

# **EXHIBIT A**



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION**  
**OF**  
**PROTECTIVE LIFE INSURANCE COMPANY**

**(NAIC # 68136)**  
**(NAIC Group # 458)**

**BIRMINGHAM, ALABAMA**

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**AS OF**  
**DECEMBER 31, 2014**

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Birmingham, Alabama  
April 21, 2016

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tenn. Code Ann. § 56-1-408, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and market conduct review as of December 31, 2014, has been made of the conditions and affairs of:

**PROTECTIVE LIFE INSURANCE COMPANY**

NAIC # 68136  
NAIC Group # 458  
2801 Highway 280 South  
Birmingham, Alabama 35223

hereinafter generally referred to as the "Company" or "PLIC" and a report thereon is submitted as follows:

**INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under rules promulgated by the NAIC. The examination commenced on April 27, 2015, and was conducted by duly authorized representatives of the TDCI. This examination was called through the NAIC's Financial Examination Electronic Tracking System (FEETS). Notice of intent to participate was received from Alabama, Nebraska, New York, South Carolina, and Vermont. Each of these states conducted examinations of companies domiciled in their respective states, which were coordinated with Tennessee's examination of PLIC. Further description of the coordination effort between the states is discussed below under the heading "Scope of Examination."



## SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2009. This examination covers the period January 1, 2010, through December 31, 2014, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The Company is part of the Protective Life Group, with the State of Tennessee as the group's lead state. A coordinated examination of the group was performed as of December 31, 2014, led/facilitated by the State of Tennessee. There were no examination sub-groups. Other participating states were Alabama, Nebraska, New York, South Carolina, and Vermont.

The TDCI communicated with all of the states in the group in advance of the start of field work. All of the states agreed to participate in the coordinated group examination, except for Missouri, which had recently completed an examination of their domestic, as of December 31, 2013. Staff from the states of Tennessee, Alabama, Nebraska, and New York participated on-site for the examination and collaborated on the work performed. South Carolina and Vermont participated off-site by conferencing in on meetings and will leverage off the work in the group examination for examinations they will conduct at a later date. For a complete list of all of the insurance companies in the group see the "Organizational Chart" later in this report.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2014. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

During planning, all accounts and balances were considered to determine which key activities and accounts would be examined. The key activities included: Investments; Pricing/Underwriting; Reserving/Claims; Reinsurance Ceded; Separate Accounts; Related Party; and Capital and Surplus.

The Company's 2014 annual statement was compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology general controls (ITGC) was conducted. The examination included a review of management and organizational controls, logical and physical security controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A separate market conduct review was also performed concurrently with the financial examination.

The Company's parent, Protective Life Corporation (PLC), maintains an Internal Audit (IA) Department, which is charged with performing the IA function for all companies within the holding company system. IA activities focus almost entirely on Sarbanes-Oxley (SOX) compliance testing. The scope of SOX testing included the Company's internal controls over financial reporting. The examiners reviewed the processes tested and requested the work papers for specific processes which had been identified as significant to the key activities and sub-activities being examined. The work papers were provided and were utilized, where appropriate.

The actuarial firm of Lewis & Ellis, Inc. was utilized in the examination review of the Company's loss reserves.

Independent reinsurance and investment specialist services, provided by Noble Consulting Services, Inc., were utilized in the examination review of the Company's reinsurance and investment areas.

PricewaterhouseCoopers LLP (PWC) was the Company's Certified Public Accountant (CPA) and independent auditor for the Company for all years under examination. The CPA's work papers were reviewed for the 2014 audit and copies were incorporated into the examination, as deemed appropriate.

The Company provided a letter of representation certifying that management has disclosed all significant matters and records.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The examination included a review to determine the current status of the comments and recommendations included in the previous report on examination, dated May 31, 2011,

which covered the period from January 1, 2005, through December 31, 2009. The previous full-scope examination report as of December 31, 2009, contained two (2) recommendations. It was determined that the Company has complied with both of the recommendations addressed in the prior examination report during this examination.

Below is a description of the prior examination report's recommendations:

**Previous Recommendation - Bylaws:**

ARTICLE IV of the Company's Bylaws state that, "[a]ny two or more offices may be held by the same person." This statement does not comply with language found in Tenn. Code Ann. § 48-18-401(d) which states, "The same individual may simultaneously hold more than one (1) office in a corporation, except the offices of president and secretary." It is recommended that the Company amend its Bylaws to become in compliance with language found in Tenn. Code Ann. § 48-18-401(d) concerning its officers and the positions they may hold.

**Determination of Company Compliance with Previous Recommendation:**

The Company amended and restated their Bylaws, which were adopted by the Board of Directors ("Board") on June 27, 2011. The amended Bylaws changed this language to comply with the Tennessee Law. See "Bylaws" section, later in this report.

**Previous Recommendation – Reinsurance Agreements:**

It was noted during the period of this exam, that the Company began the use of "interim" reinsurance agreements. These agreements were reported in the Company's Annual Statements. However, some of these "interim" reinsurance agreements do not include language required by Tenn. Code Ann. § 56-2-207. The Company has since discontinued the practice of utilizing "interim" reinsurance agreements. It is recommended that the Company comply completely with Tenn. Code Ann. § 56-2-207 with all its reinsurance agreements, whether "interim" or not.

**Determination of Company Compliance with Previous Recommendation:**

The Company's reinsurance agreements were reviewed during this current examination to determine compliance with the previous examination report recommendation above. It was determined that the Company's reinsurance agreements do include the proper language as required by Tenn. Code Ann. § 56-2-207.

## COMPANY HISTORY

PLIC incorporated as a legal reserve life insurance company under the laws of the State of Alabama on July 24, 1907. The Certificate of Incorporation was filed for record in the office of the Judge of Probate of Jefferson County, Alabama.

When the Company was organized in July of 1907, it had \$4,000,000 of authorized capital stock, which consisted of forty thousand (40,000) shares of \$10 par value per share common stock. The Company commenced business on September 1, 1907 with paid up capital of \$100,000.

On February 3, 1981, the Company organized Protective Corporation under the laws of the State of Delaware as a wholly-owned subsidiary of the Company's subsidiary, Empire General Corporation. Simultaneously, the Company reorganized into a holding company system with Protective Corporation becoming the parent company. On May 20, 1985, Protective Corporation changed its name to Protective Life Corporation (PLC, "PLIC's parent"). PLIC re-domesticated from Alabama to Tennessee effective December 29, 1992.

Since the date of incorporation, the Company's shareholders have approved numerous amendments to the Certificate of Incorporation, changing the amount and par value of the authorized capital stock. An amendment to the Certificate, adopted at a special meeting of the shareholders on November 20, 1964, provided that the authorized capital of the Company would be \$6,600,000, consisting of three million, three hundred thousand (3,300,000) shares of \$2 par value common stock. At the annual meeting on May 7, 1979, the shareholders approved an amendment to the Certificate, reducing the par value of the common capital stock to \$1 per share and increasing the number of authorized shares to six million, six hundred thousand (6,600,000). The effect of this action was a two (2) for one (1) stock split. On February 2, 1981, six thousand (6,000) shares of the stock were retired and canceled.

By written consent of the sole shareholder, PLC, dated November 9, 1981, the Certificate of Incorporation was amended in the form recommended by the Board changing the authorized capital stock to \$5,000,000, consisting of five million (5,000,000) shares of \$1 par value per share common stock.

Over the years, through mergers or bulk reinsurance, the Company has acquired numerous other insurers and blocks of business.

As of December 31, 2014, the Company had authorized capital stock of five million (5,000,000) shares of common stock with a par value of \$1 per share, all of which were

issued and outstanding for a capital paid up of \$5,000,000. All of the outstanding shares were owned by PLC as of the examination date. The Company is a wholly-owned subsidiary of PLC, a holding company incorporated in the State of Delaware.

PLIC's principal place of business and their books and records are located at its main office in Birmingham, Alabama.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board who shall be elected at the annual meeting of the shareholders held for that purpose and to conduct such other business. The meeting shall be held at the Company's administrative office unless some other place, either within or without the State of Alabama, is designated by the shareholders or by the Board.

Directors need not be residents of the State of Tennessee or shareholders of the corporation. The Company's Bylaws state that the number of directors shall consist of a range from one (1) natural person to no more than twenty (20) persons, as set forth from time to time by resolution of the shareholders. A majority of directors constitutes a quorum. Directors serve until the next annual meeting of the shareholders and thereafter, until a successor has been elected.

The following persons were duly elected by the stockholders on June 30, 2014, and were serving as members of the Board, as of December 31, 2014:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
John D. Johns	President, CEO, and Chairman of the Board of PLIC
Richard J. Bielen	Vice Chairman and CFO of PLIC
Carl S. Thigpen	Executive VP and Chief Investment Officer of PLIC

The Bylaws allow any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, to be taken without a meeting, if, prior to such action, a written consent thereto is signed by all Board or committee members, and such written consent is filed with the minutes of proceedings. Such consent shall have the same force and effect as a vote at a meeting. Any or all of the directors, or committee members may participate in meetings by means of conference telephone or similar communication equipment.

## **Officers**

The Bylaws provide that the officers of the Company shall be a President and a Secretary, and such other officers as the Board may determine. The same individual may simultaneously hold more than one office in the corporation, except the offices of President and Secretary, as provided by the Bylaws.

The following officers were duly elected by the Board on May 21, 2014, and were serving as officers of the Company, as of December 31, 2014:

<b><u>Name</u></b>	<b><u>Title</u></b>
John D. Johns	President, CEO, and Chairman of the Board
Richard J. Bielen	Vice Chairman and CFO
Deborah J. Long	Executive VP, Secretary and General Counsel
Carl S. Thigpen	Executive VP and Chief Investment Officer
Michael G. Temple	Executive VP and Chief Risk Officer
Lance P. Black	Senior VP and Treasurer
Wayne E. Stuenkel	Senior VP and Chief Actuary
Steven G. Walker	Senior VP, Chief Accounting Officer, & Controller
Mark J. Cyphert	Senior VP, Chief Information & Operations Officer
Nancy Kane-Curreri	Senior VP, Acquisitions & Corporate Development
M. Scott Karchunas	Senior VP, Asset Protection Division
Phillip E. Passafiume	Senior VP, Director of Fixed Income
Robert R. Bedwell III	Senior VP, Mortgage Loans
John R. Sawyer	Senior VP and Chief Distribution Officer
Frank R. Sottosanti	Senior VP and Chief Marketing Officer
Stephane Goyer	Senior VP and Head of Insurance Risk
Steve M. Callaway	Senior VP and Senior Associate Counsel
David M. Loper	Senior VP and Senior Associate Counsel
Aaron Seurkamp	Senior VP, Life Sales
Barrie B. Stokes	Senior VP and Senior Associate Counsel

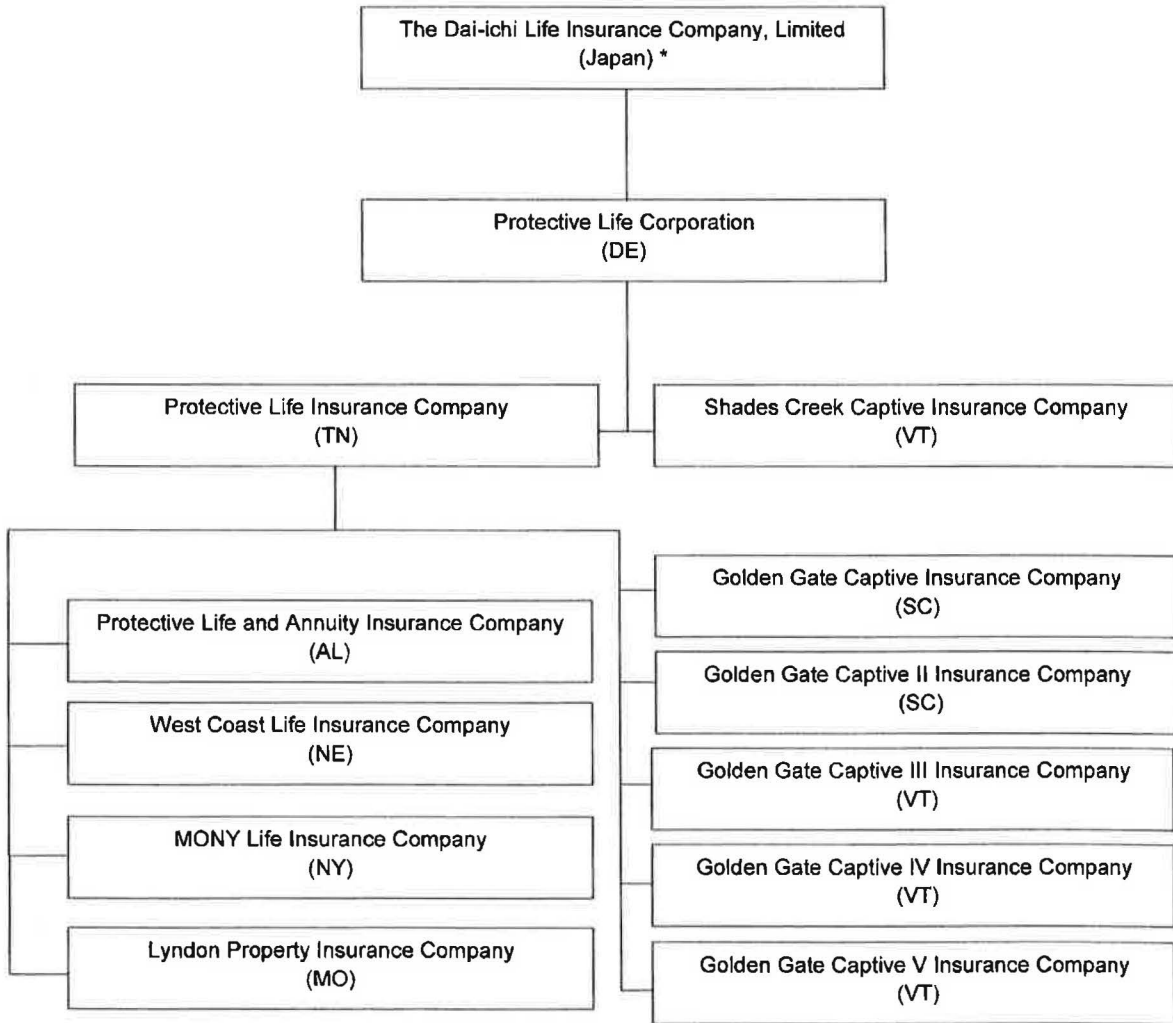
The Board may designate, establish, and charter any committees as it deems necessary. The Company's Board designated one (1) committee during the period of examination, which was the Executive Committee. The Executive Committee has had two (2) members during the period of examination, and they were John D. Johns, and Richard J. Bielen.

The administrative and executive functions of the Company are performed by staff employed through its parent, PLC, and provided to the Company under the recitals of an administrative agreement between the Company and PLC as described in this report under the heading "Agreements with Parent, Subsidiaries and Affiliates."

**CONTROL**

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101, and as such, is subject to the Insurance Holding Company System Act of 1986, set forth in Tenn. Code Ann. §§ 56-11-101, *et seq.* The Company is a wholly-owned subsidiary of PLC, which was the ultimate parent of the Company as of December 31, 2014. PLC files a holding company registration statement annually, as required by Tenn. Code Ann. § 56-11-105. Subsequent to examination as of date, in February of 2015, the Dai-ichi Life Insurance Company acquired PLC, becoming the ultimate parent.

**ABBREVIATED ORGANIZATIONAL CHART**



\*See "Subsequent Events" section, later in this report.



## **CONFLICTS OF INTEREST AND PECUNIARY INTERESTS**

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. PLC and all its subsidiaries have adopted a Code of Conduct Policy which requires compliance with all laws and regulations applicable to its business at all governmental levels. The policy requires all directors and employees to conduct business of the Company on the highest ethical level and be free from conflicting interests and relationships. The policy further requires that all directors and management employees annually report all information required to be reported herein and such other information as may be relevant to determine the existence or likely development of a significant conflict of interest.

The annual conflict of interest disclosure statements filed by the Company's directors, officers, and responsible employees in each year of the examination period were reviewed. No conflicts were noted.

## **DIVIDENDS**

During the period of examination, the Company routinely declared and paid ordinary dividends to its shareholder. The Company complied with the requirements of Tenn. Code Ann. §§ 56-11-105(e) and 56-6-106(b) by notifying the TDCI of declaration of said dividends.

The following table lists each dividend amount and the date the Company notified the TDCI of the dividend.

<u>Year</u>	<u>Ordinary (O) or Extraordinary (E)</u>	<u>Notification Date</u>	<u>Dividend Amount</u>
2014	O	10/27/14	\$75,000,000
2014	O	08/14/14	75,000,000
2014	O	06/10/14	75,000,000
2014	O	03/11/14	75,000,000
2013	O	03/22/13	36,225,758
2012	O	08/24/12	140,000,000
2012	O	06/18/12	27,000,000
2012	O	03/09/12	90,000,000
2011	O	12/06/11	50,000,000
2011	O	09/09/11	140,000,000
2011	O	06/06/11	25,000,000
2010	None		<u>0</u>
Total paid during period of Exam			<u>\$808,225,758</u>



## **CORPORATE RECORDS**

The minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board.

### **Charter**

The Charter of the Company, in effect as of December 31, 2014, is the Company's Amended and Restated Charter which was filed with the Tennessee Secretary of State on July 26, 2011. This was the only change to the Company's Charter during the period of examination. The Charter was amended for general administrative changes.

The Charter states the Corporation is for-profit, perpetual, and organized to conduct business as a life, accident, and health organization under the laws of the State of Tennessee. The general provisions and powers enumerated in the Company's Charter are usual in nature and consistent with corporations of this type.

### **Bylaws**

The Bylaws of the Company, in effect as of December 31, 2014, are the Company's Amended and Restated Bylaws, which were adopted by the Board on June 27, 2011. This was the only change to the Company's Bylaws during the period of examination.

The main reason the Company amended the Bylaws was to comply with a recommendation from the prior examination report. The Company's prior Bylaws included language that allowed the offices of president and secretary to be held by the same person. This did not comply with language found in Tenn. Code Ann. § 48-18-401(d) which stated, "[t]he same individual may simultaneously hold more than one (1) office in a corporation, except the offices of president and secretary." The amended Bylaws changed this language to comply with the prior Tennessee Law. Other general administrative changes were also made to the Company's Bylaws at this same time. See "Compliance With Previous Examination Findings", earlier in this report.

The Bylaws provide for an annual shareholders' meeting at which a Board is elected. Officers are elected by the Board. The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its shareholders.

## **AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES**

The Company had many agreements with affiliated companies in effect as of December 31, 2014. The following are summaries of four (4) major agreements in effect:

### **Administration Agreement with PLC**

The Company has an administration agreement with PLC. The agreement became effective on October 1, 1988. This agreement was amended on January 3, 2011, to address costs of administrative services not otherwise specifically provided by separate agreements. The original term was twelve (12) months, ending September 30, 1989, to be automatically renewed for twelve (12) months, and shall so renew each anniversary for the same period, on the same terms and conditions. Either party shall have the right to terminate the agreement by giving written notice at least sixty (60) days prior to the end of the then-current contract term.

The services provided by PLC under the agreement are managerial and administrative support, equipment, office space, marketing, product support, and such other services as may be required. Administrative services costs, which are provided by one (1) member of the PLC holding company system, and not otherwise specifically provided for by separate agreements, shall be shared by PLC and members of the PLC holding company in accordance with generally accepted accounting principles. PLC submits, within fifteen (15) days of the end of each quarter, the amount owed by the Company for services in that quarter. The Company shall pay within fifteen (15) days following the receipt of such amount.

### **Investment Services Agreement with PLC**

The Company has an investment services agreement with PLC. The agreement took effect on July 2, 1981. Amendments were executed on September 2, 1982, January 4, 1983, and January 3, 2011. The original term was twelve (12) months, ending July 1, 1981, to be automatically renewed for twelve (12) months, and shall so renew each anniversary for the same period, on the same terms and conditions. Either party shall have the right to terminate the agreement by giving written notice at least sixty (60) days prior to the end of the then-current contract term.

PLC provides investment services, which include research and analysis, purchases and sales, collection and transmission of funds, management of investments and reinvestments, maintenance of investment transactions, preparation of accounting records, and any other required reports and services as may be required. Fees for services shall be computed and settled monthly.

Charges for all investment services provided shall be computed and settled monthly. PLC shall submit to the Company, within fifteen (15) days of the end of each month, the amount owed by the Company for investment services pursuant to that month. The Company shall pay within fifteen (15) days following receipt of such amount.

#### **Tax Allocation Agreement with PLC and Affiliates**

Effective January 1, 1988, the Company participates in a Consolidated Tax Allocation Agreement with PLC and other affiliated companies. The agreement was amended on October 11, 2004, which was approved by the TDCI on November 14, 2004. The term of this agreement is perpetual for all future taxable years for which the Company is eligible to be included in the consolidated group.

The Company has elected to be included in PLC's consolidated tax return. The agreement facilitates the filing of a consolidated federal income tax return as an affiliated group under PLC. The consolidated tax liability is allocated to each member of the consolidated group based upon the percentage of each member's tax computed on a separate return basis to the total tax as computed for all members. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist on the Company's books.

#### **Legal Services Agreement with PLC**

The Company has a legal services agreement with PLC. The agreement was made effective on January 1, 2004, and approved by the TDCI on October 12, 2004. This agreement may be terminated by PLC or the Company upon giving sixty (60) days prior written notice to the other party, unless both parties agree in writing to a shorter advance notice period.

PLC agrees to provide legal services for the Company, including, but not limited to, general corporate legal work, insurance related legal work, administrative and other regulatory work, litigations supervisions, and contracts.

The services provided by PLC under the agreement include, but are not limited to, general corporate legal work, insurance related legal work, administrative and other regulatory work, litigations supervisions, and contracts. Charges shall include all direct and indirect allocable expenses. PLC submits, within fifteen (15) days of the end of each quarter, the amount owed by the Company for services in that quarter. The Company shall pay within fifteen (15) days following receipt of such amount.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is listed as a named insured on a financial institution bond carried by its parent, PLC. Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages maintained by PLC as of December 31, 2014:

Fidelity Bond	General Liability
Umbrella Excess Liability	Directors and Officers Liability
Cyber Liability	Employment Practices Liability
Errors & Omissions	

The Company's fidelity coverage exceeds the minimum amount suggested in the NAIC Handbook. The bonds and policy coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

## **EMPLOYEE BENEFITS AND PENSION PLANS**

The Company has no employees. All business functions are performed by PLC under service agreements discussed under the caption, "Agreements with Parent, Subsidiaries and Affiliates". PLC provides its employees with life insurance, medical insurance, disability insurance, dental insurance, 401(k), and pension plans.

## **TERRITORY AND PLAN OF OPERATION**

### **TERRITORY**

The Company is a stock for-profit life insurer licensed to transact business in all states except New York, and is licensed in the District of Columbia, American Samoa, Guam, Puerto Rico, Commonwealth of the Northern Mariana Islands, and the U.S. Virgin Islands. Certificates of Authority granted by the licensed states were reviewed and found to be in force at December 31, 2014.

Premium tax records were reviewed for Tennessee, and no exceptions were noted.

## SCHEDULE T – PREMIUMS AND ANNUITY CONSIDERATIONS

State or District	Life Insurance Premiums	Annuity Considerations	A&H Insurance Premiums	Deposit Type Contracts
Alabama	\$69,198,350	\$58,761,097	\$1,795,230	\$1,037,868
Alaska	2,020,837	651,681	19,586	20,959
Arizona	29,275,650	46,949,672	139,401	1,040,104
Arkansas	19,751,411	23,118,812	181,926	536,741
California	159,512,469	127,549,780	470,973	3,425,769
Colorado	30,572,980	32,337,716	83,158	1,378,824
Connecticut	17,738,541	26,940,972	124,263	25,149,906
Delaware	3,881,224	1,176,067	2,075	676,590
District of Columbia	2,297,774	1,039,904	10,273	0
Florida	91,420,797	136,427,881	7,007,246	2,842,991
Georgia	57,050,999	34,617,749	1,163,644	727,684
Hawaii	5,010,798	2,480,220	707,192	0
Idaho	7,131,763	3,324,173	36,757	757,578
Illinois	70,300,973	43,846,071	1,315,526	17,755,852
Indiana	31,703,615	68,830,460	279,045	3,319,469
Iowa	23,619,301	11,355,598	1,475,373	441,513
Kansas	20,885,087	23,645,801	394,136	1,361,146
Kentucky	17,864,310	22,964,008	239,085	295,197
Louisiana	30,861,097	19,215,367	301,909	440,133
Maine	5,477,109	4,506,226	93,611	34,993
Maryland	30,502,871	6,784,516	40,971	9,819,554
Massachusetts	23,852,100	17,947,161	100,325	1,784,976
Michigan	47,299,201	42,905,538	762,844	2,401,082
Minnesota	41,451,800	19,730,226	101,062	1,536,487
Mississippi	14,585,959	10,120,824	795,694	1,003,516
Missouri	38,353,674	356,712,541	144,866	2,510,275
Montana	4,136,585	3,940,500	62,364	574,672
Nebraska	17,367,224	6,386,528	285,891	843,755
Nevada	9,707,746	4,271,501	22,792	200,270
New Hampshire	7,315,304	5,494,552	40,918	597,029
New Jersey	46,692,102	30,226,619	77,373	872,674
New Mexico	7,079,666	5,031,532	52,302	522,729
New York	8,722,291	784,734	24,592	0
North Carolina	62,741,904	51,573,664	579,458	1,344,023
North Dakota	7,820,586	3,413,947	117,595	876,511
Ohio	60,052,458	81,293,744	2,396,402	53,443,406
Oklahoma	15,051,914	15,069,945	108,668	887,287
Oregon	12,089,694	13,408,380	107,469	908,046
Pennsylvania	55,866,243	73,673,146	233,736	787,418

Rhode Island	4,056,628	3,462,710	2,567	0
South Carolina	24,127,184	26,082,706	470,975	1,657,660
South Dakota	6,146,782	2,883,232	157,473	1,083,924
Tennessee	38,489,033	44,804,004	383,058	345,180
Texas	117,752,254	89,302,011	5,690,441	3,454,552
Utah	13,271,852	5,798,414	102,022	312,378
Vermont	2,112,298	7,408,701	48,606	151,287
Virginia	34,353,829	36,047,821	821,936	998,267
Washington	23,158,935	33,920,045	52,301	1,488,958
West Virginia	4,925,953	8,448,305	189,559	213,780
Wisconsin	28,594,685	33,716,613	679,745	2,156,546
Wyoming	3,749,910	7,681,712	3,128	6,664
American Samoa	3,572	0	0	0
Guam	454,528	0	9,688	0
Puerto Rico	1,750,762	1,150	2,644	0
U. S. Virgin Islands	43,030	0	754	0
Northern Mariana Islands	998	0	0	0
Aggregate Other Alien	<u>1,656,067</u>	<u>15,317</u>	<u>618</u>	<u>0</u>
Totals	<u>\$1,510,912,707</u>	<u>\$1,738,081,595</u>	<u>\$30,511,247</u>	<u>\$154,026,222</u>

The Company was licensed in each state or district listed, except New York.

### **PLAN OF OPERATIONS**

The Company manufactures and distributes products that enhance the financial security of its policyholders. Its product offerings include:

- Universal life insurance, including both accumulation-focused and protection-focused products
- Traditional life insurance
- Individual annuities, including single premium deferred annuities, immediate annuities, market-value adjusted annuities, indexed annuities, and variable annuities
- Funding agreements and guaranteed investment contracts
- Credit life and disability insurance

These products are sold through a variety of distributors, including independent agents, banks, independent marketing organizations, affinity marketing arrangements, and broker dealers.

The Company's insurance operations are conducted through four divisions: Life and Annuity Division (LAD), Stable Value Products Division (SVPD), Asset Protection Division (APD), and the Acquisition Division (AD). Generally, the divisions conduct

business through the Company, as well as through the Company's subsidiaries and affiliates.

LAD markets life insurance products (universal life and traditional life) through a traditional, independent personal producing general agent or individual agent distribution. The Institutional Distribution Group of LAD markets fixed and variable life and annuities through broker-dealers. In addition, the Company sells life insurance and annuities through financial institutions, and sells life insurance through affinity arrangements.

The SVPD markets fixed and floating rate funding agreements directly to institutional investors. It also sells funding agreement-backed notes, funding agreements to the Federal Home Loan Bank, and guaranteed investment contracts to 401(k) and other qualified retirement savings plans.

APD markets credit life/disability insurance, extended service contracts, and GAP coverage that offer consumer protection against unwanted losses after purchasing and financing major consumer assets. The Company and its affiliates offer these products and services through automobile, marine, recreational vehicle, and power sports dealers.

The AD acquires life insurance and annuity policies, either through reinsurance or through purchase of an entire company. In most cases, acquisitions do not include an active sales force, so no new policies are being marketed.

## GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements as filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums and Annuity Considerations</u>
2014	\$41,231,735,899	\$37,732,829,816	\$3,498,906,083	\$2,359,780,050
2013	\$41,027,033,990	\$38,109,357,934	\$2,917,676,056	\$4,589,583,686
2012	\$36,355,340,886	\$33,371,461,031	\$2,983,879,855	\$3,963,602,895
2011	\$33,537,211,058	\$30,908,747,488	\$2,628,463,571	\$5,700,744,967
2010	\$28,616,444,355	\$25,994,869,488	\$2,621,574,867	\$3,132,085,827



## MORTALITY AND LOSS EXPERIENCE

### LIFE

The mortality experience on ordinary and group life, including related benefits, as developed from applicable amounts included in the Company's annual statements filed with the TDCI for the years indicated were as follows:

<u>Ordinary Life</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net death benefits incurred	537,431,974	499,166,050	457,170,750	383,180,416	305,045,354
Less – reserves released by death	17,701,993	18,930,150	16,770,622	21,526,268	12,890,543
Actual death benefits incurred	519,729,981	480,235,900	440,400,128	361,654,148	292,154,811
Expected mortality	853,467,405	640,236,076	563,676,992	512,079,990	446,744,596
Mortality experience ratio	60.90%	75.01%	78.13%	70.62%	65.40%
<u>Group Life</u>					
Net death benefits incurred	11,832,453	10,331,179	16,355,496	7,322,859	2,128,366
Less – reserves released by death	342,949	560,423	1,244,882	198,698	49,857
Actual death benefits incurred	11,489,504	9,770,756	15,110,614	7,124,161	2,078,509
Expected mortality	19,542,913	295,911,931	16,572,327	10,949,558	3,177,113
Mortality experience ratio	58.79%	3.30%	91.18%	65.06%	65.42%

### A&H

The loss ratios on the Company's group, credit, and guaranteed renewable business for the years indicated were as follows:

<u>Group A&amp;H</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net incurred claims	628,742	1,251,178	925,854	(327,947)	605,898
Net premiums earned	12,817,094	15,657,604	20,551,120	16,271,043	541,084
Loss experience ratio	4.91%	7.99%	4.51%	(2.02%)	111.98%



<u>Credit A&amp;H</u>					
Net incurred claims	287,180	284,361	416,325	718,071	626,846
Net premiums earned	556,148	213,421	532,232	(891,604)	(375,791)
Loss experience ratio	51.64%	133.24%	78.22%	(80.54%)	(166.81%)

<u>Guaranteed</u>					
<u>Renewable A&amp;H</u>					
Net incurred claims	22,887,053	25,839,137	26,473,999	27,608,708	22,122,355
Net premiums earned	24,587,771	26,924,115	28,185,623	64,500,598	22,232,894
Loss experience ratio	93.08%	95.97%	93.93%	42.80%	99.50%

## **REINSURANCE AGREEMENTS**

### **Reinsurance Assumed**

A core business activity of the Company involves acquiring, converting, and servicing policies purchased from other insurance companies. During the current exam period there have been two (2) primary reinsurance assumed transactions: one (1) in 2010-2011, involving the former Liberty Life Insurance Company (now Athene Annuity and Life Assurance Company ("Athene")), and the second in 2013, involving MONY Life Insurance Company of America (MLOA). The Athene block, which was acquired in April of 2011, accounts for assumed premiums of \$98,800,000 and assumed contract reserves of approximately \$1,600,000,000 as of December 31, 2014.

The MLOA block, was acquired effective in October of 2013 from the AXA Group. As part of this overall transaction, PLIC entered into a one hundred percent (100%) indemnity reinsurance agreement covering certain business then on MLOA's books. As of December of 2014, this block of reinsurance accounted for assumed premiums of \$92,500,000 and assumed contract reserves of approximately \$1,600,000,000.

The Company also reports several older blocks of co-insurance transactions and balances assumed relating to acquisition activities conducted in periods prior to the current examination. These include Zurich American Life, Humana Dental, Jefferson National Life, Reliance Standard, Standard Life, and American General.

### **Reinsurance Ceded**

Generally, the Company has reinsurance agreements in effect with numerous external insurance companies for the purpose of diversifying risk and limiting exposure on larger mortality risks. The Company actively monitors the financial condition and industry ratings of its primary reinsurance partners and, as considered necessary, arranges and maintains collateral arrangements to secure ceded reserve credits. As of December 31,

2014, substantially all of the Company's financially significant reinsurers were rated "A-" or better by A.M. Best, an industry recognized rating agency.

In addition, the Company engages in several structured reinsurance transactions with affiliated (captive) parties, intended primarily to help manage capital stress from the reserving requirements associated with some of the Company's insurance products.

The Company's primary ceded business activity during the current examination period involves a combination of traditional per-life risk limiting reinsurance, credit insurance related activity reinsured with various producers of credit-related insurance through the APD, and intercompany reinsurance with the Company's affiliates and Special Purpose (captive) reinsurers. Each is briefly summarized below.

#### **Traditional Risk Limiting External Reinsurance**

Group members retain no more than a \$2,000,000 per-life exposure. Consistent with industry practice, the Company places various external reinsurance arrangements consisting of a combination of first dollar quota share and excess of retention contracts intended to limit maximum per-life risk to pre-determined levels. Reinsurance of this type is typically placed with a group of external reinsurance companies and coverage details are structured around the specific risk characteristics of a given insurance product. As new products are introduced by the Company, the reinsurance of older products become a "closed block" with respect to the individual reinsurance contracts, and continues to run-off with no new cessions attaching. New reinsurance pools are designed and procured to accommodate the individual risk exposures associated with new products, as considered necessary.

#### **Credit Insurance Related Reinsurance**

The Company's APD offers auto, marine and RV extended service contracts, GAP, and credit insurance. Credit insurance includes credit life and credit disability written on the Company's paper in states where it is licensed. The Company reinsures a significant portion of credit business through producer controlled, unauthorized reinsurance companies. In many of these reinsurance arrangements, one hundred percent (100%) of written premium is ceded to the reinsurer. Ceded reserves are secured by custodial agreements, letters of credit, or by funds withheld. A substantial portion of APD business not reinsured with producer controlled reinsurance companies is ceded to RGA Reinsurance Company on a co-insurance basis.

#### **Inter-Company Reinsurance Cessions/Assumptions**

There are several large blocks of business reinsured with the Company's affiliate, West Coast Life Insurance Company (WCL). These transactions are primarily for the purpose of accumulating similar products prior to further retrocession from WCL to one (1) of the

group's captives in connection with reserve financing programs. Three (3) significant transactions involve blocks of in-force level premium term life business, which were ceded from PLIC to WCL under contracts originally effective in 2010 and 2013 (and subsequently amended in 2014). The first transaction, effective October of 2010 covered term life products issued by PLIC during 2008-2010. The second transaction, effective July of 2013, covers a block of group term life business acquired by PLIC from the United Investors Life Insurance Company. The 2013 contract was amended in 2014 to also cover a block of in-force level premium term life business previously acquired by PLIC (via co-insurance) from MLOA. Concurrent with each of these transactions, WCL retroceded the aforementioned blocks to either Golden Gate III Vermont Captive Insurance Company (GGIICIC) or Golden Gate IV Vermont Insurance Company (GGIVCIC) under separate reinsurance agreements.

A fourth significant transaction involving reinsurance from PLIC to WCL relates to a block of universal life insurance policies with secondary guarantees (ULSG). This block was reinsured effective October of 2012 and was subsequently amended in February of 2013 (with no change to the original October of 2012 effective date) to include specified business issued on or before December of 2012. Also, concurrent with this transaction, WCL entered into a retro-cession to Golden Gate V Vermont Captive Insurance Company (GGVCIC).

In addition to the contracts described above, WCL also reinsured a block of equity indexed annuities with PLIC under an agreement effective in April of 2005. The agreement was subsequently amended in 2007 and 2008 to add market value adjusted annuities, single premium immediate annuities, and limited flexible premium fixed deferred annuities to the agreement. As of December of 2014, approximately \$150,000,000 in contract reserves were ceded under the agreement.

#### **Related Party (Captive) Reinsurance**

As noted above, the Company utilizes a combination of affiliated captive reinsurers (which, in the case of GGVCIC, also includes the use of an affiliated Special Purpose Vehicle (SPV) as part of that overall transaction structure) to help alleviate the surplus strain resulting from actuarial reserving guidelines applicable to a number of the products marketed. The reserves generated using generally accepted accounting principles (GAAP) accounting standards or use a "gross premium valuation" (often termed economic reserves) are lower than those required based on applicable statutory actuarial guidelines.

Following is a summary of each of the Company's captive reinsurers, which directly reinsure business from the Company, a general description of the business reinsured, and any unusual characteristics noted to date associated with the program.

### **Golden Gate Captive Insurance Company**

Golden Gate Captive Insurance Company (GGCIC) originally incorporated in 1997 as Protective Life Insurance Company of Ohio. The entity redomesticated to South Carolina in 2004 and was renamed Golden Gate Captive Insurance Company. GGCIC is a wholly-owned subsidiary of PLIC. GGCIC redomiciled to Vermont during 2015. GGCIC assumed several blocks of term life business from PLIC and WCL under co-insurance reinsurance treaties, originally effective in 2004-2006. The PLIC-related business was originally ceded to GGCIC by PLIC and three (3) affiliated insurers which were subsequently merged into PLIC during 2007: 1) Empire General Life Assurance Corporation; 2) Chase Insurance Life & Annuity Company; and 3) Chase Insurance Life Company. As of December 31, 2014, these blocks of business ceded by PLIC to GGCIC accounted for assumed premiums and reserves of \$83,000,000 and \$887,000,000, respectively.

In addition, GGCIC retro-cedes a portion of the term life business to PLIC under a monthly renewable term treaty. As of December 31, 2014, this retrocession accounted for premiums and reserves of \$43,000,000 and \$4,000,000, respectively, assumed by PLIC.

### **Golden Gate II Captive Insurance Company**

Golden Gate II Captive Insurance Company (GGIICIC) originally incorporated in 1996 as Protective Life Insurance Company of Kentucky. The entity redomesticated to South Carolina in 2005 and was renamed Golden Gate II Captive Insurance Company. GGIICIC is a wholly-owned subsidiary of PLIC. GGIICIC assumes a block of ULSG business from PLIC utilizing a combination of co-insurance and modified co-insurance. As of December 31, 2014, this business accounted for assumed premiums and reserves of \$7,000,000 and \$756,000,000, respectively, and in addition, modified co-insurance reserves totaling \$249,000,000.

### **Shades Creek Captive Insurance Company**

Shades Creek Captive Insurance Company (SCCIC) incorporated in Vermont in 2012 and is wholly-owned by PLC. SCCIC assumes certain guaranteed minimum withdrawal benefits and guaranteed minimum death benefit riders (GMWB and GMDB riders) from PLIC under a co-insurance with funds held agreement, originally effective in 2012. As of December 31, 2014, this business accounts for assumed premiums and reserves of \$74,000,000 and \$100,000,000, respectively. SCCIC's obligations to PLIC are collateralized through a combination of funds withheld totaling \$57,000,000 and a Letter of Credit (LOC) of \$55,000,000. Vermont insurance regulations allow this LOC to be included as part of SCCIC's capitalization. Draws under the LOC are subject to certain terms and conditions related to the underlying reinsurance agreements.

### **Other Considerations**

All of the Company's financially significant reinsurance agreements were reviewed during either this or prior examinations and found to contain such language as recommended by the NAIC and as required for reinsurance credit by Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines. In addition, all unauthorized reinsurers have provided LOC's or executed trust agreements with the Company to secure the Company's reinsurance recoverables and reserve credits as of December 31, 2014.

### **LITIGATION AND CONTINGENT LIABILITIES**

During the period of examination, and as of December 31, 2014, the Company is party to various pending legal proceedings arising in the ordinary course of business. Based upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

During the period of examination, and as of December 31, 2014, the Company entered into a number of contingent commitments and guarantees. The Company's 2014 Annual Statement, Notes to Financial Statements, Notes 10(E), 14, 15, and 16 provide a description of the contingent commitments and guarantees the Company entered into as of December 31, 2014. A review of these notes did not disclose anything that would have an adverse effect upon the Company.

## STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained deposits with the jurisdictions or custodians named below, as of December 31, 2014.

The following are deposits with states where special deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

<u>Jurisdiction</u>	<u>Description of Security</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Par Value (Dollars)</u>
Tennessee – Department of Insurance	US TREASURY BOND 1.00%, Due 08-31-2016 CUSIP# 912828RF9	\$300,919	\$302,251	\$300,000
	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	<u>1,237,635</u>	<u>1,248,827</u>	<u>1,250,000</u>
<b>Sub - Total</b>		<b>\$1,538,554</b>	<b>\$1,551,078</b>	<b>\$1,550,000</b>

The following are deposits with jurisdictions where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

<u>Jurisdiction</u>	<u>Description of Security</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Par Value</u>
Arizona – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	\$553,563	\$550,127	\$550,000
Arkansas – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	2,574,278	2,597,556	2,600,000
Colorado – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	100,648	100,023	100,000
	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	9,901	9,991	10,000

Georgia – Department of Insurance	US TREASURY BOND 1.00%, Due 08-31-2016 CUSIP# 912828RF9	70,215	70,525	70,000
	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	564,361	569,464	570,000
Indiana – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	990,107	999,060	1,000,000
	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	35,227	35,008	35,000
Massachusetts – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	742,580	749,295	750,000
Missouri – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	613,951	610,140	610,000
Montana – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	2,012,955	2,000,460	2,000,000
	US TREASURY BOND 1.00%, Due 08-31-2016 CUSIP# 912828RF9	501,535	503,750	500,000
New Hampshire – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	99,011	99,906	100,000
New Mexico – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	75,486	75,017	75,000
	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	59,406	59,944	60,000
	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	110,713	110,025	110,000

	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	110,713	110,025	110,000
North Carolina – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	742,580	749,295	750,000
	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	593,822	590,136	590,000
	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	422,721	420,097	420,000
Oklahoma – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	316,834	319,699	320,000
Texas Department of Insurance	US TREASURY BOND 1.00%, Due 08-31-2016 CUSIP# 912828RF9	511,565	513,825	510,000
Virginia – Department of Insurance	US TREASURY BOND 1.50%, Due 03-31-2019 CUSIP# 912828SN1	553,563	550,127	550,000
American Samoa – Department of Insurance	Bank CD 1.30%, Due 08-28-2017 CD # 271-30009	57,500	57,500	57,500
Guam – Department of Insurance	Bank CD 1.30%, Due 04-05-2015 CD # 6235782	50,000	50,000	50,000
Puerto Rico – Department of Insurance	Puerto Rico Commonwealth, 4.5% Due 07-01-2023 CUSIP# 745145GB2	267,371	261,116	270,000
	Puerto Rico Commonwealth, 8.00%, Due 07-01-2035 CUSIP# 74514LE86	886,003	871,320	1,000,000
	Puerto Rico Electric Power, 4.375%, Due 02-01-2019 CUSIP# 745177FN0	511,326	361,820	500,000



U.S. Virgin Islands – Department of Insurance	US TREASURY BOND 1.375%, Due 09-30-2018 CUSIP# 912828RH5	<u>495,053</u>	<u>499,530</u>	<u>500,000</u>
<b>Subtotal</b>		<u>14,632,988</u>	<u>14,494,781</u>	<u>14,767,500</u>
<b>Grand Total</b>		<u>\$16,171,542</u>	<u>\$16,045,859</u>	<u>\$16,317,500</u>

Deposits with all jurisdictions or custodians, above, were verified by direct correspondence with the custodians of such deposits.

### **ACCOUNTS AND RECORDS**

Tenn. Comp. R. & Regs. 0780-01-65-.08(4), states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than five (5) consecutive years. The Company is audited annually by PricewaterhouseCoopers LLP (PWC), and is in compliance with this regulation.

During the course of the examination, certain balances were tested and amounts were traced from the Company's trial balance to the annual statement. Minor differences were noted in the Company's financial statements attributable to rounding. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Birmingham, Alabama.

## MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company, as of December 31, 2014, in conjunction with this examination. The following market conduct areas were reviewed:

### Operations and Management Standards

Company antifraud initiatives were examined to determine if they are reasonably calculated to prevent, detect, or mitigate fraudulent insurance acts. Company procedures and policies relating to privacy were reviewed to determine compliance with applicable statutes, rules, and regulations. No issues were noted.

### Complaint Handling Standards

The Company maintains a complaint register, as required by various state Unfair Trade Practices Acts, and the register and the accompanying files are maintained for a minimum of five (5) years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of Tenn. Code Ann. § 56-8-104(11) and the NAIC 2014 *Market Regulation Handbook*, and were found to be in full compliance.

### Marketing and Sales Standards

Advertising items were selected for examination including print, internet materials, and power point presentations issued by the Company to target consumers, agents, brokers, and financial institutions. Advertising items were examined in accordance with Tenn. Code Ann. § 56-8-104(1) and the NAIC *Market Regulation Handbook* (Chapter 16 – Marketing and Sales) and were found to be in compliance.

The Company was found to have strong controls in place for the production and use of all advertising materials, with only company approved materials authorized for use. In the examination of the Company's Advertising Log, the log was found to have identified all of the advertising used during the period of examination with each record showing when each version of each advertisement was first used, when each was discontinued, and in which markets each advertisement was used.

### Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-101, *et seq.*, requires the Company sell their products and services through producers who are properly licensed and appointed by the Company. In the examination of producer licensing, a random sample of producers were selected and their state issued licensure and appointment by the Company was verified. As a result of examination, no issues or concerns were identified.

### **Underwriting and Rating Standards**

In the examination of the Company's underwriting procedures and policy administration, policy files for open and closed policies for both life and annuity contracts were reviewed in accordance with Tenn. Code Ann. § 56-8-104, Tenn. Comp. R. & Regs. 0780-01-34, and established Company guidelines. In the examination of these contracts, there were no instances of unfair methods of competition or unfair or deceptive acts found. Underwriting procedures and policy administration conducted by the Company appear to be in compliance with established Company guidelines.

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms were noted, without exception, as having been filed with the TDCI prior to their use in accordance with Tenn. Code Ann. § 56-7-2311(a). The filings are consistent in form and included appropriate documents.

### **Claims Review**

In the examination of claims handling practices, the Company's efficiency of handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined. In conducting the examination, random samples were selected from claims with benefits payments and denied claims by the Company. The Company's claims were properly documented and handled in accordance with the Company's policy provisions and applicable statutes and rules. No issues or concerns were identified.

## **SUBSEQUENT EVENTS**

Subsequent to the examination date, on February 1, 2015, the Company's parent, PLC, announced the completion of the acquisition of PLC by Dai-ichi Life Insurance Company, Limited ("Dai-ichi Life"), a kabushiki kaisha (stock company) organized under the laws of Japan, in accordance with the terms of the previously announced Agreement and Plan of Merger dated June 3, 2014. On February 1, 2015, pursuant to the Agreement and Plan of Merger, by and among PLC, Dai-ichi Life, and DL Investment, Inc. ("DL Investment"), a Delaware corporation and a wholly-owned subsidiary of Dai-ichi Life, DL Investment merged with and into PLC, with PLC surviving as a wholly-owned subsidiary of Dai-ichi Life. Dai-ichi Life is now the ultimate parent of the Company.

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report, other than the item described above. Our review confirmed the Company's disclosures in its 2014 Annual Statement and in its Letter of Representation. Management stated in its Letter

of Representation that they were not aware of any events subsequent to December 31, 2014, that could have a material effect on the Company's financial condition.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a summary of operations as of December 31, 2014, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2014 Annual Statement.

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$18,473,117,696		\$18,473,117,696
Preferred stocks	383,904,177		383,904,177
Common stocks	2,502,348,384	\$875,811,710	1,626,536,674
Mortgage loans on real estate	2,617,725,407		2,617,725,407
Real estate:			
Properties occupied by company	32,537,274		32,537,274
Properties held for income production	895,000		895,000
Properties held for sale	5,022,785		5,022,785
Cash and short-term investments	148,169,779		148,169,779
Contract loans	886,346,605	13,584,921	872,761,684
Derivatives	249,930,954		249,930,954
Other invested assets	29,871,026		29,871,026
Receivables for securities	5,189,849		5,189,849
Investment income due or accrued	251,262,764		251,262,764
Premiums and considerations:			
Uncollected premiums and agents balances in the course of collection	(83,334,251)	760,676	(84,094,927)
Deferred premiums not yet due	14,240,751		14,240,751
Amounts recoverable from reinsurers	101,578,304	1,088,554	100,489,750
Funds held with reinsured companies	31,944		31,944
Other amounts receivable under reinsurance contracts	79,548,663	6,093,689	73,454,974
Current federal income tax recoverable	20,606,810		20,606,810
Net deferred tax asset	259,509,056	43,680,255	215,828,801
Guaranty funds receivable	4,364,087		4,364,087
Receivables from parent and affiliates	19,111,578		19,111,578
Aggregate write-ins for other assets	196,210,404	11,017,046	185,193,358
Total assets excluding separate accounts	\$26,198,189,046	\$952,036,851	\$25,246,152,195
From separate accounts	15,985,583,705	0	15,985,583,705
<b>Totals</b>	<b><u>\$42,183,772,751</u></b>	<b><u>\$952,036,851</u></b>	<b><u>\$41,231,735,899</u></b>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Aggregate reserve for life contracts		\$18,341,504,486
Aggregate reserve for accident and health contracts		66,609,558
Liability for deposit-type contracts		2,664,818,713
Contract claims: Life		157,104,793
Contract claims: Accident and Health		9,022,536
Policyholders' dividends due and unpaid		272,271
Provision for policyholders' dividends payable in following calendar year - estimated amounts:		
Dividends apportioned for payment		25,521,488
Premiums and annuity considerations for life and accident and health contracts received in advance		4,776,417
Contract liabilities not included elsewhere:		
Provision for experience rating refunds		2,474,826
Other amounts payable on reinsurance		43,775,643
Interest maintenance reserve (IMR)		235,909,046
Commissions to agents due or accrued		24,575,761
Commissions payable on reinsurance assumed		156,733
General expenses due and accrued		39,876,518
Transfers to Separate Accounts due or accrued		(680,411,612)
Taxes, licenses and fees due or accrued		10,071,359
Unearned investment income		6,204,602
Amounts withheld by company as agent or trustee		14,995,866
Remittances and items not allocated		57,080,653
Borrowed money		50,000,438
Miscellaneous liabilities:		
Asset valuation reserve (AVR)		196,449,433
Reinsurance in unauthorized companies		4,314,021
Funds held for unauthorized reinsurers		60,602,687
Payable to parent, subsidiaries and affiliates		8,563,426
Funds held under co-insurance		245,977,785
Derivatives		141,970,398
Payable for securities		15,024,931
Aggregate write-ins for liabilities		<u>3,336</u>
Total liabilities excluding separate accounts business		\$21,747,246,112
From separate accounts statement		<u>15,985,583,705</u>
Total Liabilities		\$37,732,829,816
Common capital stock	\$5,000,000	
Gross paid in and contributed surplus	1,137,166,148	
Unassigned funds (surplus)	<u>2,356,739,935</u>	
Total Capital and Surplus		<u>3,498,906,083</u>
<b>Totals</b>		<u><b>\$41,231,735,899</b></u>

## SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and A&H	\$2,359,780,050	
Consideration for supplemental contracts with life contingency	10,709,900	
Net investment income	1,312,070,137	
Amortization of interest maintenance reserve (IMR)	65,909,035	
Separate accounts net gain from operations excluding unrealized gains or losses	41,088,012	
Commissions and allowances on reinsurance ceded	268,937,994	
Reserve adjustments on reinsurance ceded	(224,620,491)	
Income from fees associated with investment management from separate accounts	314,438,008	
Aggregate write-ins for miscellaneous income	<u>122,528,483</u>	
<b>Total Income</b>		<b>\$4,270,841,128</b>
Death benefits	553,076,415	
Matured endowments	6,301,197	
Annuity benefits	232,630,152	
Disability benefits and benefits under A&H contracts	31,829,441	
Coupons and guaranteed annual pure endowments	112,508	
Surrender benefits and withdrawals for life contracts	2,220,855,703	
Interest and adjustments on contract funds	92,876,354	
Payment on supplemental contracts with life contingency	19,186,275	
Increase in aggregate reserves for life and A&H	<u>85,029,766</u>	
<b>Total Benefits</b>		<b>3,241,897,811</b>
Commissions on premiums and annuity considerations	318,144,323	
Commissions and allowances on reinsurance assumed	20,216,981	
General insurance expenses	357,559,941	
Taxes, licenses and fees, excluding federal income taxes	45,778,795	
Increase in loading on deferred, uncollected premiums	86,666	
Net transfers from separate accounts net of reinsurance	(417,704,707)	
Aggregate write-ins for deductions	<u>(342,904)</u>	
<b>Total Expenses</b>		<b><u>323,739,095</u></b>
Net gain from operations before dividends to policyholders and federal income taxes		705,204,223
Dividends to policyholders		<u>26,229,812</u>
Net gain from operations after dividends to policyholders and before federal income taxes		678,974,411
Federal and foreign income taxes incurred		<u>90,804,158</u>
Net gain from operations after dividends and income taxes and before realized capital gains or (losses)		588,170,253
Net realized capital gains or (losses) less capital gain tax		<u>(33,923,335)</u>
<b>Net Income</b>		<b><u>\$554,246,918</u></b>

**CAPITAL AND SURPLUS ACCOUNT**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Capital and Surplus					
December 31, previous year	\$2,917,676,056	\$2,983,879,855	\$2,628,463,571	\$2,621,574,867	\$2,617,081,297
Net income or (loss)	\$554,246,918	\$165,478,108	\$376,281,627	\$272,630,085	\$303,636,390
Change in net unrealized capital gains or (losses)	231,829,461	(156,074,400)	134,997,129	108,666,823	160,249,517
Change in net deferred income tax	(26,367,854)	3,220,722	(113,638,245)	(15,023,030)	(9,532,280)
Change in non-admitted assets	66,484,962	(366,465,062)	69,394,553	(74,793,782)	(411,719,779)
Change in liability for reinsurance in unauthorized companies	(377,527)	(104,352)	77,139	(218,441)	(291,462)
Change in reserve on account of change in valuation basis	-0-	-0-	-0-	4,100,000	20,200,000
Change in asset valuation reserve	(83,927,845)	111,126,201	31,603,294	(20,581,941)	(85,333,765)
Surplus (contributed to) withdrawn from separate accounts during period	41,088,012	(729,673)	106,592,978	68,766,379	130,900,384
Other changes in surplus in separate accounts statement	(41,088,012)	729,673	(106,592,978)	(68,766,379)	(130,900,384)
Surplus adjustment: Paid in	4,528,655	70,000,000	1,524,281	-0-	-0-
Change in surplus as result reinsurance	131,881,893	81,840,988	112,547,081	(11,616,381)	25,635,400
Dividends to stockholders	(300,000,000)	(36,225,758)	(257,000,000)	(215,000,000)	-0-
Aggregate write-ins for gains and losses in surplus	<u>2,931,355</u>	<u>60,999,755</u>	<u>(370,577)</u>	<u>(41,274,628)</u>	<u>1,649,551</u>
Net change in capital and surplus for the year	<u>581,230,027</u>	<u>66,203,798</u>	<u>355,416,284</u>	<u>6,888,704</u>	<u>4,493,570</u>
Capital and Surplus					
December 31, current year	<u>\$3,498,906,083</u>	<u>\$2,917,676,056</u>	<u>\$2,983,879,855</u>	<u>\$2,628,463,571</u>	<u>\$2,621,574,867</u>



## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus \$3,498,906,083

Total capital and surplus, as established by this examination, is the same as what was reported by the Company in its December 31, 2014 Annual Statement. There were no changes made to any asset or liability items as a result of our examination as performed as of December 31, 2014.

Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital and surplus of \$2,000,000, collectively. Therefore, the Company as of December 31, 2014, for this examination maintains capital and surplus in excess of the amounts required pursuant to Tenn. Code Ann. §§ 56-2-114 and 56-2-115.

## COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

### Comments

There were no comments noted during the completion of this examination.

### Recommendations

There were no recommendations noted during the completion of this examination.

## CONCLUSION

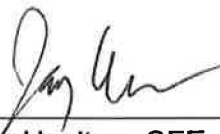
The customary insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Protective Life Insurance Company of Birmingham, Alabama.

In such manner, it was found that as of December 31, 2014, the Company had admitted assets of \$41,231,735,899 and liabilities, exclusive of capital and surplus, of \$37,732,829,816. Thus, there existed for the additional protection of the policyholders, the amount of \$3,498,906,083 in the form of common capital stock, gross paid in and contributed surplus, and unassigned funds.

The courteous cooperation of the officers and employees of the Company, extended during the course of the examination, is hereby acknowledged.

In addition to the undersigned, Gregory Bronson, CIE, AMCM, Mike Bacon, Crystal Messner, CFE (Fraud), Brian Sewell, CFE, Insurance Examiners, and Bryant Cummings, Assistant Chief Examiner from the State of Tennessee; Mike Mayberry, FSA, MAAA of the actuarial firm Lewis & Ellis, Inc., Richardson, Texas; Jim Ryan, CFE, CPA, ARA, ARe, Greg Hahn, CFA, Nadine Treon, CFE, CPA, Jerry Ehlers, CFE, AES, CPA, CISA, CFE (Fraud), and Victoria Chi, CISA, CISM, CRISC, CGEIT, CRMA of the contracting firm Noble Consulting Services, Indianapolis, Indiana participated in the work of this examination.

Respectfully submitted,



---

A. Jay Uselton, CFE  
Examiner-in-Charge  
State of Tennessee

## AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Protective Life Insurance Company located in Birmingham, Alabama, dated April 21, 2016, and made as of December 31, 2014, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.




A. Jay Uselton, CFE  
Examiner-in-Charge  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 13 day of June, 2016

  
(NOTARY)

My Commission Expires: 8/20/19



# **EXHIBIT B**

**Protective Life  
Insurance Company**  
Post Office Box 2806  
Birmingham, AL 35202  
Phone 205 268-1000



June 17, 2016

E. Joy Little  
Director of Financial Examinations/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

Dear Ms. Little,

We are in receipt of the "*Report on Examination of Protective Life Insurance Company*" (the "Company") as of December 31, 2014 (the "Report") enclosed with your letter to Mr. Rich Bielen dated June 16, 2016. Please allow this letter to serve as the Company's acceptance of the report, as transmitted.

We appreciate the courtesy and professionalism exhibited by the examination team during the course of the exam. We look forward to working with you in the future. Please do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Charles D. Evers, Jr.".

Charles D. Evers, Jr.  
Vice President, Corporate Accounting