

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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 001-11339

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

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

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

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

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

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 No

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

Large accelerated filer Accelerated Filer

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Non-accelerated filer Smaller Reporting Company

Emerging Growth Company

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

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

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

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

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PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Unaudited)

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

See Notes to the Consolidated Condensed Financial Statements

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

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

See Notes to the Consolidated Condensed Financial Statements

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PROTECTIVE LIFE CORPORATION
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Unaudited)

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

See Notes to the Consolidated Condensed Financial Statements

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CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(continued)

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

See Notes to the Consolidated Condensed Financial Statements

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

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

See Notes to the Consolidated Condensed Financial Statements

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

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

See Notes to the Consolidated Condensed Financial Statements

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CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(continued)

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

See Notes to the Consolidated Condensed Financial Statements

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

1. BASIS OF PRESENTATION

Basis of Presentation

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

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for the interim periods presented herein. Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair statement of the results for the interim periods presented. Operating results for the three and nine months ended September 30, 2017, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2017. The year-end consolidated condensed financial data included herein was derived from audited financial statements but does not include all disclosures required by GAAP within this report. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

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

Entities Included

The consolidated condensed financial statements in this report include the accounts of Protective Life Corporation and subsidiaries and its affiliate companies in which the Company holds a majority voting or economic interest.

Intercompany balances and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

For a full description of significant accounting policies, see Note 2 to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. There were no significant changes to the Company’s accounting policies during the nine months ended September 30, 2017.

Accounting Pronouncements Recently Adopted

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

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

ASU No. 2015-09 - Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The amendments in this Update require additional disclosures for short-duration contracts issued by insurance entities. The additional disclosures focus on the liability for unpaid claims and claim adjustment expenses and include incurred and paid claims development information by accident year in tabular form, along with a reconciliation of this information to the statement of financial position. For accident years included in the development tables, the amendments also require disclosure of the total incurred-but-not-reported liabilities and expected development on reported claims, along with claims frequency information unless impracticable. Finally, the amendments require disclosure of the historical average annual percentage payout of incurred claims. With the exception of the current reporting period, claims development information may be presented as supplementary information. The Update is effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. The additional disclosures introduced in this Update have not been provided, as the short-duration lines of business to which they apply are not material to the Company's financial statements.

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Accounting Pronouncements Not Yet Adopted

ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606). This Update provides for significant revisions to the recognition of revenue from contracts with customers across various industries. Under the new guidance, entities are required to apply a prescribed 5-step process to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The accounting for revenues associated with insurance products is not within the scope of this Update. The Update was originally effective for annual and interim periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU No. 2015-14 - Revenues from Contracts with Customers: Deferral of the Effective Date, to defer the effective date of ASU No. 2014-09 by one year to annual and interim periods beginning after December 15, 2017. The Company will adopt this Update using the modified retrospective approach via a cumulative effect adjustment to retained earnings as of January 1, 2018. The amendments in the Update, along with clarifying updates issued subsequent to ASU 2014-09, will impact some of the Company's smaller lines of business, specifically revenues at the Company's affiliated broker dealers and insurance agency, and certain revenues associated with the Company's Asset Protection products. However, the cumulative effect adjustment related to the Company's adoption of the revised guidance is limited to the Company's Asset Protection segment. Based on its current projections, the Company estimates that the cumulative effect adjustment as of January 1, 2018 will result in a decrease in retained earnings between \$72 million and \$82 million. Several application questions remain outstanding, most notably interpretive positions regarding the Update's application to certain of the Company's warranty products. The Company will also implement minor changes to its accounting and disclosures with respect to the non-insurance lines of business referenced above to ensure compliance with the revised guidance.

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

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

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

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

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

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

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

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

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

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

3. MONY CLOSED BLOCK OF BUSINESS

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

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

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

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

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

Summarized financial information for the Closed Block as of September 30, 2017, and December 31, 2016, is as follows:

	As of	
	September 30, 2017	December 31, 2016
	(Dollars In Thousands)	
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	\$5,814,527	\$ 5,896,355
Policyholder dividend obligation	136,004	31,932
Other liabilities	76,176	40,007
Total closed block liabilities	6,026,707	5,968,294
Closed block assets		
Fixed maturities, available-for-sale, at fair value	\$4,549,322	\$ 4,440,105
Mortgage loans on real estate	130,521	201,088
Policy loans	707,293	712,959
Cash	148,612	108,270
Other assets	141,740	135,794
Total closed block assets	5,677,488	5,598,216
Excess of reported closed block liabilities over closed block assets	349,219	370,078
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses) net of policyholder dividend obligation: \$(55,231) and \$(197,450); and net of income tax: \$19,331 and \$69,107	—	—
Future earnings to be recognized from closed block assets and closed block liabilities	\$349,219	\$ 370,078
Reconciliation of the policyholder dividend obligation is as follows:		
	For The	
	Nine Months Ended	
	September 30,	
	2017	2016
	(Dollars In Thousands)	
Policyholder dividend obligation, beginning of period	\$31,932	\$—
Applicable to net revenue (losses)	(38,147)	(36,707)
Change in net unrealized investment gains (losses) allocated to the policyholder dividend obligation	142,219	300,814
Policyholder dividend obligation, end of period	\$136,004	\$264,107

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Closed Block revenues and expenses were as follows:

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

4. INVESTMENT OPERATIONS

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

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

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

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

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

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

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

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

As of September 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI ⁽¹⁾
	(Dollars In Thousands)				
Fixed maturities:					
Residential mortgage-backed securities	\$2,187,460	\$ 22,141	\$(17,347)	\$2,192,254	\$ 16
Commercial mortgage-backed securities	1,939,832	6,167	(24,570)	1,921,429	—
Other asset-backed securities	1,186,463	17,692	(13,488)	1,190,667	—
U.S. government-related securities	1,317,910	1,256	(26,333)	1,292,833	—
Other government-related securities	253,026	8,145	(6,835)	254,336	—
States, municipals, and political subdivisions	1,756,865	6,416	(59,272)	1,704,009	(93)
Corporate securities	29,673,641	480,875	(705,147)	29,449,369	—
Preferred stock	94,362	376	(2,898)	91,840	—
	38,409,559	543,068	(855,890)	38,096,737	(77)
Equity securities	758,804	24,914	(7,291)	776,427	—
Short-term investments	482,923	—	—	482,923	—
	\$39,651,286	\$ 567,982	\$(863,181)	\$39,356,087	\$(77)
As of December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Total OTTI Recognized in OCI ⁽¹⁾
	(Dollars In Thousands)				
Fixed maturities:					
Residential mortgage-backed securities	\$1,913,413	\$ 10,737	\$(25,667)	\$1,898,483	\$(9)
Commercial mortgage-backed securities	1,850,620	2,528	(41,678)	1,811,470	—
Other asset-backed securities	1,210,490	21,741	(20,698)	1,211,533	—
U.S. government-related securities	1,308,192	422	(40,455)	1,268,159	—
Other government-related securities	253,182	1,536	(14,797)	239,921	—
States, municipals, and political subdivisions	1,760,837	1,224	(105,558)	1,656,503	—
Corporate securities	28,801,768	153,715	(1,583,918)	27,371,565	(11,030)
Preferred stock	94,362	—	(8,519)	85,843	—
	37,192,864	191,903	(1,841,290)	35,543,477	(11,039)
Equity securities	761,340	7,751	(21,685)	747,406	—
Short-term investments	279,782	—	—	279,782	—
	\$38,233,986	\$ 199,654	\$(1,862,975)	\$36,570,665	\$(11,039)

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

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

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

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

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

	For The Three Months Ended September 30, 2017			For The Nine Months Ended September 30, 2017		
	Fixed Maturities	Equity Securities	Total Securities	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)					
Other-than-temporary impairments	\$(366)	\$—	\$(366)	\$(494)	\$(2,630)	\$(3,124)
Non-credit impairment losses recorded in other comprehensive income	93	—	93	(7,765)	—	(7,765)
Net impairment losses recognized in earnings	\$(273)	\$—	\$(273)	\$(8,259)	\$(2,630)	\$(10,889)
	For The Three Months Ended September 30, 2016			For The Nine Months Ended September 30, 2016		
	Fixed Maturities	Equity Securities	Total Securities	Fixed Maturities	Equity Securities	Total Securities
	(Dollars In Thousands)					
Other-than-temporary impairments	\$(1,898)	\$—	\$(1,898)	\$(10,194)	\$—	\$(10,194)
Non-credit impairment losses recorded in other comprehensive income	(1,410)	—	(1,410)	3,302	—	3,302
Net impairment losses recognized in earnings	\$(3,308)	\$—	\$(3,308)	\$(6,892)	\$—	\$(6,892)

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

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

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

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

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

RMBS and CMBS had gross unrealized losses greater than twelve months of \$2.1 million and \$4.6 million, respectively, as of September 30, 2017. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments. The other asset-backed securities had a gross unrealized loss greater than twelve months of \$8.4 million as of September 30, 2017. This category predominately includes student loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the Federal Family Education Loan Program ("FFELP"). At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary.

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

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

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

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

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

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

RMBS and CMBS had gross unrealized losses greater than twelve months of \$4.1 million and \$4.0 million, respectively, as of December 31, 2016. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments. The other asset-backed securities had a gross unrealized loss greater than twelve months of \$11.4 million as of December 31, 2016. This category predominately includes student loan backed auction rate securities whose underlying collateral is at least 97% guaranteed by the FFELP. At this time, the Company has no reason to believe that the U.S. Department of Education would not honor the FFELP guarantee, if it were necessary. The other government-related securities had gross unrealized losses greater than twelve months of \$11.9 million as of December 31, 2016. These declines were related to changes in interest rates. The states, municipalities, and political subdivisions category had gross unrealized losses greater than twelve months of \$41.7 million as of December 31, 2016. These declines were related to changes in interest rates.

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

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

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

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

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

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

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

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

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

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

Variable Interest Entities

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

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

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

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

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

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

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

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Determination of fair values

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

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

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

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

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

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

Asset-Backed Securities

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

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

As of September 30, 2017, the Company held \$588.6 million of Level 3 ABS, which included \$553.1 million of other asset-backed securities classified as available-for-sale and \$35.5 million of other asset-backed securities classified as trading. These securities are predominantly ARS whose underlying collateral is at least 97% guaranteed by the FFELP. As a result of the ARS market collapse during 2008, the Company prices its ARS using an income approach valuation model. As part of the valuation

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process the Company reviews the following characteristics of the ARS in determining the relevant inputs:

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

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

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

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

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

Equities

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

Other Long-term Investments and Other Liabilities

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

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

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

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

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

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

The fair value of the GLWB embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using multiple risk neutral stochastic equity scenarios along with policyholder behavior assumptions. The risk neutral scenarios are generated using the current swap curve and projected equity volatilities and correlations. The projected equity volatilities are based on a blend of historical volatility and near-term equity market implied volatilities. The

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equity correlations are based on historical price observations. For policyholder behavior assumptions, expected lapse and utilization assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the Ruark 2015 ALB table with attained age factors varying from 91.1% - 106.6%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). As a result of using significant unobservable inputs, the GLWB embedded derivative is categorized as Level 3. Policyholder assumptions are reviewed on an annual basis. The balance of the FIA embedded derivative is impacted by policyholder cash flows associated with the FIA product that are allocated to the embedded derivative in addition to changes in the fair value of the embedded derivative during the reporting period. The fair value of the FIA embedded derivative is derived through the income method of valuation using a valuation model that projects future cash flows using current index values and volatility, the hedge budget used to price the product, and policyholder assumptions (both elective and non-elective). For policyholder behavior assumptions, expected lapse and withdrawal assumptions are used and updated for actual experience, as necessary. The Company assumes age-based mortality from the 1994 Variable Annuity MGDB mortality table modified with company experience, with attained age factors varying from 46% - 113%. The present value of the cash flows is determined using the discount rate curve, which is based upon LIBOR plus a credit spread (to represent the Company's non-performance risk). Policyholder assumptions are reviewed on an annual basis. As a result of using significant unobservable inputs, the FIA embedded derivative is categorized as Level 3.

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

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

Annuity Account Balances

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

Separate Accounts

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

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Valuation of Level 3 Financial Instruments

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

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

Nonperformance
risk

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

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

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

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

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

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

(1) Excludes modified coinsurance arrangements.

(2) The fair value for the GLWB embedded derivative is presented as a net liability.

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

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

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

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

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

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

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

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

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

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

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

	Beginning Balance	Total Realized and Unrealized Gains	Total Realized and Unrealized Losses	Purchases	Sales	Issuances	Settlements	Transfers out of Level 3	Other	Ending Balance
		Included in Earnings	Included in Comprehensive Income	Included in Other Comprehensive Income						
(Dollars In Thousands)										
Assets:										
Fixed maturity securities available-for-sale										
Residential mortgage-backed securities	\$ 11,862	\$—	\$83	\$—	\$—	\$—	\$—	\$(11,944)	\$(1)	\$—
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	552,963	—	1,682	—	(2,285)	100	(109)	—	798	553,161
Corporate securities	662,654	—	8,301	—	(2,222)	5,071	(42,242)	(5,486)	(1,523)	624,503
Total fixed maturity securities - available-for-sale	1,227,479	—	10,066	—	(4,507)	5,171	(42,351)	(17,430)	(726)	1,175,027
Fixed maturity securities - trading										
Other asset-backed securities	54,923	—	—	(353)	—	—	(19,188)	—	108	35,480
Corporate securities	5,520	27	—	—	—	—	—	—	(23)	5,524
Total fixed maturity securities - trading	60,443	27	—	(353)	—	—	(19,188)	—	85	41,004
Total fixed maturity securities	1,287,922	27	10,066	(353)	(4,507)	5,171	(61,539)	(17,430)	(641)	1,216,021

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Equity securities	66,300	—	31	—	—	—	(169)	—	—	—	—	66,100
Other long-term investments ⁽¹⁾	120,023	10,331	—	(2)	—	—	—	—	—	—	—	130,354
Total investments	1,474,245	10,358	10,097	(355)	(4,507)	5,171	(61,708)	—	—	(17,430)	(641)	1,415,507
Total assets measured at fair value on a recurring basis	\$1,474,245	\$10,358	\$10,097	\$(355)	\$(4,507)	\$5,171	\$(61,708)	\$—	\$—	\$(17,430)	\$(641)	\$1,415,507
Liabilities:												
Annuity account balances ⁽²⁾	\$86,094	\$—	\$—	\$(977)	\$—	\$—	\$—	\$9	\$2,052	\$—	\$—	\$85,117
Other liabilities ⁽¹⁾	702,218	12,201	—	(46,396)	—	—	—	—	—	—	—	736,423
Total liabilities measured at fair value on a recurring basis	\$788,312	\$12,201	\$—	\$(47,373)	\$—	\$—	\$—	\$9	\$2,052	\$—	\$—	\$821,536

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2017, there were no securities transferred into Level 3.

For the three months ended September 30, 2017, \$17.4 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of September 30, 2017.

For the three months ended September 30, 2017, there were no securities transferred from Level 2 to Level 1.

For the three months ended September 30, 2017, there were no securities transferred from Level 1.

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

		Total Realized and Unrealized Gains	Total Realized and Unrealized Losses								
	Beginning Balance	Included in Earnings	Included in Other Comprehensive Income	Included in Earnings	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers into/out of Level 3	Other
(Dollars In Thousands)											
Assets:											
Fixed maturity securities available-for-sale											
Residential mortgage-backed securities	\$3	\$—	\$83	\$—	\$—	\$11,862	\$(3)	\$—	\$—	\$(11,944)	\$(1)
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—	—	—	—
Other asset-backed securities	562,604	—	5,212	—	(7,373)	100	(2,136)	—	—	(6,643)	1,385
Corporate securities	664,046	—	26,099	—	(2,764)	85,822	(135,192)	—	—	(10,353)	(3,103)
Total fixed maturity securities - available-for-sale	1,226,653	—	31,394	—	(10,137)	97,784	(137,331)	—	—	(28,940)	(1,722)
Fixed maturity securities - trading											
Other asset-backed securities	84,563	3,679	—	(1,154)	—	—	(52,516)	—	—	—	918
Corporate securities	5,492	101	—	—	—	—	—	—	—	—	(69)
Total fixed maturity securities - trading	90,055	3,780	—	(1,154)	—	—	(52,516)	—	—	—	849
Total fixed maturity securities	1,316,708	3,780	31,394	(1,154)	(10,137)	97,784	(189,847)	—	—	(28,940)	(872)
Equity securities	69,010	—	52	(2,630)	—	—	(273)	—	—	3	—

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

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the nine months ended September 30, 2017, there were an immaterial amount of securities transferred into Level 3.

For the nine months ended September 30, 2017, \$28.9 million of securities were transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in the previous periods but were priced by independent pricing services or brokers as of September 30, 2017.

For the nine months ended September 30, 2017, there were no securities transferred from Level 2 to Level 1.

For the nine months ended September 30, 2017, there were no securities transferred from Level 1.

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

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

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securities

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

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended September 30, 2016, there were no securities transferred into Level 3.

For the three months ended September 30, 2016, there were \$47.5 million of securities transferred into Level 2. This amount was transferred from Level 3. These transfers resulted from securities that were priced internally using significant unobservable inputs where market observable inputs were not available in previous periods but were priced by independent pricing services or brokers as of September 30, 2016.

For the three months ended September 30, 2016, there were no securities transferred from Level 2 to Level 1.

For the three months ended September 30, 2016, there were no securities transferred from Level 1.

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

	Beginning Balance	Total Realized and Unrealized Gains	Total Realized and Unrealized Losses	Purchases	Sales	Transfers Issued from Level 3	Transfers Settled to Level 3	Other	Ending Balance
		Included in Earnings	Included in Other Comprehensive Income	Included in Other Comprehensive Income					
(Dollars In Thousands)									
Assets:									
Fixed maturity securities available-for-sale									
Residential mortgage-backed securities	\$3	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$3
Commercial mortgage-backed securities	—	—	7	—	25,607	—	—	(7)	25,607
Other asset-backed securities	587,031	6,859	24,119	—	(21,426)	9,597	(58,461)	7,457	553,013
Corporate securities	902,119	925	40,435	(4,135)	(10,316)	53,885	(107,866)	(114,189)	753,179
Total fixed maturity securities - available-for-sale	1,489,153	7,784	64,561	(4,135)	(31,742)	89,089	(166,327)	(106,732)	1,338,873
Fixed maturity securities - trading									
Other asset-backed securities	152,912	5,310	—	(1,013)	—	—	(11,578)	172	145,803
Corporate securities	18,225	713	—	(259)	—	10,908	(4,071)	(19,722)	5,606
Total fixed maturity securities - trading	171,137	6,023	—	(1,272)	—	10,908	(15,649)	(19,550)	151,116
Total fixed maturity securities	1,660,290	13,807	64,561	(5,407)	(31,742)	99,997	(181,976)	(126,282)	1,490,987

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Equity securities	69,763	—	—	—	—	22	—	—	(36)	1	69,7
Other long-term investments ⁽¹⁾	96,830	22,620	—	(49,399)	—	—	—	—	—	—	70,0
Total investments	1,826,883	36,427	64,561	(54,806)	(31,742)	100,019	(181,976)	—	(126,318)	(9,480)	1,62
Total assets measured at fair value on a recurring basis	\$1,826,883	\$36,427	\$64,561	\$(54,806)	\$(31,742)	\$100,019	\$(181,976)	\$—	\$(126,318)	\$(9,480)	\$1,1
Liabilities:											
Annuity account balances ⁽²⁾	\$92,512	\$—	\$—	\$(1,831)	\$—						