PROTECTIVE LIFE CORP
Form 10-Q
August 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission File Number 001-11339

Protective Life Corporation

(Exact name of registrant as specified in its charter)

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

2801 Highway 280 South

Birmingham, Alabama 35223

(Address of principal executive offices and zip code)

(205) 268-1000

(Registrant s telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, $0.50 Par Value, outstanding as of July 26, 2011: 84,690,567

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PROTECTIVE LIFE CORPORATION

QUARTERLY REPORT ON FORM 10-Q

FOR QUARTERLY PERIOD ENDED JUNE 30, 2011

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(Unaudited)

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars In Thousands, Except Per Share Amounts)			
Revenues				
Premiums and policy fees	$ 716,586	$ 679,241	$ 1,382,929	$ 1,308,013
Reinsurance ceded	(364,248)	(379,729)	(696,056)	(685,558)
Net of reinsurance ceded	352,338	299,512	686,873	622,455
Net investment income	448,785	422,500	892,998	834,497
Realized investment gains (losses):				
Derivative financial instruments	(34,993)	(119,888)	(47,679)	(142,960)
All other investments	58,917	67,704	63,389	115,603
Other-than-temporary impairment losses	(15,632)	(36,683)	(31,653)	(58,539)
Portion of loss recognized in other comprehensive income (before taxes)	6,145	19,885	16,503	29,872
Net impairment losses recognized in earnings	(9,487)	(16,798)	(15,150)	(28,667)
Other income	87,224	59,072	159,433	102,944
Total revenues	902,784	712,102	1,739,864	1,503,872
Benefits and expenses				
Benefits and settlement expenses, net of reinsurance ceded: (three months: 2011 - $357,165; 2010 - $359,766; six months: 2011 - $670,271; 2010 - $662,467)	551,553	525,371	1,087,922	1,032,666
Amortization of deferred policy acquisition costs and value of business acquired	79,688	23,086	154,051	104,375
Other operating expenses, net of reinsurance ceded: (three months: 2011 - $48,810; 2010 - $50,657; six months: 2011 - $94,070; 2010 - $94,081)	128,270	99,185	250,523	201,095
Total benefits and expenses	759,511	647,642	1,492,496	1,338,136
Income before income tax	143,273	64,460	247,368	165,736
Income tax expense	49,909	23,216	86,538	54,786
Net income	93,364	41,244	160,830	110,950
Less: Net income (loss) attributable to noncontrolling interests	296	(127)	245	(200)
Net income available to PLC s common shareowners(1)	$ 93,068	$ 41,371	$ 160,585	$ 111,150
Net income available to PLC s common shareowners - basic	$ 1.08	$ 0.48	$ 1.86	$ 1.28
Net income available to PLC s common shareowners - diluted	$ 1.06	$ 0.47	$ 1.83	$ 1.27
Cash dividends paid per share	$ 0.16	$ 0.14	$ 0.30	$ 0.26
Average shares outstanding - basic	86,346,216	86,562,379	86,474,012	86,531,461
Average shares outstanding - diluted	87,653,731	87,666,035	87,736,449	87,609,027

(1) Protective Life Corporation (PLC)

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

	As of	
	June 30, 2011	December 31, 2010
	(Dollars In Thousands)	
Assets		
Fixed maturities, at fair value (amortized cost: 2011 - $25,156,028; 2010 - $24,002,893)	$ 26,133,625	$ 24,676,939
Equity securities, at fair value (cost: 2011 - $345,758; 2010 - $349,605)	349,738	359,412
Mortgage loans (2011 and 2010 includes: $888,607 and $934,655 related to securitizations)	5,349,851	4,892,829
Investment real estate, net of accumulated depreciation (2011 - $1,284; 2010 - $1,200)	23,737	25,340
Policy loans	881,757	793,448
Other long-term investments	297,825	276,337
Short-term investments	134,698	352,824
Total investments	33,171,231	31,377,129
Cash	419,210	264,425
Accrued investment income	345,906	329,078
Accounts and premiums receivable, net of allowance for uncollectible amounts (2011 - $3,890; 2010 - $4,330)	68,559	58,580
Reinsurance receivables	5,730,025	5,608,029
Deferred policy acquisition costs and value of business acquired	4,028,452	3,851,743
Goodwill	113,209	114,758
Property and equipment, net of accumulated depreciation (2011 - $131,726; 2010 - $130,576)	43,142	39,386
Other assets	180,602	169,664
Income tax receivable	39,936	45,582
Assets related to separate accounts		
Variable annuity	6,291,158	5,170,193
Variable universal life	556,419	534,219
Total assets	$ 50,987,849	$ 47,562,786
Liabilities		
Policy liabilities and accruals	$ 21,844,210	$ 19,713,392
Stable value product account balances	2,565,235	3,076,233
Annuity account balances	10,899,995	10,591,605
Other policyholders funds	589,879	578,037
Other liabilities	964,392	926,201
Mortgage loan backed certificates	42,862	61,678
Deferred income taxes	1,171,305	1,022,130
Non-recourse funding obligations	438,300	532,400
Debt	1,494,852	1,501,852
Subordinated debt securities	524,743	524,743
Liabilities related to separate accounts		
Variable annuity	6,291,158	5,170,193
Variable universal life	556,419	534,219
Total liabilities	47,383,350	44,232,683
Commitments and contingencies - Note 8		
Shareowners equity		
Preferred Stock, $1 par value, shares authorized: 4,000,000; Issued: None		
Common Stock, $.50 par value, shares authorized: 2011 and 2010 - 160,000,000; shares issued: 2011 and 2010 - 88,776,960	44,388	44,388

Additional paid-in-capital		592,451		586,592
Treasury stock, at cost (2011 - 4,126,717 shares; 2010 - 3,108,983 shares)		(50,326)		(26,072)
Retained earnings		2,567,796		2,432,925
Accumulated other comprehensive income (loss):				
Net unrealized gains (losses) on investments, net of income tax: (2011 -$288,231; 2010 - $195,096)		535,286		362,321
Net unrealized (losses) gains relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (2011 - $(14,275); 2010 - $(5,223))		(26,511)		(9,700)
Accumulated loss - derivatives, net of income tax: (2011 - $(4,633); 2010 - $(6,355))		(8,605)		(11,802)
Postretirement benefits liability adjustment, net of income tax: (2011 -$(26,515); 2010 - $(25,612))		(49,241)		(47,565)
Total Protective Life Corporation s shareowners equity		3,605,238		3,331,087
Noncontrolling interest		(739)		(984)
Total equity		3,604,499		3,330,103
Total liabilities and shareowners equity	$	50,987,849	$	47,562,786

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF SHAREOWNERS EQUITY

(Unaudited)

	Common Stock	Additional Paid-In-Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Net Unrealized Gains / (Losses) on Investments	Accumulated Gain / (Loss) Derivatives	Minimum Pension Liability Adjustments	Total Protective Life Corporation s shareowners equity	Non controlling Interest	Total Equity
	(Dollars In Thousands)									
Balance, December 31, 2010	$ 44,388	$ 586,592	$ (26,072)	$ 2,432,925	$ 352,621	$ (11,802)	$ (47,565)	$ 3,331,087	$ (984)	$ 3,330,103
Net income for the three months ended March 31, 2011				67,517				67,517	(51)	67,466
Change in net unrealized gains/losses on investments (net of income tax - $17,907)					33,263			33,263		33,263
Reclassification adjustment for investment amounts included in net income (net of income tax - $(3,054))					(5,678)			(5,678)		(5,678)
Change in net unrealized gains/losses relating to other-than-temporary impaired investments for which a portion has been recognized in earnings (net of income tax $(3,608))					(6,700)			(6,700)		(6,700)
Change in accumulated gain (loss) derivatives (net of income tax - $3,621)						6,724		6,724		6,724
Reclassification adjustment for derivative amounts included in net income (net of income tax - $(361))						(671)		(671)		(671)
Change in postretirement benefits liability adjustment (net of income tax - $(451))							(838)	(838)		(838)
Comprehensive income for the three months ended March 31, 2011								93,617	(51)	93,566
Cash dividends ($0.14 per share)				(11,995)				(11,995)		(11,995)
Stock-based compensation		4,191	309					4,500		4,500
Balance, March 31, 2011	$ 44,388	$ 590,783	$ (25,763)	$ 2,488,447	$ 373,506	$ (5,749)	$ (48,403)	$ 3,417,209	$ (1,035)	$ 3,416,174
Net income for the three months ended June 30, 2011				93,068				93,068	296	93,364
Change in net unrealized gains/losses on investments (net of income tax - $85,553)					158,888			158,888		158,888
Reclassification adjustment for investment amounts included in net income (net of income tax - $(7,271))					(13,508)			(13,508)		(13,508)

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 $(5,444))					(10,111)			(10,111)		(10,111)
Change in accumulated gain (loss) derivatives (net of income tax - $(1,777))						(3,299)		(3,299)		(3,299)
Reclassification adjustment for derivative amounts included in net income (net of income tax - $238)						443		443		443
Change in postretirement benefits liability adjustment (net of income tax - $(451))							(838)	(838)		(838)
Comprehensive income for the three months ended June 30, 2011								224,643	296	224,939
Cash dividends ($0.16 per share)				(13,719)				(13,719)		(13,719)
Repurchase of common stock			(24,893)					(24,893)		(24,893)
Stock-based compensation		1,668	330					1,998		1,998
Balance, June 30, 2011	$ 44,388	$ 592,451	$ (50,326)	$ 2,567,796	$ 508,775	$ (8,605)	$ (49,241)	$ 3,605,238	$ (739)	$ 3,604,499

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For The Six Months Ended June 30,	
	2011	2010
	(Dollars In Thousands)	
Cash flows from operating activities		
Net income	$ 160,830	$ 110,950
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment losses (gains)	(560)	56,024
Amortization of deferred policy acquisition costs and value of business acquired	154,051	104,375
Capitalization of deferred policy acquisition costs	(252,788)	(247,533)
Depreciation expense	4,478	4,604
Deferred income tax	56,911	27,558
Accrued income tax	5,646	71,090
Interest credited to universal life and investment products	490,348	494,693
Policy fees assessed on universal life and investment products	(343,102)	(299,620)
Change in reinsurance receivables	(112,485)	(219,984)
Change in accrued investment income and other receivables	(21,578)	(6,005)
Change in policy liabilities and other policyholders funds of traditional life and health products	57,235	238,548
Trading securities:		
Maturities and principal reductions of investments	172,470	175,017
Sale of investments	456,232	319,383
Cost of investments acquired	(498,105)	(468,303)
Other net change in trading securities	2,549	(33,950)
Change in other liabilities	(65,216)	(23,423)
Other income - surplus note repurchase	(30,667)	
Other, net	18,586	39,597
Net cash provided by operating activities	254,835	343,021
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	935,399	889,299
Sale of investments, available-for-sale	1,746,847	1,979,372
Cost of investments acquired, available-for sale	(2,633,559)	(3,627,942)
Mortgage loans:		
New borrowings	(276,254)	(154,251)
Repayments	245,496	150,574
Change in investment real estate, net	369	1,969
Change in policy loans, net	12,252	19,171
Change in other long-term investments, net	(76,580)	(29,548)
Change in short-term investments, net	109,352	85,775
Net unsettled security transactions	187,885	215,258
Purchase of property and equipment	(6,927)	(5,171)
Payments for business acquisitions	(209,609)	
Net cash provided by (used in) investing activities	34,671	(475,494)
Cash flows from financing activities		
Borrowings under line of credit arrangements and debt	10,000	90,000
Principal payments on line of credit arrangement and debt	(17,000)	(260,000)
Issuance (repayment) of non-recourse funding obligations	(94,100)	(18,400)

Dividends to shareowners		(25,714)		(22,264)
Repurchase of common stock		(24,893)		
Investments product deposits and change in universal life deposits		2,101,553		1,827,781
Investment product withdrawals		(2,060,672)		(1,529,502)
Other financing activities, net		(23,895)		(3,943)
Net cash (used in) provided by financing activities		(134,721)		83,672
Change in cash		154,785		(48,801)
Cash at beginning of period		264,425		205,325
Cash at end of period	$	419,210	$	156,524

See Notes to Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements of Protective Life Corporation and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and six month periods ended June 30, 2011, are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The year-end consolidated condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. For further information, refer to the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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

Reclassifications

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

Entities Included

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Pronouncements Recently Adopted

Accounting Standard Update (ASU or Update) No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements. In January of 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-06 Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements. This Update provides amendments to Subtopic 820-10 that requires the following new disclosures. 1) A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This Update provides amendments to Subtopic 820-10 that clarifies existing disclosures. 1) A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. 2) A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. This Update also includes conforming amendments to the guidance on employers disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance in Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures. This Update is effective for interim and annual reporting periods beginning after December 15, 2009, which the Company adopted for the period ending March 31, 2010, except for the disclosures about purchases, sales,

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issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were adopted by the Company as of January 1, 2011. This Update did not have an impact on the Company s consolidated condensed results of operations or financial position.

ASU No. 2010-15 Financial Services Insurance How Investments Held through Separate Accounts Affect an Insurer s Consolidation Analysis of Those Investments. The amendments in this Update clarify that an insurance entity should not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer s interests. The entity should not combine general account and separate account interests in the same investment when assessing the investment for consolidation. Additionally, the amendments do not require an insurer to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account. The amendments in this Update also provide guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation is required. This Update is effective for fiscal years beginning after December 15, 2010. For the Company this Update became effective January 1, 2011. This Update did not have an impact on the Company s consolidated condensed results of operations or financial position.

ASU No. 2010-28 Intangibles Goodwill and Other When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The amendments in this Update modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. This Update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. This Update was effective for the Company as of January 1, 2011. This Update did not have an impact on the Company s results of operations or financial position.

Accounting Pronouncements Not Yet Adopted

ASU No. 2010-26 Financial Services Insurance - Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. The objective of this Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This Update prescribes that certain incremental direct costs of successful initial or renewal contract acquisitions may be deferred. It defines incremental direct costs as those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. This Update also clarifies the definition of the types of incurred costs that may be capitalized and the accounting and recognition treatment of advertising, research, and other administrative costs related to the acquisition of insurance contracts. This Update is effective for periods beginning after December 15, 2011 and is to be applied prospectively. Early adoption and retrospective application are optional. The Company is currently evaluating the impact this Update will have on its results of operations and financial position.

ASU No. 2011-02 Receivables A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The objective of this Update is to evaluate whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: 1) the restructuring constitutes a concession and 2) the debtor is experiencing financial difficulties. This Update also clarifies the guidance on a creditor s evaluation of whether it has granted a concession. The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the Company, this Update will become effective on July 1, 2011. The Company is currently evaluating the impact this Update will have on its results of operations or financial position.

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

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ASU No. 2011-04 Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this Update result in common fair value measurement and disclosure requirements in GAAP and IFRSs. The amendments change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The intent of this Update was not to change the application of the requirements in Topic 820. Some of the amendments clarify the intent regarding the application of existing fair value measurement requirements. The Update did modify several principles or requirements for measuring fair value or for disclosing information about fair value measurements. These changes are effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact this Update will have on its results of operations or financial position.

ASU No. 2011-05 Comprehensive Income Presentation of Comprehensive Income. In this Update, a company has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in 1) a single continuous statement of comprehensive income, or 2) in two separate but consecutive statements. In both choices, a company is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The amendments in this Update do not change the items that must be reported in other comprehensive income, or the timing of its subsequent reclassification to net income. This Update is effective January 1, 2012. The Company is currently evaluating the appropriate format to which it will adhere.

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 of Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. There were no significant changes to the Company s accounting policies during the six months ended June 30, 2011, except as noted above.

3. SIGNIFICANT ACQUISITIONS

On December 31, 2010, Protective Life Insurance Company (PLICO), the Company s principal operating subsidiary, completed the acquisition of all of the outstanding stock of United Investors Life Insurance Company (United Investors), pursuant to a Stock Purchase Agreement, between PLICO, Torchmark Corporation (Torchmark) and its wholly owned subsidiaries, Liberty National Life Insurance Company (Liberty National) and United Investors.

The Company accounted for this transaction under the purchase method of accounting as required by FASB guidance under the ASC Business Combinations topic. This guidance requires that the total purchase price be allocated to the assets acquired and liabilities assumed based on their fair values at the acquisition date. The aggregate purchase price for United Investors was $363.3 million.

On April 29, 2011, PLICO closed a previously announced and unrelated reinsurance transaction with Liberty Life Insurance Company (Liberty Life) under the terms of which PLICO reinsured substantially all of the life and health business of Liberty Life. The transaction closed in conjunction with Athene Holding Ltd s acquisition of Liberty Life from an affiliate of Royal Bank of Canada. The capital invested by PLICO in the transaction at closing was $321 million, including a $225 million ceding commission which has been recorded and is subject to adjustment upon completion of the final Liberty Life closing statutory balance sheet. In conjunction with the closing, PLICO invested $40 million in a

surplus note issued by Athene Life Re. The Company accounted for this transaction in a manner consistent with the purchase method of accounting as required by FASB guidance under the ASC Business Combinations topic. This guidance requires that the total consideration paid be allocated to the assets acquired and liabilities assumed based on their fair values at the transaction date.

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The following table summarizes the fair values of the net assets acquired from the Liberty Life reinsurance transaction as of the transaction date:

		Fair Value as of April 29, 2011 (Dollars In Thousands)
ASSETS		
Investments	$	1,768,297
Cash		35,959
Accrued investment income		154
Accounts and premiums receivable, net		877
Reinsurance receivable		9,511
Value of business acquired		135,876
Other assets		1
Assets related to separate accounts		
Total assets		1,950,675
LIABILITIES		
Policy liabilities and accrual		1,665,294
Annuity account balances		4,420
Other policyholders funds		24,977
Other liabilities		30,834
Total liabilities		1,725,525
NET ASSETS ACQUIRED	$	225,150

The following (unaudited) pro forma condensed consolidated results of operations assumes that the aforementioned transactions with Liberty Life and United Investors were completed as of January 1, 2010:

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2011		2010		2011		2010	
	(Dollars In Thousands)							
Revenue	$	923,426	$	852,639	$	1,822,693	$	1,780,073
Net income	$	93,710	$	76,358	$	161,622	$	175,486
EPS - basic	$	1.09	$	0.88	$	1.87	$	2.03
EPS - diluted	$	1.07	$	0.87	$	1.84	$	2.00

4. INVESTMENT OPERATIONS

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

For The	For The

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(Dollars In Thousands)	
Fixed maturities	$ 30,196	$ 35,491
Equity securities	70	9,170
Impairments on fixed maturity securities	(9,487)	(15,150)
Impairments on equity securities		
Modco trading portfolio	33,603	27,954
Other investments	(4,952)	(9,226)
Total realized gains (losses) - investments	$ 49,430	$ 48,239

For the three and six months ended June 30, 2011, gross realized gains on investments available-for-sale (fixed maturities, equity securities, and short-term investments) were $31.8 million and $46.4 million and gross realized losses were $10.8 million and $16.6 million, including $9.2 million and $14.8 million of impairment losses,

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respectively. The $9.2 million and $14.8 million exclude $0.3 million and $0.4 million of impairment losses in the trading portfolio for the three and six months ended June 30, 2011, respectively.

The $9.2 million of gains included in equity securities primarily relates to gains of $6.9 million on securities that have recovered in value as the issuer exited bankruptcy and $1.2 million that relates to gains recognized on the sale of Federal National Mortgage Association preferreds.

For the three and six months ended June 30, 2011, the Company sold securities in an unrealized gain position with a fair value (proceeds) of $1.3 billion and $1.5 billion, respectively. The gain realized on the sale of these securities was $31.8 million and $46.4 million, respectively.

For the three and six months ended June 30, 2011, the Company sold securities in an unrealized loss position with a fair value (proceeds) of $142.9 million and $162.9 million, respectively. The loss realized on the sale of these securities was $1.6 million and $1.8 million, respectively.

The amortized cost and fair value of the Company s investments classified as available-for-sale as of June 30, 2011, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars In Thousands)		
Fixed maturities:				
Bonds				
Residential mortgage-backed securities	$ 2,543,004	$ 56,189	$ (109,030)	$ 2,490,163
Commercial mortgage-backed securities	283,569	5,980	(2,045)	287,504
Other asset-backed securities	875,894	1,276	(32,907)	844,263
U.S. government-related securities	1,097,064	36,511	(2,262)	1,131,313
Other government-related securities	135,993	7,126		143,119
States, municipals, and political subdivisions	1,140,928	41,746	(7,852)	1,174,822
Corporate bonds	16,192,923	1,116,854	(133,989)	17,175,788
	22,269,375	1,265,682	(288,085)	23,246,972
Equity securities	334,505	9,031	(5,052)	338,484
Short-term investments	32,524			32,524
	$ 22,636,404	$ 1,274,713	$ (293,137)	$ 23,617,980

As of June 30, 2011, the Company had an additional $2.9 billion of fixed maturities, $11.3 million of equity securities, and $102.2 million of short-term investments classified as trading securities.

The amortized cost and fair value of available-for-sale fixed maturities as of June 30, 2011, by expected maturity, are shown below. Expected maturities of securities without a single maturity date are allocated based on estimated rates of prepayment that may differ from actual rates of prepayment.

	Amortized Cost	Fair Value
	(Dollars In Thousands)	
Due in one year or less	$ 625,459	$ 640,235
Due after one year through five years	3,715,102	3,875,630
Due after five years through ten years	6,318,142	6,669,230
Due after ten years	11,610,672	12,061,877
	$ 22,269,375	$ 23,246,972

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other-than-temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) an assessment of the Company s intent to sell the security (including a more likely than not assessment of whether the Company will be required to sell the security) before recovering the security s amortized cost, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position, and continued viability of the

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issuer are significant measures considered, and in some cases, an analysis regarding the Company s expectations for recovery of the security s entire amortized cost basis through the receipt of future cash flows is performed. Once a determination has been made that a specific other-than-temporary impairment exists, the security s basis is adjusted and an other-than-temporary impairment is recognized. Equity securities that are other-than-temporarily impaired are written down to fair value with a realized loss recognized in earnings. Other-than-temporary impairments to debt securities that the Company does not intend to sell and does not expect to be required to sell before recovering the security s amortized cost are written down to discounted expected future cash flows (post impairment cost) and credit losses are recorded in earnings. The difference between the securities discounted expected future cash flows and the fair value of the securities is recognized in other comprehensive income (loss) as a non-credit portion of the recognized other-than-temporary impairment. When calculating the post impairment cost for residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and other asset-backed securities, the Company considers all known market data related to cash flows to estimate future cash flows. When calculating the post impairment cost for corporate debt securities, the Company considers all contractual cash flows to estimate expected future cash flows. To calculate the post impairment cost, the expected future cash flows are discounted at the original purchase yield. Debt securities that the Company intends to sell or expects to be required to sell before recovery are written down to fair value with the change recognized in earnings.

During the three and six months ended June 30, 2011, the Company recorded other-than-temporary impairments on investments of $15.7 million and $31.7 million, respectively, related to debt securities. Of the $15.7 million of impairments for the three months ended June 30, 2011, $9.5 million was recorded in earnings and $6.2 million was recorded in other comprehensive income (loss). Of the $31.7 million of impairments for the six months ended June 30, 2011, $15.2 million was recorded in earnings and $16.5 million was recorded in other comprehensive income (loss). During this period, there were no other-than-temporary impairments related to debt securities or equity securities that the Company intends to sell or expects to be required to sell, except with respect to certain debt securities that were part of the Company s collateral in its securities lending program

For the three and six months ended June 30, 2011, there were no other-than-temporary impairments related to equity securities.

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars In Thousands)			
Beginning balance	$ 40,615	$ 33,366	$ 39,427	$ 25,076
Additions for newly impaired securities	5,797	12,894	9,406	19,450
Additions for previously impaired securities	3,435	17	4,103	1,751
Reductions for previously impaired securities due to a change in expected cash flows				
Reductions for previously impaired securities that were sold in the current period		(14,701)	(3,089)	(14,701)
Other				
Ending balance	$ 49,847	$ 31,576	$ 49,847	$ 31,576

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The following table includes investments 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, 2011:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars In Thousands)					
Residential mortgage-backed securities	$ 452,087	$ (22,852)	$ 685,680	$ (86,178)	$ 1,137,767	$ (109,030)
Commercial mortgage-backed securities	109,354	(2,045)			109,354	(2,045)
Other asset-backed securities	78,403	(1,556)	584,736	(31,351)	663,139	(32,907)
U.S. government-related securities	214,222	(2,262)			214,222	(2,262)
Other government-related securities						
States, municipals, and political subdivisions	232,750	(6,214)	23,362	(1,638)	256,112	(7,852)
Corporate bonds	2,080,437	(67,082)	560,460	(66,907)	2,640,897	(133,989)
Equities	20,950	(2,957)	13,399	(2,095)	34,349	(5,052)
	$ 3,188,203	$ (104,968)	$ 1,867,637	$ (188,169)	$ 5,055,840	$ (293,137)

The RMBS have a gross unrealized loss greater than twelve months of $86.2 million as of June 30, 2011. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $31.4 million as of June 30, 2011. This category predominately includes student-loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These losses relate to the auction rate securities (ARS) market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company has the ability and intent to hold these securities until their values recover or until maturity.

The corporate bonds category has gross unrealized losses greater than twelve months of $66.9 million as of June 30, 2011. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery.

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

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The following table includes investments 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, 2010:

	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	$ 237,450	$ (17,877)	$ 1,173,541	$ (125,334)	$ 1,410,991	$ (143,211)
Commercial mortgage-backed securities	25,679	(933)			25,679	(933)
Other asset-backed securities	167,089	(2,452)	594,756	(27,212)	761,845	(29,664)
U.S. government-related securities	144,807	(3,071)			144,807	(3,071)
Other government-related securities	33,936	(8)	14,993	(7)	48,929	(15)
States, municipals, and political subdivisions	563,352	(22,345)			563,352	(22,345)
Corporate bonds	2,264,649	(82,343)	835,655	(94,843)	3,100,304	(177,186)
Equities	11,950	(3,321)	13,544	(1,961)	25,494	(5,282)
	$ 3,448,912	$ (132,350)	$ 2,632,489	$ (249,357)	$ 6,081,401	$ (381,707)

The RMBS have a gross unrealized loss greater than twelve months of $125.3 million as of December 31, 2010. These losses relate to a widening in spreads and defaults as a result of continued weakness in the residential housing market which have reduced the fair value of the RMBS holdings. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of the investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of $27.2 million as of December 31, 2010. This category predominately includes student-loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program (FFELP). These losses relate to the auction rate securities (ARS) market collapse during 2008. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. In addition, the Company has the ability and intent to hold these securities until their values recover or maturity.

The corporate bonds category has gross unrealized losses greater than twelve months of $94.8 million as of December 31, 2010. These losses relate primarily to fluctuations in credit spreads. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered include credit ratings, the financial health of the issuer, the continued access of the issuer to capital markets, and other pertinent information including the Company s ability and intent to hold these securities to recovery.

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

As of June 30, 2011, the Company had securities in its available-for-sale portfolio which were rated below investment grade of $2.4 billion and had an amortized cost of $2.6 billion. In addition, included in the Company s trading portfolio, the Company held $242.6 million of securities which were rated below investment grade. Approximately $524.8 million of the below investment grade securities were not publicly traded.

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

	For The Three Months Ended June 30, 2011	For The Six Months Ended June 30, 2011
	(Dollars In Thousands)	
Fixed maturities	$ 169,348	$ 197,308
Equity securities	(3,372)	(3,788)

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5. MORTGAGE LOANS

Mortgage Loans

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of June 30, 2011, the Company s mortgage loan holdings were approximately $5.3 billion.

As of June 30, 2011 and December 31, 2010, the Company had an allowance for mortgage loan credit losses of $7.6 million and $11.7 million, respectively. Over the past ten years, the Company s commercial mortgage loan portfolio has experienced an average credit loss factor of approximately 0.02%. Due to such low historical losses, the Company believes that a collectively evaluated allowance would be inappropriate. The Company believes an allowance calculated through an analysis of specific loans that are believed to have a higher risk of credit impairment provides a more accurate presentation of expected losses in the portfolio and is consistent with the applicable guidance for loan impairments in Subtopic 310. Since the Company uses the specific identification method for calculating reserves, 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 borrower. When issues are identified, the severity of the issues is 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 borrower. 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.

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 previously a part of variable interest entity securitizations and thus subject to a contractual pooling and servicing agreement. The loans subject to a pooling and servicing agreement have been included on our consolidated condensed balance sheet beginning in the first quarter of 2010 in accordance with ASU 2009-17.

For loans not subject to a pooling and servicing agreement, as of June 30, 2011, $22.5 million, or 0.4%, of the mortgage loan portfolio was nonperforming. As of June 30, 2011, delinquent mortgage loans, foreclosed properties, and restructured loans pursuant to a pooling and servicing agreement totaled $20.2 million, and were less than 0.1% of invested assets. This amount pursuant to a pooling and servicing agreement includes $19.7 million, or 0.4%, that was either nonperforming or has been restructured under the terms and conditions of the pooling and service agreement.

The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities.

An analysis of the change in the allowance for mortgage loan credit losses is provided in the following chart:

	As of	
	June 30, 2011	December 31, 2010
	(Dollars In Thousands)	
Beginning balance	$ 11,650	$ 1,725
Charge offs	(9,358)	(1,146)
Recoveries	(2,386)	
Provision	7,694	11,071
Ending balance	$ 7,600	$ 11,650

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It is the Company s policy to cease to carry accrued interest on loans that are over 90 days delinquent. For loans less than 90 days delinquent, interest is accrued unless it is determined that the accrued interest is not collectible. If a loan becomes over 90 days delinquent, it is the Company s general policy to initiate foreclosure proceedings unless a workout arrangement to bring the loan current is in place. For loans subject to a pooling and servicing agreement, there are certain additional restrictions and/or requirements related to workout proceedings, and as such, these loans may have different attributes and/or circumstances affecting the status of delinquency or categorization of those in nonperforming status. An analysis of the delinquent loans is shown in the following chart as of June 30, 2011:

	30-59 Days Delinquent	60-89 Days Delinquent	Greater than 90 Days Delinquent	Total Delinquent
	(Dollars In Thousands)			
Commercial mortgage loans	$ 40,759	$ 10,335	$ 15,719	$ 66,813
Number of delinquent commercial mortgage loans	8	3	9	20

The Company s commercial mortgage loan portfolio consists of mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate. The Company limits accrued interest income on impaired loans to ninety days of interest. Once accrued interest on the impaired loan is received, interest income is recognized on a cash basis. For information regarding impaired loans, please refer to the following chart as of June 30, 2011:

	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	$ 14,089	$ 14,089	$	$ 1,761	$ 35	$ 56
With an allowance recorded	20,800	20,800	7,600	3,467	101	118

6. GOODWILL

During the six months ended June 30, 2011, the Company decreased its goodwill balance by approximately $1.5 million. The decrease was due to adjustments in the Acquisitions segment related to tax benefits realized during 2011 on the portion of tax goodwill in excess of GAAP basis goodwill. As of June 30, 2011, the Company had an aggregate goodwill balance of $113.2 million.

Accounting for goodwill requires an estimate of the future profitability of the associated lines of business to assess the recoverability of the capitalized acquisition goodwill. The Company evaluates the carrying value of goodwill at the segment (or reporting unit) level at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: 1) a significant adverse change in legal factors or in business climate, 2) unanticipated competition, or 3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compared its estimate of the fair value of the reporting unit to which the goodwill is assigned to the reporting unit s carrying amount, including goodwill. The Company utilizes a fair value measurement (which includes a discounted cash flows analysis) to assess the carrying value of the reporting units in consideration of the recoverability of the goodwill balance assigned to each reporting unit as of the measurement date. The Company s material goodwill balances are attributable to certain of its operating segments (which are each considered

to be reporting units). The cash flows used to determine the fair value of the Company s reporting units are dependent on a number of significant assumptions. The Company s estimates, which consider a market participant view of fair value, are subject to change given the inherent uncertainty in predicting future results and cash flows, which are impacted by such things as policyholder behavior, competitor pricing, capital limitations, new product introductions, and specific industry and market conditions. Additionally, the discount rate used is based on the Company s judgment of the appropriate rate for each reporting unit based on the relative risk associated with the projected cash flows. As of December 31, 2010, the Company performed its annual evaluation of goodwill and determined that no adjustment to impair goodwill was necessary.

The Company also considers its market capitalization in assessing the reasonableness of the fair values estimated for its reporting units in connection with its goodwill impairment testing. In considering the Company s

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June 30, 2011 common equity price, which was lower than its book value per share, the Company noted there are several factors that would result in its market capitalization being lower than the fair value of its reporting units that are tested for goodwill impairment. Such factors that would not be reflected in the valuation of the Company s reporting units with goodwill include, but are not limited to: a potential concern about future earnings growth, negative market sentiment, different valuation methodologies that resulted in low valuation, and increased risk premium for holding investments in mortgage-backed securities and commercial mortgage loans. Deterioration of or adverse market conditions for certain businesses may have a significant impact on the fair value of the Company s reporting units. In the Company s view, market capitalization being below book value does not invalidate the Company s fair value assessment related to the recoverability of goodwill in its reporting units, and did not result in a triggering or impairment event.

7. DEBT AND OTHER OBLIGATIONS

Non-recourse funding obligations outstanding as of June 30, 2011, on a consolidated basis, are shown in the following table:

Issuer	Balance (Dollars In Thousands)	Maturity Year	Year-to-Date Weighted-Avg Interest Rate
Golden Gate II Captive Insurance Company	$ 438,300	2052	1.30%

During the first six months of 2011, the Company repurchased $94.1 million of its outstanding non-recourse funding obligations, at a discount. These repurchases resulted in a $30.7 million gain for the Company.

Golden Gate II Captive Insurance Company (Golden Gate II), a special purpose financial captive insurance company wholly owned by PLICO, had $575 million of outstanding non-recourse funding obligations as of June 30, 2011. These outstanding non-recourse funding obligations were issued to special purpose trusts, which in turn issued securities to third parties. Certain of the Company s affiliates purchased a portion of these securities during 2010 and 2011. As a result of these purchases, as of June 30, 2011, securities related to $438.3 million of the outstanding balance of the non-recourse funding obligations were held by external parties and securities related to $136.7 million of the non-recourse funding obligations were held by affiliates.

Under a revolving line of credit arrangement, the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of $500 million (the Credit Facility). The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of $600 million. Balances outstanding under the Credit Facility accrue interest at a rate equal to (i) either the prime rate or the London Interbank Offered Rate (LIBOR), plus (ii) a spread based on the ratings of our senior unsecured long-term debt. The Credit Agreement provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date on the Credit Facility is April 16, 2013. There was an outstanding balance of $135.0 million at an interest rate of LIBOR plus 0.40% under the Credit Facility as of June 30, 2011.

8. COMMITMENTS AND CONTINGENCIES

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

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. The Company does not believe such assessments will be materially different from amounts already provided for in the financial statements. Most of these laws do provide, however, that an assessment may be excused or deferred if it would threaten an insurer s own financial strength.

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

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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. The Company, in the ordinary course of business, is involved in such litigation and arbitration. The occurrence of such litigation and arbitration may become more frequent and/or severe when general economic conditions have deteriorated. The Company is unable to predict the outcome of such litigation and arbitration and is unable to provide a reasonable range of possible losses. Although the Company cannot predict the outcome of any such litigation or arbitration, the Company does not believe that any such outcome will have a material impact, either individually or in the aggregate, on its financial condition or results of the operations. Given the inherent difficulty in predicting the outcome of such legal proceedings, however, it is possible that an adverse outcome in certain such matters could be material to the Company s financial condition or results of operations for any particular reporting period.

9. COMPREHENSIVE INCOME (LOSS)

The following table sets forth the Company s comprehensive income (loss) for the periods presented below:

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars In Thousands)			
Net income	$ 93,364	$ 41,244	$ 160,830	$ 110,950
Change in net unrealized gains (losses) on investments, net of income tax: (three months: 2011 - $85,553; 2010 - $130,774; six months: 2011 - $103,460; 2010 - $273,255)	158,888	242,856	192,151	506,815
Change in net unrealized gains (losses) relating to other-than-temporary impaired investments for which a portion has been recognized in earnings, net of income tax: (three months: 2011 - $(5,444); 2010 - $(6,960); six months: 2011 - $(9,052); 2010 - $(10,455))	(10,111)	(12,924)	(16,811)	(19,416)
Change in accumulated (loss) gain - derivatives, net of income tax: (three months: 2011 - $(1,777); 2010 - $(3,229); six months: 2011 - $1,844; 2010 - $(194))	(3,299)	(5,952)	3,425	(234)
Change in postretirement benefits liability adjustment, net of income tax: (three months: 2011 - $(451); 2010 - $325; six months: 2011 - $(902); 2010 - $649)	(838)	603	(1,676)	1,205
Reclassification adjustment for investment amounts included in net income, net of income tax: (three months: 2011 - $(7,271); 2010 - $3,894; six months: 2011 - $(10,325); 2010 - $5,619)	(13,508)	7,241	(19,186)	10,659
Reclassification adjustment for derivative amounts included in net income, net of income tax: (three months: 2011 - $238; 2010 - $768; six months: 2011 - $(123); 2010 - $(206))	443	1,382	(228)	(370)
Comprehensive income (loss)	224,939	274,450	318,505	609,609
Comprehensive income (loss) attributable to noncontrolling interests	(296)	127	(245)	200
Comprehensive income (loss) attributable to Protective Life Corporation	$ 224,643	$ 274,577	$ 318,260	$ 609,809

10. STOCK-BASED COMPENSATION

During the six months ended June 30, 2011, 191,000 performance shares with an estimated fair value of $5.4 million were issued. The criteria for payment of the 2011 performance awards is based primarily on the Company s average operating return on average equity (ROE) over a three-year period. If the Company s ROE is below 9.0%, no award is earned. If the Company s ROE is at or above 10.0%, the award maximum is earned. Awards are paid in shares of the Company s common stock. No performance share awards were issued during the six months ended June 30, 2010.

Additionally, the Company issued 172,000 restricted stock units for the six months ended June 30, 2011. These awards had a total fair value at grant date of $4.9 million. Approximately half of these restricted stock units vest in 2014, and the remainder vest in 2015.

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

	Weighted-Average Base Price per share		No. of SARs
Balance as of December 31, 2010	$	21.97	2,324,837
SARs granted			
SARs exercised / forfeited / expired		6.65	41,319
Balance as of June 30, 2011	$	22.25	2,283,518

There were no SARs issued for the six months ended June 30, 2011. The Company will pay an amount in stock equal to the difference between the specified base price of the Company s common stock and the market value at the exercise date for each SAR.

11. EMPLOYEE BENEFIT PLANS

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

	For The Three Months Ended June 30,				For The Six Months Ended June 30,			
	2011		2010		2011		2010	
	(Dollars In Thousands)							
Service cost benefits earned during the period	$	2,194	$	2,068	$	4,388	$	4,136
Interest cost on projected benefit obligation		2,508		2,357		5,016		4,714
Expected return on plan assets		(2,512)		(2,312)		(5,024)		(4,624)
Amortization of prior service cost		(98)		(98)		(196)		(196)
Amortization of actuarial losses		1,388		1,026		2,776		2,052
Total benefit cost	$	3,480	$	3,041	$	6,960	$	6,082

During the six months ended June 30, 2011, the Company contributed $2.1 million to its defined benefit pension plan for the 2010 plan year and $2.3 million for the 2011 plan year. In addition, during July of 2011, the Company contributed $2.3 million to the defined benefit pension plan for the 2011 plan year. The Company will continue to make contributions in future periods as necessary to at least satisfy minimum funding requirements. The Company may also make additional contributions in future periods to maintain an adjusted funding target attainment percentage (AFTAP) of at least 80%.

In addition to pension benefits, the Company provides life insurance benefits to eligible retirees and limited healthcare benefits to eligible retirees who are not yet eligible for Medicare. For a closed group of retirees over age 65, the Company provides a prescription drug benefit. The cost of these plans for the six months ended June 30, 2011, was immaterial to the Company s financial statements.

12. EARNINGS PER SHARE

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

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

	For The Three Months Ended June 30,		For The Six Months Ended June 30,	
	2011	2010	2011	2010
	(Dollars In Thousands, Except Per Share Amounts)			
Calculation of basic earnings per share:				
Net income available to PLC s common shareowners	$ 93,068	$ 41,371	$ 160,585	$ 111,150
Average shares issued and outstanding	85,434,462	85,634,202	85,556,430	85,610,825
Issuable under various deferred compensation plans	911,754	928,177	917,582	920,636
Weighted shares outstanding - basic	86,346,216	86,562,379	86,474,012	86,531,461
Per share:				
Net income available to PLC s common shareowners - basic	$ 1.08	$ 0.48	$ 1.86	$ 1.28
Calculation of diluted earnings per share:				
Net income available to PLC s common shareowners	$ 93,068	$ 41,371	$ 160,585	$ 111,150
Weighted shares outstanding - basic	86,346,216	86,562,379	86,474,012	86,531,461
Stock appreciation rights (SARs)(1)	495,197	471,503	497,313	465,304
Issuable under various other stock-based compensation plans	96,829	138,173	118,762	146,599
Restricted stock units	715,489	493,980	646,362	465,663
Weighted shares outstanding - diluted	87,653,731	87,666,035	87,736,449	87,609,027
Per share:				
Net income available to PLC s common shareowners - diluted	$ 1.06	$ 0.47	$ 1.83	$ 1.27

(1) Excludes 1,446,130 and 1,475,645 SARs as of June 30, 2011 and 2010, respectively, that are antidilutive. In the event the average market price exceeds the issue price of the SARs, such rights would be dilutive to the Company s earnings per share and will be included in the Company s calculation of the diluted average shares outstanding for applicable periods.

13. INCOME TAXES

There have been no material changes to the balance of unrecognized income tax benefits which impacted earnings for the six months ended June 30, 2011. Within the next twelve months, the Company does not expect to have any material adjustments to its unrecognized income tax benefits liability with regard to any of the tax jurisdictions in which it conducts its business operations.

The Company has computed its effective income tax rate for the three and six months ended June 30, 2011 and 2010, based upon its estimate of its annual 2011 and 2010 income. The effective tax rate for the three and six months ended June 30, 2011 was 34.8% and 35.0%, respectively, and 36.0% and 33.1% for the three and six months ended June 30, 2010, respectively.

Based on the Company s current assessment of future taxable income, including available tax planning opportunities, the Company anticipates that it is more likely than not that it will generate sufficient taxable income to realize all of its material deferred tax assets. The Company did not record a valuation allowance against its material deferred tax assets as of June 30, 2011.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

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

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

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

a) Quoted prices for similar assets or liabilities in active markets

b) Quoted prices for identical or similar assets or liabilities in non-active markets

c) Inputs other than quoted market prices that are observable

d) Inputs that are derived principally from or corroborated by observable market data through correlation or other means.

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

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of June 30, 2011:

	Level 1	Level 2	Level 3	Total
		(Dollars In Thousands)		
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,490,156	$ 7	$ 2,490,163
Commercial mortgage-backed securities		287,504		287,504
Other asset-backed securities		206,517	637,746	844,263
U.S. government-related securities	898,072	218,241	15,000	1,131,313
States, municipals, and political subdivisions		1,174,748	74	1,174,822
Other government-related securities	15,016	128,103		143,119
Corporate bonds	100	17,057,663	118,025	17,175,788
Total fixed maturity securities - available-for-sale	913,188	21,562,932	770,852	23,246,972
Fixed maturity securities - trading				
Residential mortgage-backed securities		348,536		348,536
Commercial mortgage-backed securities		170,034		170,034
Other asset-backed securities		20,486	41,093	61,579
U.S. government-related securities	388,541	8,608	3,512	400,661
States, municipals, and political subdivisions		208,383		208,383
Other government-related securities		110,343		110,343
Corporate bonds	3,982	1,541,094	42,041	1,587,117
Total fixed maturity securities - trading	392,523	2,407,484	86,646	2,886,653
Total fixed maturity securities	1,305,711	23,970,416	857,498	26,133,625
Equity securities	257,575	11,381	80,782	349,738
Other long-term investments (1)	7,005	4,074	27,531	38,610
Short-term investments	134,698			134,698
Total investments	1,704,989	23,985,871	965,811	26,656,671
Cash	419,210			419,210
Other assets	7,204			7,204
Assets related to separate accounts				
Variable annuity	6,291,158			6,291,158
Variable universal life	556,419			556,419
Total assets measured at fair value on a recurring basis	$ 8,978,980	$ 23,985,871	$ 965,811	$ 33,930,662
Liabilities:				
Annuity account balances (2)	$	$	$ 142,470	$ 142,470
Other liabilities (1)	6,578	26,507	213,659	246,744
Total liabilities measured at fair value on a recurring basis	$ 6,578	$ 26,507	$ 356,129	$ 389,214

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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The following table presents the Company s hierarchy for its assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
	(Dollars In Thousands)			
Assets:				
Fixed maturity securities - available-for-sale				
Residential mortgage-backed securities	$	$ 2,547,730	$ 20	$ 2,547,750
Commercial mortgage-backed securities		155,125	19,901	175,026
Other asset-backed securities		207,638	641,129	848,767
U.S. government-related securities	1,054,375	104,419	15,109	1,173,903
States, municipals, and political subdivisions		963,225	78	963,303
Other government-related securities	14,993	186,214		201,207
Corporate bonds	100	15,725,900	65,032	15,791,032
Total fixed maturity securities - available-for-sale	1,069,468	19,890,251	741,269	21,700,988
Fixed maturity securities - trading				
Residential mortgage-backed securities		432,015		432,015
Commercial mortgage-backed securities		137,606		137,606
Other asset-backed securities		18,415	59,925	78,340
U.S. government-related securities	383,423	11,369	3,442	398,234
States, municipals, and political subdivisions		160,539		160,539
Other government-related securities		126,553		126,553
Corporate bonds		1,642,664		1,642,664
Total fixed maturity securities - trading	383,423	2,529,161	63,367	2,975,951
Total fixed maturity securities	1,452,891	22,419,412	804,636	24,676,939
Equity securities	271,483	10,831	77,098	359,412
Other long-term investments (1)	6,794	3,808	25,065	35,667
Short-term investments	344,796	8,028		352,824
Total investments	2,075,964	22,442,079	906,799	25,424,842
Cash	264,425			264,425
Other assets	6,222			6,222
Assets related to separate accounts				
Variable annuity	5,170,193			5,170,193
Variable universal life	534,219			534,219
Total assets measured at fair value on a recurring basis	$ 8,051,023	$ 22,442,079	$ 906,799	$ 31,399,901
Liabilities:				
Annuity account balances (2)	$	$	$ 143,264	$ 143,264
Other liabilities (1)	23,995	28,987	190,529	243,511
Total liabilities measured at fair value on a recurring basis	$ 23,995	$ 28,987	$ 333,793	$ 386,775

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

Determination of fair values

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

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

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

For securities that are priced via non-binding independent broker quotations, the Company assesses whether prices received from independent brokers represent a reasonable estimate of fair value through an analysis using internal and external cash flow models developed based on spreads and, when available, market indices. The Company uses a market-based cash flow analysis to validate the reasonableness of prices received from independent brokers. These analytics, which are updated daily, incorporate various metrics (yield curves, credit spreads, prepayment rates, etc.) to determine the valuation of such holdings. As a result of this analysis, if the Company determines there is a more appropriate fair value based upon the analytics, the price received from the independent broker is adjusted accordingly. The Company did not adjust any quotes or prices received from brokers during the six months ended June 30, 2011.

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, 2011, the Company held $3.5 billion of ABS classified as Level 2. These securities are priced from information provided by a third party pricing service and independent broker quotes. The third party pricing services and brokers mainly value securities using both a market and income approach to valuation. As part of this valuation process they consider the following characteristics of the item being measured to be relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity

of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

After reviewing these characteristics of the ABS, the third party pricing service and brokers use certain inputs to determine the value of the security. For ABS classified as Level 2, the valuation would consist of predominantly market observable inputs such as, but not limited to: 1) monthly principal and interest payments on

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

As of June 30, 2011, the Company held $678.8 million of Level 3 ABS, which included $41.1 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation process the Company reviews the following characteristics of the ARS in determining the relevant inputs: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) types of underlying assets, 4) weighted-average coupon rate of the underlying assets, 5) weighted-average years to maturity of the underlying assets, 6) seniority level of the tranches owned, and 7) credit ratings of the securities.

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

Investment grade credit rating	100.0%
Weighted-average yield	0.9%
Par value	$683.7 million
Weighted-average life	7.5 years

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

As of June 30, 2011, the Company classified approximately $20.4 billion of corporate bonds, U.S. government-related securities, states, municipals, and political subdivisions, and other government-related securities as Level 2. The fair value of the Level 2 bonds and securities is predominantly priced by broker quotes and a third party pricing service. The Company has reviewed the valuation techniques of the brokers and third party pricing service and has determined that such techniques used Level 2 market observable inputs. The following characteristics of the bonds and securities are considered to be the primary relevant inputs to the valuation: 1) weighted-average coupon rate, 2) weighted-average years to maturity, 3) seniority, and 4) credit ratings.

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

As of June 30, 2011, the Company classified approximately $178.7 million of bonds and securities as Level 3 valuations. The fair value of the Level 3 bonds and securities are derived from an internal pricing model that utilizes a hybrid market/income approach to valuation. The Company reviews the following characteristics of the bonds and securities to determine the relevant inputs to use in the pricing model: 1) coupon rate, 2) years to maturity, 3) seniority, 4) embedded options, 5) trading volume, and 6) credit ratings.

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

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

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

Investment grade credit rating	69.6%
Weighted-average yield	4.3%
Weighted-average coupon	4.5%
Par value	$194.2 million
Weighted-average stated maturity	5.7 years

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Equities

As of June 30, 2011, the Company held approximately $92.2 million of equity securities classified as Level 2 and Level 3. Of this total, $64.6 million represents Federal Home Loan Bank (FHLB) stock. The Company believes that the cost of the FHLB stock approximates fair value. The remainder of these equity securities is primarily made up of holdings we have obtained through bankruptcy proceedings or debt restructurings.

Other long-term investments and Other liabilities

Other long-term investments and other liabilities consist entirely of free standing and embedded derivative instruments. Refer to Note 15, *Derivative Financial Instruments* for additional information related to derivatives. Derivative 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, 2011, 84.7% of derivatives based upon notional values were priced using exchange prices or independent broker quotations. The remaining derivatives were priced by pricing valuation models, which predominantly utilize observable market data inputs. Inputs used to value derivatives include, but are not limited to, interest swap rates, credit spreads, interest and equity volatility, equity index levels, and treasury rates. The Company performs monthly analysis on derivative valuations that includes both quantitative and qualitative analysis.

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

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

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

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

The guaranteed minimum withdrawal benefits (GMWB) embedded derivative is carried at fair value in other assets and other liabilities on the Company s consolidated balance sheet. The changes in fair value are recorded in earnings as Realized investment gains (losses) derivative financial instruments ; refer to Note 15, *Derivative Financial Instruments* for more information related to GMWB embedded derivative gains and losses. The fair value of the GMWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios and policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as

necessary. The Company assumes mortality of 65% of the National Association of Insurance Commissioners 1994 Variable Annuity GMDB Mortality Table. The present value of the cash flows is found using the discount rate curve, which is London Interbank Offered Rate (LIBOR) plus a credit spread (to represent the Company s non-performance risk). As a result of using significant unobservable inputs, the GMWB embedded derivative is categorized as Level 3. These assumptions are reviewed on a quarterly basis.

The Company has ceded certain blocks of policies under modified coinsurance agreements in which the investment results of the underlying portfolios are passed directly to the reinsurers. As a result, these agreements are deemed to contain embedded derivatives that must be reported at fair value. Changes in fair value of the embedded derivatives are reported in earnings. The investments supporting these agreements are designated as trading securities ; therefore changes in fair value of such investments are reported in earnings. The fair value of the embedded derivatives represents the unrealized gain or loss on the block of business in relation to the unrealized gain or loss of the trading securities. As a result, changes in fair value of the embedded derivatives reported in earnings are largely offset by the changes in fair value of the investments.

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Annuity account balances

The equity indexed annuity (EIA) model calculates the present value of future benefit cash flows less the projected future profits to quantify the net liability that is held as a reserve. This calculation is done using multiple risk neutral stochastic equity scenarios. The cash flows are discounted using LIBOR plus a credit spread. Best estimate assumptions are used for partial withdrawals, lapses, expenses and asset earned rate with a risk margin applied to each. These assumptions are reviewed 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.

Included in the chart below are current key assumptions which include risk margins for the Company.

Asset Earned Rate	5.90%
Admin Expense per Policy	$91
Partial Withdrawal Rate (for ages less than 70)	2.20%
Partial Withdrawal Rate (for ages 70 and greater)	2.20%
Mortality	65% of 94 GMDB table
Lapse	2.2% to 55% depending on the surrender charge period
Return on Assets	1.5% to 1.85% depending on the guarantee period

The discount rate for the equity indexed annuities is based on an upward sloping rate curve which is updated each quarter. The discount rates for June 30, 2011, ranged from a one month rate of 0.33%, a 5 year rate of 3.11%, and a 30 year rate of 5.38%.

Separate Accounts

Separate account assets are invested in open-ended mutual funds and are included in 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, 2011, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses									Tot Gains (includ Earn relate Instru still ho the Rep Da
	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	$ 19	$	$	$	$	$	$ (12)	$	$	$	$	$ 7	$
Commercial mortgage-backed securities													
Other asset-backed securities	639,407	1,786	1,751	(2,133)	(3,050)	109,148	(109,148)				(15)	637,746	
U.S. government-related securities	15,084				(87)						3	15,000	
States, municipals, and political subdivisions	78						(4)					74	
Other government-related securities													
Corporate bonds	64,907		1,471		(287)	40,000	(764)			12,698		118,025	
Total fixed maturity securities - available-for-sale	719,495	1,786	3,222	(2,133)	(3,424)	149,148	(109,928)			12,698	(12)	770,852	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	41,713	329		(457)		3,792	(5,060)				776	41,093	(128)
U.S. government-related securities	3,384	130									(2)	3,512	130
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds										42,041		42,041	374
Total fixed maturity securities - trading	45,097	459		(457)		3,792	(5,060)			42,041	774	86,646	376

Total fixed maturity securities	764,592	2,245	3,222	(2,590)	(3,424)	152,940	(114,988)			54,739	762	857,498	376
Equity securities	79,544	49			(745)	1,962	(49)			21		80,782	
Other long-term investments (1)	26,072	1,459										27,531	1,459
Short-term investments													
Total investments	870,208	3,753	3,222	(2,590)	(4,169)	154,902	(115,037)			54,760	762	965,811	1,835
Total assets measured at fair value on a recurring basis	$ 870,208	$ 3,753	$ 3,222	$ (2,590)	$ (4,169)	$ 154,902	$ (115,037)	$	$	$ 54,760	$ 762	$ 965,811	$ 1,835
Liabilities:													
Annuity account balances (2)	$ 143,020	$	$	$ 2,104	$	$	$	$ 135	$ 2,789	$	$	$ 142,470	$
Other liabilities (1)	178,386			37,141			1,868					213,659	(37,141)
Total liabilities measured at fair value on a recurring basis	$ 321,406	$	$	$ 39,245	$	$	$ 1,868	$ 135	$ 2,789	$	$	$ 356,129	$ (37,141)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the three months ended June 30, 2011, $54.8 million of securities were transferred into Level 3. This amount was transferred almost entirely from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous quarters, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of June 30, 2011.

For the three months ended June 30, 2011, there were no securities transferred out of Level 3.

For the three months ended June 30, 2011, there were no transfers from Level 2 to 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, 2010, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains (losses)					
	Beginning Balance	**Included in Earnings**	**Included in Other Comprehensive Income**	**Purchases, Issuances, and Settlements (net)**	**Transfers in and/or out of Level 3**	**Ending Balance**	**Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date**
				(Dollars In Thousands)			
Assets:							
Fixed maturity securities - available-for-sale							
Residential mortgage-backed securities	$ 22	$	$	$ (1)	$	$ 21	$
Commercial mortgage-backed securities				39,952		39,952	
Other asset-backed securities	599,116		(1,759)	(66)		597,291	
U.S. government-related securities	15,151		(6)	4		15,149	
States, municipals, and political subdivisions	86			(4)		82	
Other government-related securities							
Corporate bonds	95,367		(2,615)	15,624		108,376	
Total fixed maturity securities - available-for-sale	709,742		(4,380)	55,509		760,871	
Fixed maturity securities - trading							
Residential mortgage-backed securities	3,563	(28)		(3,535)			
Commercial mortgage-backed securities							
Other asset-backed securities	48,450	(1,451)		14,138		61,137	(1,451)
U.S. government-related securities	3,310	254		(2)		3,562	253
States, municipals and political subdivisions							
Other government-related securities							
Corporate bonds	26,971	404		(199)	(27,133)	43	(1)
Total fixed maturity securities - trading	82,294	(821)		10,402	(27,133)	64,742	(1,199)
Total fixed maturity securities	792,036	(821)	(4,380)	65,911	(27,133)	825,613	(1,199)
Equity securities	71,397	4		1,736		73,137	
Other long-term investments (1)	16,962	(7,431)				9,531	(7,431)
Short-term investments							
Total investments	880,395	(8,248)	(4,380)	67,647	(27,133)	908,281	(8,630)
Total assets measured at fair value on a recurring basis	$ 880,395	$ (8,248)	$ (4,380)	$ 67,647	$ (27,133)	$ 908,281	$ (8,630)
Liabilities:							

Annuity account balances (2)	$ 150,630	$ (738)	$	$ 1,928	$	$ 149,440	$
Other liabilities (1)	128,235	(104,962)				233,197	(104,962)
Total liabilities measured at fair value on a recurring basis	$ 278,865	$ (105,700)	$	$ 1,928	$	$ 382,637	$ (104,962)

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(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

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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, 2011, for which the Company has used significant unobservable inputs (Level 3):

		Total Realized and Unrealized Gains		Total Realized and Unrealized Losses									
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
	(Dollars In Thousands)												
Assets:													
Fixed maturity securities available-for-sale													
Residential mortgage-backed securities	$ 20	$	$ 12	$ (4)	$	$	$ (12)	$	$	$ (9)	$	$ 7	$
Commercial mortgage-backed securities	19,901		147				(102)			(19,946)			
Other asset-backed securities	641,129	1,786	2,158	(2,133)	(5,146)	118,598	(118,598)				(48)	637,746	
U.S. government-related securities	15,109				(115)						6	15,000	
States, municipals, and political subdivisions	78						(4)					74	
Other government-related securities													
Corporate bonds	65,032		1,485		(956)	40,000	(2,121)			14,585		118,025	
Total fixed maturity securities - available-for-sale	741,269	1,786	3,802	(2,137)	(6,217)	158,598	(120,837)			(5,370)	(42)	770,852	
Fixed maturity securities - trading													
Residential mortgage-backed securities													
Commercial mortgage-backed securities													
Other asset-backed securities	59,925	1,152		(1,313)		3,792	(23,952)				1,489	41,093	71
U.S. government-related securities	3,442	130		(56)							(4)	3,512	74
States, municipals and political subdivisions													
Other government-related securities													
Corporate bonds										42,041		42,041	374
Total fixed maturity securities - trading	63,367	1,282		(1,369)		3,792	(23,952)			42,041	1,485	86,646	519

Total fixed maturity securities	804,636	3,068	3,802	(3,506)	(6,217)	162,390	(144,789)			36,671	1,443	857,498	519
Equity securities	77,098	49	445		(744)	3,962	(49)			21		80,782	
Other long-term investments (1)	25,065	2,466										27,531	2,466
Short-term investments													
Total investments	906,799	5,583	4,247	(3,506)	(6,961)	166,352	(144,838)			36,692	1,443	965,811	2,985
Total assets measured at fair value on a recurring basis	$ 906,799	$ 5,583	$ 4,247	$ (3,506)	$ (6,961)	$ 166,352	$ (144,838)	$	$	$ 36,692	$ 1,443	$ 965,811	$ 2,985
Liabilities:													
Annuity account balances (2)	$ 143,264	$	$	$ 4,235	$	$	$	$ 314	$ 5,343	$	$	$ 142,470	$
Other liabilities (1)	190,529			24,998			1,868					213,659	(24,998)
Total liabilities measured at fair value on a recurring basis	$ 333,793	$	$	$ 29,233	$	$	$ 1,868	$ 314	$ 5,343	$	$	$ 356,129	$ (24,998)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

For the six months ended June 30, 2011, $56.7 million of securities were transferred into Level 3. This amount was transferred almost entirely from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous quarters, using no significant unobservable inputs, but were priced internally using significant unobservable inputs where market observable inputs were no longer available as of June 30, 2011.

For the six months ended June 30, 2011, $20.0 million of securities were transferred out of Level 3. This amount was transferred almost entirely to Level 2. These transfers resulted from securities that were previously valued using an internal model that utilized significant unobservable inputs but were valued internally or by independent pricing services or brokers, utilizing no significant unobservable inputs, as of June 30, 2011. All transfers are recognized as of the end of the reporting period.

For the six months ended June 30, 2011, there were no transfers from Level 2 to 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, 2010, for which the Company has used significant unobservable inputs (Level 3):

	Beginning Balance	Total Realized and Unrealized Gains (losses)		Purchases, Issuances, and Settlements (net)	Transfers in and/or out of Level 3	Ending Balance	Total Gains (losses) included in Earnings related to Instruments still held at the Reporting Date
		Included in Earnings	Included in Other Comprehensive Income				
	(Dollars In Thousands)						
Assets:							
Fixed maturity securities - available-for-sale							
Residential mortgage-backed securities	$ 23	$ 4	$	$ (6)	$	$ 21	$
Commercial mortgage-backed securities	844,535		38,281	(842,864)(3)		39,952	
Other asset-backed securities	693,930	5,868	(3,696)	(89,473)	(9,338)	597,291	
U.S. government-related securities	15,102		40	7		15,149	
States, municipals, and political subdivisions	86			(4)		82	
Other government-related securities							
Corporate bonds	86,328		3,166	18,732	150	108,376	
Total fixed maturity securities - available-for-sale	1,640,004	5,872	37,791	(913,608)	(9,188)	760,871	
Fixed maturity securities - trading							
Residential mortgage-backed securities	7,244	(1)		(3,855)	(3,388)		
Commercial mortgage-backed securities							
Other asset-backed securities	47,509	(755)		14,383		61,137	(985)
U.S. government-related securities	3,310	255		(3)		3,562	255
States, municipals, and political subdivisions	4,994	77			(5,071)		
Other government-related securities	41,965	1,058		(47)	(42,976)		
Corporate bonds	67	322		26,787	(27,133)	43	(1)
Total fixed maturity securities - trading	105,089	956		37,265	(78,568)	64,742	(731)
Total fixed maturity securities	1,745,093	6,828	37,791	(876,343)	(87,756)	825,613	(731)
Equity securities	70,708	4		2,425		73,137	
Other long-term investments (1)	16,525	(6,994)				9,531	(6,994)
Short-term investments							
Total investments	1,832,326	(162)	37,791	(873,918)	(87,756)	908,281	(7,725)
Total assets measured at fair value on a recurring basis	$ 1,832,326	$ (162)	$ 37,791	$ (873,918)	$ (87,756)	$ 908,281	$ (7,725)
Liabilities:							
Annuity account balances (2)	$ 149,893	$ (2,841)	$	$ 3,294	$	$ 149,440	$
Other liabilities (1)	105,838	(127,359)				233,197	(127,359)
Total liabilities measured at fair value on a recurring basis	$ 255,731	$ (130,200)	$	$ 3,294	$	$ 382,637	$ (127,359)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to equity indexed annuities.

(3) Represents mortgage loan held by the trusts that have been consolidated upon the adoption of ASU No. 2009-17.

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

Purchases, sales, issuances, and settlements, net, represent the activity that occurred during the period that results in a change of the asset or liability but does not represent changes in fair value for the instruments held at the beginning of the period. Such activity primarily relates to purchases and sales of fixed maturity securities and issuances and settlements of equity 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 equity indexed annuities.

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Estimated Fair Value of Financial Instruments

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

	As of			
	June 30, 2011		December 31, 2010	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
	(Dollars In Thousands)			
Assets:				
Mortgage loans on real estate	$ 5,349,851	$ 5,873,698	$ 4,892,829	$ 5,336,732
Policy loans	881,757	881,757	793,448	793,448
Liabilities:				
Stable value product account balances	$ 2,565,235	$ 2,637,115	$ 3,076,233	$ 3,163,902
Annuity account balances	10,899,995	10,761,826	10,591,605	10,451,526
Mortgage loan backed certificates	42,862	43,602	61,678	63,127
Debt:				
Bank borrowings	$ 135,000	$ 135,000	$ 142,000	$ 142,000
Senior and Medium-Term Notes	1,359,852	1,496,477	1,359,852	1,455,641
Subordinated debt securities	524,743	523,135	524,743	517,383
Non-recourse funding obligations	438,300	329,263	532,400	389,534

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

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 nonperformance 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.

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 were based on a current market rate for similar financial instruments.

Bank borrowings

The Company believes the carrying value of its bank borrowings approximates fair value.

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Non-recourse funding obligations

As of June 30, 2011, the Company estimated the fair value of its non-recourse funding obligations using internal discounted cash flow models. The discount rates used in the model were based on a current market yield for similar financial instruments.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure 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 minimizes 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.

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 options, 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).

The Company uses foreign currency swaps to manage its exposure to changes in the value of foreign currency. The Company also uses equity options and futures, interest rate futures, and variance swaps to mitigate its exposure to the value of equity indexed annuity contracts and guaranteed benefits related to variable annuity contracts.

During the second quarter of 2011, the Company sold credit default protection on single name entities to mitigate the risk related to certain guaranteed minimum benefits within its variable annuity products. These contracts entitle the Company to receive periodic payments in exchange for the obligation to compensate the counterparty should the referenced security experience a credit event. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is $220.0 million. As of June 30, 2011, the fair value of the credit derivatives was a liability of $2.5 million. As of June 30, 2011, the Company had no collateral posted with the counterparties to these positions. If the credit default swaps needed to be settled immediately, the Company would need to post additional payments of $2.5 million.

The Company has sold credit default protection on liquid traded indices to enhance the return on its investment portfolio. These credit default swaps create credit exposure similar to an investment in publicly issued fixed maturity cash investments. Outstanding credit default swaps relate to the Investment Grade Series 9 Index and have terms to December 2017. Defaults within the Investment Grade Series 9 Index that exceeded

the 10% attachment point would require the Company to perform under the credit default swaps, up to the 15% exhaustion point. The maximum potential amount of future payments (undiscounted) that the Company could be required to make under the credit derivatives is $25.0 million. As of June 30, 2011, the fair value of the credit derivatives was a liability of $1.5 million. As of June 30, 2011, the Company had collateral of $1.8 million posted with the counterparties to credit default swaps. The collateral is counterparty specific and is not tied to any one contract. If the credit default swaps needed to be settled immediately, the Company would need to post no additional payments.

The Company records its derivative 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 accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship in accordance with GAAP. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge related to foreign currency exposure. For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gain or loss realized on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same

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period during which the hedged transaction impacts earnings. The remaining gain or loss on these derivatives is recognized as ineffectiveness in current earnings during the period of the change. For derivatives that are designated and qualify as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of change in fair values. Effectiveness of the Company s hedge relationships is assessed on a quarterly basis. The Company accounts for 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 .

Cash-Flow Hedges

- In connection with the issuance of inflation adjusted funding agreements, the Company has entered into swaps to convert the floating CPI-linked interest rate on the contracts to a fixed rate. The Company paid a fixed rate on the swap and received a floating rate equal to the CPI change paid on the funding agreements.

- The Company has entered into interest rate swaps to convert LIBOR based floating rate interest payments on funding agreements to fixed rate interest payments.

Other Derivatives

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

- The Company uses equity, interest rate, and currency futures to mitigate the interest rate risk related to certain guaranteed minimum benefits within our variable annuity products. In general, the cost of such benefits varies with the level of equity and interest rate markets and overall volatility. The equity futures resulted in net pre-tax losses of $1.5 million and $19.3 million for the three and six months ended June 30, 2011, respectively. The interest rate futures resulted in pre-tax gains of $9.0 million and $3.4 million, and currency futures resulted in a net pre-tax loss of $0.2 million for the three and six months ended June 30, 2011, respectively. Such positions were not held during the six months ended June 30, 2010.

- The Company uses equity options and volatility swaps to mitigate the risk related to certain guaranteed minimum benefits, including guaranteed minimum withdrawal benefits, within our variable annuity products. In general, the cost of such benefits varies with the level of equity and interest rate markets and overall volatility. The equity options resulted in net pre-tax losses of $4.0 million and $7.3 million and volatility swaps resulted in net pre-tax losses of $0.9 million and $3.7 million for the three and six months ended June 30, 2011, respectively. Such positions were not held during the six months ended June 30, 2010.

- The Company markets certain variable annuity 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. The Company recognized pre-tax losses of $5.5 million and gains of $2.7 million for the three and six months ended June 30, 2011, and pre-tax losses of $49.3 million and $40.2 million for the three and six months ended June 30, 2010, respectively, related to these embedded derivatives.

- The Company entered into credit default swaps to enhance the return on its investment portfolio, as well as mitigate the interest rate risk related to certain guaranteed minimum benefits within our variable annuity products. The Company reported net pre-tax gains of $0.9 million and $0.7 million for the three and six months ended June 30, 2011, and pre-tax losses of $1.1 million and $0.6 million for the three and six months ended June 30 2010, respectively, related to credit default swaps from the change in swaps fair value and premium income.

- The Company uses certain interest rate swaps to mitigate interest rate risk related to floating rate exposures. The Company recognized pre-tax losses of $3.0 million and $2.5 million on interest rate swaps for the three and six months ended June 30, 2011 and pre-tax losses of $6.4 million and $8.8 million on interest rate swaps for the three and six months ended June 30, 2010, respectively.

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• The Company uses other types of derivatives to manage risk related to other exposures. The Company recognized pre-tax losses of $0.6 million for the three months ended June 30, 2011 and losses that were immaterial for the six months ended June 30, 2011. The Company recognized gains that were immaterial for the three months ended June 30, 2010 and pre-tax gains of $0.8 million for the six months ended June 30, 2010.

• The Company is involved in various modified coinsurance and funds withheld arrangements which contain embedded derivatives that must be reported at fair value. Changes in fair value are recorded in current period earnings. The investment portfolios that support the related modified coinsurance reserves and funds withheld arrangements had mark-to-market changes which substantially offset the gains or losses on these embedded derivatives.

The tables 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:

	As of June 30, 2011		As of December 31, 2010	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(Dollars In Thousands)			
Other long-term investments				
Cash flow hedges:				
Inflation	$ 29,828	$ 13	$	$
Derivatives not designated as hedging instruments:				
Interest rate swaps	25,000	3,596	25,000	3,808
Credit default swaps	80,000	465		
Embedded derivative - Modco reinsurance treaties	30,030	1,988	29,563	2,687
Embedded derivative - GMWB	1,645,178	25,540	1,094,395	22,346
Equity futures	581	11		
Currency futures	38,085	420		
Other	414,289	6,577	100,507	6,826
	$ 2,262,991	$ 38,610	$ 1,249,465	$ 35,667
Other liabilities				
Cash flow hedges:				
Inflation	$ 263,551	$ 8,152	$ 293,379	$ 12,005
Interest rate	75,000	5,315	75,000	6,747
Derivatives not designated as hedging instruments:				
Credit default swaps	165,000	4,422	25,000	1,099
Interest rate swaps	110,000	8,618	110,000	9,137
Embedded derivative - Modco reinsurance treaties	2,799,920	166,779	2,842,862	146,105
Embedded derivative - GMWB	2,052,821	42,481	1,493,745	41,948
Interest rate futures	381,653	3,531		