305,789	12,658,770	12,365,217
	$20,493,751	$20,997,401	$20,551,072	$20,914,341	$ 20,536,655
Interest Spread - Fixed Annuities(2)					
Net investment income yield	3.65 %	3.78 %	3.64 %	3.67 %	5.22 %
Interest credited to policyholders	2.65	2.86	2.68	2.88	3.17
Interest spread	1.00 %	0.92 %	0.96 %	0.79 %	2.05 %

(1) Includes general account balances held within VA products.
(2) Interest spread on average general account values.

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	Successor Company				Predecessor Company
	For The Three Months Ended June 30, 2016	For The Three Months Ended June 30, 2015	For The Six Months Ended June 30, 2016	February 1, 2015 to June 30, 2015	January 1, 2015 to January 31, 2015
	(Dollars In Thousands)				(Dollars In Thousands)
Derivatives related to VA contracts:					
Interest rate futures - VA	$31,266	$(14,183)	$69,067	$(14,231)	$ 1,413
Equity futures - VA	(21,328)	(5,267)	(24,556)	(37,736)	9,221
Currency futures - VA	11,112	(8,709)	4,954	(2,572)	7,778
Equity options - VA	(3,232)	(3,550)	13,072	(25,324)	3,047
Interest rate swaptions - VA	(749)	2,547	(2,983)		