



**Protective Life Corporation
Financial Statements and Notes
March 31, 2021**

**PROTECTIVE LIFE CORPORATION
FINANCIAL STATEMENTS AND NOTES
FOR QUARTERLY PERIOD ENDED MARCH 31, 2021**

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

	For The Three Months Ended March 31,	
	2021	2020
	(Dollars In Millions)	
Revenues		
Gross premiums and policy fees	\$ 1,128	\$ 903
Reinsurance ceded	(327)	(41)
Net premiums and policy fees	801	862
Net investment income	768	790
Realized gains (losses)	105	(299)
Other income	133	159
Total revenues	1,807	1,512
Benefits and expenses		
Benefits and settlement expenses, net of reinsurance ceded: (2021 - \$366 ; 2020 - \$(35))	1,321	1,351
Amortization of deferred policy acquisition costs and value of business acquired	108	54
Other operating expenses, net of reinsurance ceded: (2021 - \$56 ; 2020 - \$58)	251	252
Total benefits and expenses	1,680	1,657
Income (loss) before income tax	127	(145)
Income tax expense (benefit)	19	(28)
Net income (loss)	<u>\$ 108</u>	<u>\$ (117)</u>

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Net income (loss)	\$ 108	\$ (117)
Other comprehensive income (loss):		
Change in net unrealized gains (losses) on investments, net of income tax: (2021 - \$(471); 2020 - \$(394))	(1,772)	(1,481)
Reclassification adjustment for investment amounts included in net income (loss), net of income tax: (2021 - \$(7); 2020 - \$3)	(27)	10
Change in net expected credit losses, net of income tax: (2021 - \$1; 2020 - \$(2))	5	(7)
Change in accumulated gain (loss) - derivatives, net of income tax: (2021 - \$1; 2020 - \$(1))	2	(5)
Reclassification adjustment for derivative amounts included in net income (loss), net of income tax: (2021 - \$—; 2020 - \$—)	—	1
Change in postretirement benefits liability adjustment, net of income tax: (2021 - \$— ; 2020 - \$—)	1	1
Total other comprehensive loss	(1,791)	(1,481)
Total comprehensive loss	<u>\$ (1,683)</u>	<u>\$ (1,598)</u>

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS

	As of	
	March 31, 2021 (Unaudited)	December 31, 2020
(Dollars In Millions)		
Assets		
Fixed maturities, at fair value (amortized cost: 2021 - \$66,493; 2020 - \$65,817; allowance for credit losses: 2021 - \$4; 2020 - \$23)	\$ 69,986	\$ 72,727
Equity securities, at fair value (cost: 2021 - \$756; 2020 - \$674)	780	706
Commercial mortgage loans, net of allowance for credit losses (allowance for credit losses: 2021 - \$171; 2020 - \$222)	10,137	10,006
Investment real estate, net of accumulated depreciation	10	10
Policy loans	1,576	1,593
Other long-term investments	3,189	3,187
Short-term investments	773	475
Total investments	86,451	88,704
Cash	700	751
Accrued investment income	725	708
Accounts and premiums receivable	177	131
Reinsurance receivables, net of allowance for credit losses (allowance for credit losses: 2021 - \$95; 2020 - \$98)	4,275	4,223
Deferred policy acquisition costs and value of business acquired	3,733	3,428
Goodwill	957	826
Other intangibles, net of accumulated amortization (2021 - \$328; 2020 - \$312)	607	541
Property and equipment, net of accumulated depreciation (2021 - \$70; 2020 - \$64)	211	208
Other assets	328	434
Assets related to separate accounts:		
Variable annuity	12,699	12,378
Variable universal life	1,646	1,286
Reinsurance assumed	13,444	13,325
Total assets	\$ 125,953	\$ 126,943

PROTECTIVE LIFE CORPORATION
CONSOLIDATED CONDENSED BALANCE SHEETS
(continued)

	As of	
	March 31, 2021	December 31, 2020
	(Unaudited)	
	(Dollars In Millions)	
Liabilities		
Future policy benefits and claims	\$ 53,622	\$ 54,109
Unearned premiums	1,079	881
Total policy liabilities and accruals	54,701	54,990
Stable value product account balances	6,655	6,056
Annuity account balances	15,679	15,478
Other policyholders' funds	1,515	1,865
Other liabilities	4,996	5,363
Income tax payable	100	59
Deferred income taxes	1,385	1,832
Secured financing liabilities	987	496
Debt	2,048	1,853
Subordinated debt	606	606
Liabilities related to separate accounts:		
Variable annuity	12,699	12,378
Variable universal life	1,646	1,286
Reinsurance assumed	13,444	13,325
Total liabilities	116,461	115,587
Commitments and contingencies - Note 12		
Shareowner's equity		
Common Stock: 2021 and 2020 - \$0.01 par value; shares authorized: 5,000; shares issued: 1,000	—	—
Additional paid-in-capital	5,804	5,804
Retained earnings	1,971	2,044
Accumulated other comprehensive income (loss):		
Net unrealized gains (losses) on investments, net of income tax: (2021 - \$470; 2020 - \$948)	1,768	3,567
Net unrealized gains (losses) on investments with an allowance for credit losses, net of income tax: (2021 - \$1; 2020 - \$(1))	3	(2)
Accumulated loss - derivatives, net of income tax: (2021 - \$(2); 2020 - \$(2))	(6)	(8)
Postretirement benefits liability adjustment, net of income tax: (2021 - \$—; 2020 - \$(13))	(48)	(49)
Total shareowner's equity	9,492	11,356
Total liabilities and shareowner's equity	\$ 125,953	\$ 126,943

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

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, December 31, 2020	\$ —	\$ 5,804	\$ 2,044	\$ 3,508	\$ 11,356
Net income			108		108
Other comprehensive loss				(1,791)	(1,791)
Comprehensive loss					(1,683)
Dividends to parent			(181)		(181)
Balance, March 31, 2021	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 1,971</u>	<u>\$ 1,717</u>	<u>\$ 9,492</u>

	<u>Common Stock</u>	<u>Additional Paid-In- Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Shareowner's Equity</u>
	(Dollars In Millions)				
Balance, December 31, 2019	\$ —	\$ 5,804	\$ 2,052	\$ 1,384	\$ 9,240
Net loss			(117)		(117)
Other comprehensive loss				(1,481)	(1,481)
Comprehensive loss					(1,598)
Cumulative effect adjustments			(138)		(138)
Dividends to parent			(232)		(232)
Balance, March 31, 2020	<u>\$ —</u>	<u>\$ 5,804</u>	<u>\$ 1,565</u>	<u>\$ (97)</u>	<u>\$ 7,272</u>

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Cash flows from operating activities		
Net income (loss)	\$ 108	\$ (117)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Realized (gains) losses	(105)	299
Amortization of DAC and VOBA	108	54
Capitalization of DAC	(143)	(107)
Depreciation and amortization expense	22	19
Deferred income tax	(22)	65
Accrued income tax	41	(89)
Interest credited to universal life and investment products	390	411
Policy fees assessed on universal life and investment products	(453)	(448)
Change in reinsurance receivables	(52)	(148)
Change in accrued investment income and other receivables	(58)	14
Change in policy liabilities and other policyholders' funds of traditional life and health products	(169)	(213)
Trading securities:		
Maturities and principal reductions of investments	31	26
Sale of investments	144	123
Cost of investments acquired	(151)	(179)
Other net change in trading securities	(32)	2
Amortization of premiums and accretion of discounts on investments and commercial mortgage loans	68	84
Change in other liabilities	(68)	329
Other, net	156	46
Net cash (used in) provided by operating activities	\$ (185)	\$ 171

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Cash flows from investing activities		
Maturities and principal reductions of investments, available-for-sale	\$ 2,197	\$ 820
Sale of investments, available-for-sale	1,513	969
Cost of investments acquired, available-for-sale	(4,650)	(2,590)
Commercial mortgage loans:		
New lendings	(358)	(355)
Repayments	268	226
Change in policy loans, net	17	18
Change in other long-term investments, net	(224)	298
Change in short-term investments, net	(265)	446
Net unsettled security transactions	100	(151)
Purchase of property, equipment, and intangibles	(13)	(9)
Payment for business acquisition, net of cash acquired	24	—
Net cash used in investing activities	(1,391)	(328)
Cash flows from financing activities		
Borrowings under line of credit arrangement, debt, and subordinated debt	\$ 275	\$ 200
Principal payments on line of credit arrangement, debt, and subordinated debt	(80)	—
Secured financing liabilities	491	(268)
Dividends to shareowner	(181)	(232)
Deposits to universal life and investment contracts	1,865	1,549
Withdrawals from universal life and investment contracts	(843)	(786)
Other financing activities, net	(2)	(1)
Net cash provided by financing activities	1,525	462
Change in cash	(51)	305
Cash at beginning of period	751	244
Cash at end of period	\$ 700	\$ 549

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 (the “Merger”). 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 consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for the interim periods presented herein. In the opinion of management, the accompanying consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the results for the interim periods presented. Operating results for the three months ended March 31, 2021, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2021. The year-end consolidated condensed financial data included herein was derived from audited financial statements but this report does not include all disclosures required by GAAP.

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.

Beginning in the first quarter of 2020, the outbreak of COVID-19 created significant economic and social disruption and impacted various operational and financial aspects of the Company’s business. Since the initial declines at the beginning of the pandemic, equity markets have largely recovered. However, the pandemic may continue to impact the Company’s earnings based on, amongst other factors, the volume and severity of claims related to COVID-19 and the financial disruption caused by the pandemic, which could impact the Company’s investment portfolio.

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 the Company’s significant accounting policies, refer to Note 2 in the Company’s consolidated financial statements for the year ended December 31, 2020. There were no significant changes to the Company’s accounting policies during the three months ended March 31, 2021.

Accounting Pronouncements Recently Adopted

Accounting Standards Update (“ASU” or “Update”) No. 2019-12 – Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this Update remove certain exceptions to the general principles in Topic 740 related to intraperiod tax allocations, interim tax calculations, and outside basis differences. The amendments also clarify and amend guidance in certain other areas of Topic 740 in order to eliminate diversity in practice. The amendments in this Update are effective for public business entities in fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The adoption of this Update did not have a material impact on the Company’s operations and financial results.

Accounting Pronouncements Not Yet Adopted

ASU No. 2018-12 - Financial Services - Insurance (Topic 944): Targeted Improvements to Accounting for Long-Duration Contracts. The amendments in this Update are designed to make improvements to the existing recognition, measurement, presentation, and disclosure requirements for certain long-duration contracts issued by an insurance company. The new amendments require insurance entities to provide a more current measure of the liability for future policy benefits for traditional and limited-payment contracts by regularly refining the liability for actual past experience and updated future assumptions. This differs from current requirements where assumptions are locked-in at contract issuance for these contract types. In addition, the updated liability will be discounted using an upper-medium grade (low-credit-risk) fixed income instrument yield that reflects the characteristics of the liability which differs from currently used rates based on the invested assets supporting the liability. In addition, the amendments introduce new requirements to assess market-based insurance contract options and guarantees for Market Risk Benefits and measure them at fair value. This Update also requires insurance entities to amortize deferred acquisition costs on a constant-level basis over the expected life of the contract. Finally, this Update requires new disclosures including liability rollforwards and information about significant inputs, judgments, assumptions, and methods used in the measurement. In November 2020, FASB issued ASU No. 2020-11 - *Financial Services - Insurance (Topic 944); Effective Date and Early Application* which deferred the effective date to periods beginning after December 15, 2022. The Company is currently reviewing its policies, processes, and applicable systems to determine the impact this standard will have on its operations and financial results.

3. RECENT TRANSACTIONS

Revolos

On January 1, 2021, the Company closed its previously announced transaction to acquire Warranty Topco, Inc. via an Agreement and Plan of Merger signed on September 24, 2020. Warranty Topco, Inc. and its subsidiaries (doing business as the Revolos family of companies) offer a suite of finance and insurance products, including vehicle service contracts, guaranteed asset protection (“GAP”) coverage and ancillary products serving the automotive, recreational vehicle and powersports industries. The transaction was announced on September 25, 2020. The aggregate purchase price was \$92 million.

The following table details the allocation of assets acquired and liabilities assumed from the Revolos transaction as of the date of the Closing.

	Fair Value as of January 1, 2021
	(Dollars In Millions)
ASSETS	
Fixed maturities	\$ 21
Cash	116
Goodwill	131
Value of business acquired	16
Other intangibles	78
Other assets	70
Total assets	432
LIABILITIES	
Unearned premiums	\$ 285
Other liabilities	55
Total liabilities	340
NET ASSETS ACQUIRED	\$ 92

Intangible assets recognized by the Company included the following (excluding goodwill):

	Estimated Fair Value on Acquisition Date	Estimated Useful Life
	(Dollars In Millions)	(In Years)
Distribution relationships	\$ 71	20
Technology	3	4
Trade name	4	7
Total intangible assets	<u>\$ 78</u>	

4. INVESTMENT OPERATIONS

Net realized gains (losses) are summarized as follows:

	For The Three Months Ended March 31,	
	2021	2020
	(Dollars In Millions)	
Fixed maturities	\$ 30	\$ 39
Equity securities	(8)	(43)
Modco trading portfolios	(137)	(124)
Change in net expected credit losses - fixed maturities	5	(52)
Commercial mortgage loans	56	(95)
Other investments	(1)	(1)
Realized gains (losses) - investments	(55)	(276)
Realized gains (losses) - derivatives ⁽¹⁾	160	(23)
Realized gains (losses)	<u>\$ 105</u>	<u>\$ (299)</u>

(1) See Note 6, *Derivative Financial Instruments*

Gross realized gains and gross realized losses on investments available-for-sale are as follows:

	For The Three Months Ended March 31,	
	2021	2020
	(Dollars In Millions)	
Gross realized gains	\$ 31	\$ 40
Gross realized losses:		
Change in net expected credit losses - fixed maturities	\$ 5	\$ (52)
Other realized losses	\$ (1)	\$ (1)

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Securities in an unrealized gain position:		
Fair value proceeds	\$ 1,090	\$ 507
Gains realized	\$ 31	\$ 40
Securities in an unrealized loss position:		
Fair value proceeds	\$ 8	\$ —
Losses realized	\$ (1)	\$ (1)

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Net gains (losses) recognized during the period on equity securities still held	\$ (8)	\$ (43)
Net gains (losses) recognized on equity securities sold during the period	—	—
Net gains (losses) recognized during the period on equity securities	\$ (8)	\$ (43)

The amortized cost, gross unrealized gains, losses, allowance for expected credit losses, and fair value of the Company's investments classified as available-for-sale are as follows:

As of March 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
(Dollars In Millions)					
Fixed maturities:					
Residential mortgage-backed securities	\$ 6,872	\$ 89	\$ (58)	\$ —	\$ 6,903
Commercial mortgage-backed securities	2,346	92	(11)	(2)	2,425
Other asset-backed securities	1,505	36	(4)	(1)	1,536
U.S. government-related securities	980	17	(37)	—	960
Other government-related securities	596	54	(3)	—	647
States, municipals, and political subdivisions	3,821	301	(3)	—	4,119
Corporate securities	47,459	3,370	(349)	(1)	50,479
Redeemable preferred stocks	213	4	(1)	—	216
	63,792	3,963	(466)	(4)	67,285
Short-term investments	664	—	—	—	664
	\$ 64,456	\$ 3,963	\$ (466)	\$ (4)	\$ 67,949

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As of December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Expected Credit Losses	Fair Value
(Dollars In Millions)					
Fixed maturities:					
Residential mortgage-backed securities	\$ 6,510	\$ 159	\$ (1)	\$ —	\$ 6,668
Commercial mortgage-backed securities	2,429	128	(19)	(4)	2,534
Other asset-backed securities	1,546	40	(7)	(1)	1,578
U.S. government-related securities	1,492	26	(3)	—	1,515
Other government-related securities	627	96	(1)	—	722
States, municipals, and political subdivisions	3,902	519	(1)	—	4,420
Corporate securities	46,266	6,085	(99)	(18)	52,234
Redeemable preferred stocks	183	11	—	—	194
	<u>62,955</u>	<u>7,064</u>	<u>(131)</u>	<u>(23)</u>	<u>69,865</u>
Short-term investments	<u>399</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>399</u>
	<u>\$ 63,354</u>	<u>\$ 7,064</u>	<u>\$ (131)</u>	<u>\$ (23)</u>	<u>\$ 70,264</u>

The Company holds certain investments pursuant to certain modified coinsurance (“Modco”) arrangements. The fixed maturities, equity securities, and short-term investments held as part of these arrangements are classified as trading securities. The fair value of the investments held pursuant to these Modco arrangements are as follows:

	As of	
	March 31, 2021	December 31, 2020
(Dollars In Millions)		
Fixed maturities:		
Residential mortgage-backed securities	\$ 181	\$ 209
Commercial mortgage-backed securities	213	214
Other asset-backed securities	175	163
U.S. government-related securities	35	91
Other government-related securities	32	30
States, municipals, and political subdivisions	282	282
Corporate securities	1,772	1,860
Redeemable preferred stocks	11	13
	<u>2,701</u>	<u>2,862</u>
Equity securities	23	20
Short-term investments	109	76
	<u>\$ 2,833</u>	<u>\$ 2,958</u>

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The amortized cost and fair value of available-for-sale fixed maturities as of March 31, 2021, 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	
	Amortized Cost	Fair Value
(Dollars In Millions)		
Due in one year or less	\$ 1,628	\$ 1,643
Due after one year through five years	12,412	12,948
Due after five years through ten years	13,888	14,670
Due after ten years	35,864	38,024
	<u>\$ 63,792</u>	<u>\$ 67,285</u>

The following chart is a rollforward of the available-for-sale allowance for expected credit losses on fixed maturities held by the Company:

	For The Three Months Ended March 31, 2021				For The Three Months Ended March 31, 2020	
	Corporate Securities	CMBS	ABS	Total	Corporate Securities	Total
(Dollars In Millions)						
Beginning Balance	\$ 18	\$ 4	\$ 1	\$ 23	\$ —	\$ —
Additions for securities for which an allowance was not previously recorded	—	—	—	—	52	52
Adjustments on previously recorded allowances due to change in expected cash flows	(1)	(2)	—	(3)	—	—
Reductions on previously recorded allowances due to disposal of security in the current period	—	—	—	—	—	—
Write-offs of previously recorded allowances due to intent or requirement to sell	(16)	—	—	(16)	—	—
Ending Balance	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 52</u>	<u>\$ 52</u>

The following table includes the gross unrealized losses for which an allowance for credit losses has not been recorded and fair value of the Company's AFS fixed maturities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2021:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(Dollars In Millions)						
Residential mortgage-backed securities	\$ 2,586	\$ (58)	\$ 12	\$ —	\$ 2,598	\$ (58)
Commercial mortgage-backed securities	247	(9)	29	(2)	276	(11)
Other asset-backed securities	202	(3)	137	(1)	339	(4)
U.S. government-related securities	438	(37)	—	—	438	(37)
Other government-related securities	67	(3)	—	—	67	(3)
States, municipals, and political subdivisions	78	(3)	4	—	82	(3)
Corporate securities	7,275	(281)	702	(68)	7,977	(349)
Redeemable preferred stocks	14	(1)	—	—	14	(1)
	<u>\$ 10,907</u>	<u>\$ (395)</u>	<u>\$ 884</u>	<u>\$ (71)</u>	<u>\$ 11,791</u>	<u>\$ (466)</u>

Commercial mortgage-backed securities (“CMBS”) had gross unrealized losses greater than twelve months of \$2 million as of March 31, 2021. Factors such as the credit enhancement within the deal structure, the average life of the securities, and the performance of the underlying collateral support the recoverability of these investments.

The other asset-backed securities have a gross unrealized loss greater than twelve months of \$1 million as of March 31, 2021. This category predominately includes student loan backed auction rate securities (“ARS”) 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 corporate securities category had gross unrealized losses greater than twelve months of \$68 million as of March 31, 2021, excluding losses of \$1 million that were considered credit related. These losses are deemed temporary due to the delayed uneven recoveries from the COVID-19 pandemic and the recent increase in treasury rates as of March 31, 2021.

As of March 31, 2021, the Company had a total of 845 positions that were in an unrealized loss position, including 6 positions for which an allowance for credit losses was established. For unrealized losses for which an allowance for credit losses was not established, the Company does not consider these unrealized loss positions to be credit-related. 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. The Company does not intend to sell or expect to be required to sell the securities before recovering the Company’s amortized cost of the securities.

The following table includes the gross unrealized losses and fair value of the Company’s investments that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2020:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(Dollars In Millions)						
Residential mortgage-backed securities	\$ 386	\$ (1)	\$ 9	\$ —	\$ 395	\$ (1)
Commercial mortgage-backed securities	263	(16)	30	(4)	293	(20)
Other asset-backed securities	146	(2)	326	(5)	472	(7)
U.S. government-related securities	311	(3)	1	—	312	(3)
Other government-related securities	19	—	7	(1)	26	(1)
States, municipals, and political subdivisions	34	(1)	5	—	39	(1)
Corporate securities	1,067	(33)	729	(66)	1,796	(99)
Redeemable preferred stocks	—	—	—	—	—	—
	<u>\$ 2,226</u>	<u>\$ (56)</u>	<u>\$ 1,107</u>	<u>\$ (76)</u>	<u>\$ 3,333</u>	<u>\$ (132)</u>

As of March 31, 2021, the Company had securities in its available-for-sale portfolio which were rated below investment grade of \$3 billion and had an amortized cost of \$3 billion. In addition, included in the Company’s trading portfolio, the Company held \$134 million of securities which were rated below investment grade. The Company held \$508 million of below investment grade securities that were not publicly traded.

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

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Fixed maturities	\$ (2,714)	\$ 2,254

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; and
 - 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 estimates about the assumptions a market participant would use in pricing the asset or liability.

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The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of March 31, 2021:

	Measurement Category	Level 1	Level 2	Level 3	Total
(Dollars In Millions)					
Assets:					
Fixed maturity securities - AFS					
Residential mortgage-backed securities	4	\$ —	\$ 6,903	\$ —	\$ 6,903
Commercial mortgage-backed securities	4	—	2,393	32	2,425
Other asset-backed securities	4	—	1,096	440	1,536
U.S. government-related securities	4	483	477	—	960
Other government-related securities	4	—	647	—	647
States, municipals, and political subdivisions	4	—	4,119	—	4,119
Corporate securities	4	—	49,073	1,406	50,479
Redeemable preferred stocks	4	150	66	—	216
Total fixed maturity securities - AFS		633	64,774	1,878	67,285
Fixed maturity securities - trading					
Residential mortgage-backed securities	3	—	181	—	181
Commercial mortgage-backed securities	3	—	213	—	213
Other asset-backed securities	3	—	74	101	175
U.S. government-related securities	3	28	7	—	35
Other government-related securities	3	—	16	16	32
States, municipals, and political subdivisions	3	—	282	—	282
Corporate securities	3	—	1,761	11	1,772
Redeemable preferred stocks	3	11	—	—	11
Total fixed maturity securities - trading		39	2,534	128	2,701
Total fixed maturity securities		672	67,308	2,006	69,986
Equity securities	3	657	—	123	780
Other long-term investments ⁽¹⁾	3 & 4	64	1,271	237	1,572
Short-term investments	3	640	133	—	773
Total investments		2,033	68,712	2,366	73,111
Cash	3	700	—	—	700
Other assets	3	40	—	—	40
Assets related to separate accounts					
Variable annuity	3	12,699	—	—	12,699
Variable universal life	3	1,646	—	—	1,646
Total assets measured at fair value on a recurring basis		\$ 17,118	\$ 68,712	\$ 2,366	\$ 88,196
Liabilities:					
Annuity account balances ⁽²⁾	3	\$ —	\$ —	\$ 66	\$ 66
Other liabilities ⁽¹⁾	3 & 4	26	927	1,662	2,615
Total liabilities measured at fair value on a recurring basis		\$ 26	\$ 927	\$ 1,728	\$ 2,681

Measurement category 3 represents fair value through net income (loss) and 4 represents fair value through other comprehensive income (loss).

(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, 2020:

	Measurement Category	Level 1	Level 2	Level 3	Total
(Dollars In Millions)					
Assets:					
Fixed maturity securities - AFS					
Residential mortgage-backed securities	4	\$ —	\$ 6,668	\$ —	\$ 6,668
Commercial mortgage-backed securities	4	—	2,502	32	2,534
Other asset-backed securities	4	—	1,143	435	1,578
U.S. government-related securities	4	1,014	501	—	1,515
Other government-related securities	4	—	722	—	722
State, municipals, and political subdivisions	4	—	4,420	—	4,420
Corporate securities	4	—	50,802	1,432	52,234
Redeemable preferred stocks	4	125	69	—	194
Total fixed maturity securities - AFS		1,139	66,827	1,899	69,865
Fixed maturity securities - trading					
Residential mortgage-backed securities	3	—	209	—	209
Commercial mortgage-backed securities	3	—	214	—	214
Other asset-backed securities	3	—	92	71	163
U.S. government-related securities	3	79	12	—	91
Other government-related securities	3	—	30	—	30
State, municipals, and political subdivisions	3	—	282	—	282
Corporate securities	3	—	1,842	18	1,860
Redeemable preferred stocks	3	13	—	—	13
Total fixed maturity securities - trading		92	2,681	89	2,862
Total fixed maturity securities		1,231	69,508	1,988	72,727
Equity securities	3	605	—	101	706
Other long-term investments ⁽¹⁾	3&4	52	1,285	245	1,582
Short-term investments	3	416	59	—	475
Total investments		2,304	70,852	2,334	75,490
Cash	3	751	—	—	751
Other assets	3	38	—	—	38
Assets related to separate accounts					
Variable annuity	3	12,378	—	—	12,378
Variable universal life	3	1,286	—	—	1,286
Total assets measured at fair value on a recurring basis		\$ 16,757	\$ 70,852	\$ 2,334	\$ 89,943
Liabilities:					
Annuity account balances ⁽²⁾	3	\$ —	\$ —	\$ 67	\$ 67
Other liabilities ⁽¹⁾	3&4	14	857	2,190	3,061
Total liabilities measured at fair value on a recurring basis		\$ 14	\$ 857	\$ 2,257	\$ 3,128

Measurement category 3 represents fair value through net income (loss) and 4 represents fair value through other comprehensive income (loss).

(1) Includes certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

Determination of Fair Values

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

For a full description of the Company’s fair value calculations and accounting policies, refer to Note 6 in the Company’s consolidated financial statements for the year ended December 31, 2020.

Valuation of Level 3 Financial Instruments

The following tables present the valuation method for material AFS fixed maturity securities and embedded derivative financial instruments included in Level 3, as well as the unobservable inputs used in the valuation of those financial instruments as of March 31, 2021 and December 31, 2020:

March 31, 2021	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
(Dollars In Millions)				
Assets:				
Commercial mortgage-backed securities	\$ 32	Discounted cash flow	Spread over treasury	1.87% - 2.10% (2.02%)
Other asset-backed securities	440	Liquidation	Liquidation value	\$96.50 - \$98.38 (\$97.17)
		Discounted cash flow	Liquidity premium	0.64% - 2.29% (1.66%)
			Paydown rate	8.88% - 12.47% (11.40%)
Corporate securities	1,406	Discounted cash flow	Spread over treasury	0.00% - 4.50% (1.79%)
Liabilities:⁽¹⁾				
Embedded derivatives - GLWB ⁽²⁾	\$ 418	Actuarial cash flow model	Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	PL-RBA Predictive Model
			Utilization	PL-RBA Predictive Model
			Nonperformance risk	0.20% - 0.85%
			Expenses	\$207 per policy
Embedded derivative - FIA	635	Actuarial cash flow model	Withdrawal rate	0.4% - 2.4% prior to age 72, RMD for ages 72+ or WB withdrawal rate. Assume underutilized RMD for non-WB policies ages 72-88
			Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	0.2% - 50%, depending on duration/surrender charge period. Dynamically adjusted for WB moneyiness and projected market rates vs credited rates.
			Nonperformance risk	0.20% - 0.85%
			Expenses	\$207 per policy
Embedded derivative - IUL	179	Actuarial cash flow model	Mortality	36% - 161% of 2015 VBT Primary Tables 94% - 248% of duration 8 point in scale 2015 VBT Primary Tables, depending on type of business
			Lapse	0.375% - 10.0%, depending on on duration/distribution channel and smoking class
			Nonperformance risk	0.20% - 0.85%
			Expenses	\$207 per policy

(1) Excludes modified coinsurance arrangements.

(2) Fair value is presented as a net liability.

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December 31, 2020	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
(Dollars In Millions)				
Assets:				
Commercial mortgage-backed securities	\$ 32	Discounted cash flow	Spread over treasury	2.78%-2.92% (2.87%)
Other asset-backed securities	435	Liquidation	Liquidation value	\$95.00 - \$97.00 (\$96.19)
		Discounted cash flow	Liquidity premium	0.54% - 2.30% (1.63%)
			Paydown rate	8.79% - 12.49% (11.39%)
Corporate securities	1,432	Discounted cash flow	Spread over treasury	0.00% - 4.75% (1.89%)
Liabilities:⁽¹⁾				
Embedded derivatives - GLWB ⁽²⁾	822	Actuarial cash flow model	Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	PL-RBA Predictive Model
			Utilization	PL-RBA Predictive Model
			Nonperformance risk	0.19% - 0.81%
Embedded derivative - FIA	627	Actuarial cash flow model	Expenses	\$207 per policy
			Withdrawal rate	0.4%-2.4% prior to age 70 RMD for ages 70+ or WB withdrawal rate Assume underutilized RMD for non-WB policies ages 72-88
			Mortality	88% to 100% of Ruark 2015 ALB table
			Lapse	0.2% - 50.0%, depending on duration/surrender charge period. Dynamically adjusted for WB moneyness and projected market rates vs credited rates.
			Nonperformance risk	0.19% - 0.81%
Embedded derivative - IUL	201	Actuarial cash flow model	Mortality	36% - 161% of 2015 VBT Primary Tables 94% - 248% of duration 8 point in scale 2015 VBT primary tables, depending on type of business
			Lapse	0.375% - 10.0%, depending on duration/distribution channel and smoking class
			Nonperformance risk	0.19% - 0.81%

(1) Excludes modified coinsurance arrangements.

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

The charts above excludes Level 3 financial instruments that are valued using broker quotes and for which book value approximates fair value. Unobservable inputs were weighted by the relative fair value of instruments, except for other asset-backed securities which were weighted by the relative par amounts

The Company has considered all reasonably available quantitative inputs as of March 31, 2021 and December 31, 2020, but the valuation techniques and inputs used by some brokers in pricing certain financial instruments are not shared with the Company. This resulted in \$125 million and \$116 million of financial instruments being classified as Level 3 as of March 31, 2021 and December 31, 2020, of which \$109 million and \$88 million are other asset-backed securities, \$10 million and are \$17 million corporate securities, and \$6 million and \$11 million are equity securities, respectively.

In certain cases, the Company has determined that book value materially approximates fair value. As of March 31, 2021 and December 31, 2020, the Company held \$117 million and \$90 million of financial instruments, respectively, where book value approximates fair value which was predominantly FHLB stock.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2021, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains			Total Realized and Unrealized Losses			Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)	Included in Operations	Included in Other Comprehensive Income (Loss)									
(Dollars In Millions)														
Assets:														
Fixed maturity securities AFS														
Commercial mortgage-backed securities	\$ 32	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 32	\$ —
Other asset-backed securities	435	—	5	—	—	—	—	—	—	—	—	—	440	—
Corporate securities	1,432	—	1	—	(46)	10	(32)	—	—	41	—	—	1,406	—
Total fixed maturity securities - AFS	1,899	—	6	—	(46)	10	(32)	—	—	41	—	—	1,878	—
Fixed maturity securities - trading														
Other asset-backed securities	71	2	—	(1)	—	9	—	—	—	20	—	—	101	1
Other government-related securities	—	—	—	—	—	—	—	—	—	16	—	—	16	—
Corporate securities	18	—	—	(1)	—	—	(1)	—	—	(5)	—	—	11	—
Total fixed maturity securities - trading	89	2	—	(2)	—	9	(1)	—	—	31	—	—	128	1
Total fixed maturity securities	1,988	2	6	(2)	(46)	19	(33)	—	—	72	—	—	2,006	1
Equity securities	101	—	—	—	—	33	(6)	—	—	(5)	—	—	123	—
Other long-term investments ⁽¹⁾	245	37	—	(45)	—	—	—	—	—	—	—	—	237	(8)
Total investments	2,334	39	6	(47)	(46)	52	(39)	—	—	67	—	—	2,366	(7)
Total assets measured at fair value on a recurring basis	\$ 2,334	\$ 39	\$ 6	\$ (47)	\$ (46)	\$ 52	\$ (39)	\$ —	\$ —	\$ 67	\$ —	\$ —	\$ 2,366	\$ (7)
Liabilities:														
Annuity account balances ⁽²⁾	\$ 67	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	—	—	\$ 66	\$ —
Other liabilities ⁽¹⁾	2,190	546	—	(18)	—	—	—	—	—	—	—	—	1,662	528
Total liabilities measured at fair value on a recurring basis	\$ 2,257	\$ 546	\$ —	\$ (19)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ —	\$ 1,728	\$ 528

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended March 31, 2021, there were \$79 million of securities transferred into Level 3 from Level 2. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of March 31, 2021.

For the three months ended March 31, 2021, there were \$12 million of securities transferred into Level 2 from Level 3.

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The following table presents a reconciliation of the beginning and ending balances for fair value measurements for the three months ended March 31, 2020, for which the Company has used significant unobservable inputs (Level 3):

	Total Realized and Unrealized Gains		Total Realized and Unrealized Losses		Purchases	Sales	Issuances	Settlements	Transfers in/out of Level 3	Other	Ending Balance	Total Gains (losses) included in Operations related to Instruments still held at the Reporting Date
	Beginning Balance	Included in Operations	Included in Other Comprehensive Income (Loss)	Included in Operations								
(Dollars In Millions)												
Assets:												
Fixed maturity securities AFS												
Commercial mortgage-backed securities	\$ 10	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11	\$ —
Other asset-backed securities	421	—	—	—	(7)	—	—	—	22	—	436	—
Corporate securities	1,374	—	2	—	(76)	24	(50)	—	7	(1)	1,280	—
Total fixed maturity securities - AFS	1,805	—	3	—	(83)	24	(50)	—	29	(1)	1,727	—
Fixed maturity securities - trading												
Other asset-backed securities	65	—	—	(2)	—	2	—	—	—	—	65	(2)
Corporate securities	11	—	—	—	—	2	—	—	—	—	13	—
Total fixed maturity securities - trading	76	—	—	(2)	—	4	—	—	—	—	78	(2)
Total fixed maturity securities	1,881	—	3	(2)	(83)	28	(50)	—	29	(1)	1,805	(2)
Equity securities	74	—	—	—	—	—	—	—	—	—	74	—
Other long-term investments ⁽¹⁾	176	12	—	(77)	—	—	—	—	—	—	111	(65)
Total investments	2,131	12	3	(79)	(83)	28	(50)	—	29	(1)	1,990	(67)
Total assets measured at fair value on a recurring basis	\$ 2,131	\$ 12	\$ 3	\$ (79)	\$ (83)	\$ 28	\$ (50)	\$ —	\$ 29	\$ (1)	\$ 1,990	\$ (67)
Liabilities:												
Annuity account balances ⁽²⁾	\$ 70	\$ —	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 69	\$ —
Other liabilities ⁽¹⁾	1,332	194	—	(939)	—	—	—	—	—	—	2,077	(745)
Total liabilities measured at fair value on a recurring basis	\$ 1,402	\$ 194	\$ —	\$ (940)	\$ —	\$ —	\$ —	\$ —	\$ 2	\$ —	\$ 2,146	\$ (745)

(1) Represents certain freestanding and embedded derivatives.

(2) Represents liabilities related to fixed indexed annuities.

For the three months ended March 31, 2020, there were \$30 million of securities transferred into Level 3. These transfers resulted from securities that were priced by independent pricing services or brokers in previous periods but were priced internally using significant unobservable inputs where market observable inputs were not available as of March 31, 2020.

For the three months ended March 31, 2020, there were no securities transferred into Level 2 from Level 3.

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

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

The amount of total gains (losses) for assets and liabilities still held as of the reporting date primarily represents changes in fair value of trading securities and certain derivatives that exist as of the reporting date and the change in fair value of fixed indexed annuities.

Estimated Fair Value of Financial Instruments

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

Fair Value Level	As of				
	March 31, 2021		December 31, 2020		
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	
(Dollars In Millions)					
Assets:					
Commercial mortgage loans ⁽¹⁾	3	\$ 10,137	\$ 10,862	\$ 10,006	\$ 10,788
Policy loans	3	1,576	1,576	1,593	1,593
Other long-term investments ⁽²⁾	2	1,190	1,251	1,186	1,283
Liabilities:					
Stable value product account balances	3	\$ 6,655	\$ 6,762	\$ 6,056	\$ 6,231
Future policy benefits and claims ⁽³⁾	3	1,545	1,567	1,580	1,603
Other policyholders' funds ⁽⁴⁾	3	105	112	102	108
Debt:⁽⁵⁾					
Bank borrowings ⁽⁶⁾	3	\$ 985	\$ 985	\$ 790	\$ 790
Senior Notes	2	1,063	1,128	1,063	1,184
Subordinated debentures	2	496	517	496	497
Subordinated funding obligations	3	110	112	110	121

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

- (1) The carrying amount is net of allowance for credit losses.
- (2) Other long-term investments represents a Modco receivable, which is related to invested assets such as fixed income and structured securities, which are legally owned by the ceding company. The fair value is determined in a manner consistent with other similar invested assets held by the Company.
- (3) Single premium immediate annuity and structured annuities without life contingencies.
- (4) Supplementary contracts without life contingencies.
- (5) Excludes immaterial capital lease obligations.
- (6) Includes the Term Loan Credit Agreement.

6. DERIVATIVE FINANCIAL INSTRUMENTS

Types of Derivative Instruments and Derivative Strategies

The Company utilizes a risk management strategy that incorporates the use of derivative financial instruments to reduce exposure to certain risks, including but not limited to, interest rate risk, currency exchange risk, volatility risk, and equity market risk. These strategies are developed through the Company's analysis of data from financial simulation models and other internal and industry sources, and are then incorporated into the Company's risk management program.

Derivative instruments expose the Company to credit and market risk and could result in material changes from period to period. The Company attempts to minimize its credit in connection with its overall asset/liability management programs and risk management strategies. In addition, all derivative programs are monitored by our risk management department.

Derivative Instruments Designated and Qualifying as Hedging Instruments

Cash-Flow Hedges

- To hedge a fixed rate note denominated in a foreign currency, the Company entered into a fixed-to-fixed foreign currency swap in order to hedge the foreign currency exchange risk associated with the note. The cash flows received on the swap are identical to the cash flows paid on the note.
- To hedge a floating rate note, the Company entered into an interest rate swap to exchange the floating rate on the note for a fixed rate in order to hedge the interest rate risk associated with the note. The cash flows received on the swap are identical to the cash flow variability paid on the note.

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

The Company uses various other derivative instruments for risk management purposes that do not qualify for hedge accounting treatment. Changes in the fair value of these derivatives are recognized in *realized gains (losses)* during the period of change.

For a full description of the Company's derivative accounting policies, refer to Note 6 in the Company's consolidated financial statements for the year ended December 31, 2020.

The following table sets forth realized gains (losses) - derivatives for the periods shown:

Realized gains (losses) - derivative financial instruments

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Derivatives related to VA contracts:		
Interest rate futures	\$ 9	\$ 1
Equity futures	(8)	31
Currency futures	6	12
Equity options	(46)	280
Interest rate swaps	(297)	409
Total return swaps	(69)	140
Embedded derivative - GLWB	405	(935)
Total derivatives related to VA contracts	—	(62)
Derivatives related to FIA contracts:		
Embedded derivative	6	39
Equity futures	1	(8)
Equity options	23	(60)
Other derivatives	(1)	—
Total derivatives related to FIA contracts	29	(29)
Derivatives related to IUL contracts:		
Embedded derivative	21	—
Equity futures	—	(2)
Equity options	3	(14)
Total derivatives related to IUL contracts	24	(16)
Embedded derivative - Modco reinsurance treaties	100	75
Other derivatives	7	9
Total realized gains (losses) - derivatives	\$ 160	\$ (23)

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

Gain (Loss) on Derivatives in Cash Flow Hedging Relationship

	Amount of Gains (Losses) Deferred in Accumulated Other Comprehensive Income (Loss) on Derivatives	Amount and Location of Gains (Losses) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Loss)	Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives
	<u>(Effective Portion)</u>	<u>(Effective Portion)</u>	<u>(Ineffective Portion)</u>
		Benefits and settlement expenses	Realized gains (losses) - derivatives
		(Dollars In Millions)	
For The Three Months Ended March 31, 2021			
Foreign currency swaps	\$ 2	\$ —	\$ —
Interest rate swaps	—	—	—
Total	<u>\$ 2</u>	<u>\$ —</u>	<u>\$ —</u>
For The Three Months Ended March 31, 2020			
Foreign currency swaps	\$ (5)	\$ —	\$ —
Interest rate swaps	(1)	(1)	—
Total	<u>\$ (6)</u>	<u>\$ (1)</u>	<u>\$ —</u>

Based on expected cash flows of the underlying hedged items, the Company expects to reclassify \$1 million out of accumulated other comprehensive income (loss) into *realized gains (losses)* during the next twelve months.

The table below presents information about the nature and accounting treatment of the Company's primary derivative financial instruments and the location in and effect on the consolidated condensed financial statements for the periods presented below:

	As of			
	March 31, 2021		December 31, 2020	
	Notional Amount	Fair Value	Notional Amount	Fair Value
(Dollars In Millions)				
Other long-term investments				
Derivatives not designated as hedging instruments:				
Interest rate swaps	\$ 1,448	\$ 104	\$ 1,478	\$ 185
Total return swaps	361	8	158	2
Embedded derivative - Modco reinsurance treaties	1,478	68	1,249	101
Embedded derivative - GLWB	3,073	161	2,067	138
Embedded derivative - FIA	120	8	99	6
Interest rate futures	990	20	690	4
Equity futures	146	2	203	4
Currency futures	200	3	—	—
Equity options	7,887	1,198	7,208	1,142
	<u>\$ 15,703</u>	<u>\$ 1,572</u>	<u>\$ 13,152</u>	<u>\$ 1,582</u>
Other liabilities				
Cash flow hedges:				
Foreign currency swaps	\$ 117	\$ 7	\$ 117	\$ 10
Derivatives not designated as hedging instruments:				
Interest rate swaps	1,384	—	1,354	—
Total return swaps	926	13	1,003	15
Embedded derivative - Modco reinsurance treaties	2,218	205	2,438	339
Embedded derivative - GLWB	6,744	579	7,749	960
Embedded derivative - FIA	4,084	643	3,889	633
Embedded derivative - IUL	379	179	357	201
Interest rate futures	383	15	415	3
Equity futures	106	2	190	5
Currency futures	—	—	264	4
Equity options	6,107	916	5,499	834
Other	338	56	303	57
	<u>\$ 22,786</u>	<u>\$ 2,615</u>	<u>\$ 23,578</u>	<u>\$ 3,061</u>

7. OFFSETTING OF ASSETS AND LIABILITIES

Certain of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Company and a counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements associated with each master netting arrangement provide that the Company will receive or pledge financial collateral in the event either minimum thresholds, or in certain cases ratings levels, have been reached. Additionally, certain of the Company's repurchase agreements provide for net settlement on termination of the agreement. Refer to Note 11, *Debt and Other Obligations* for details of the Company's repurchase agreement programs.

Collateral received includes both cash and non-cash collateral. Cash collateral received by the Company is recorded on the consolidated condensed balance sheet as "cash", with a corresponding amount recorded in "other liabilities" to represent the Company's obligation to return the collateral. Non-cash collateral received by the Company is not recognized on the consolidated condensed balance sheet unless the Company exercises its right to sell or re-pledge the underlying asset. As of March 31, 2021 and December 31, 2020, there was no fair value of non-cash collateral received.

The tables below present the derivative instruments by assets and liabilities for the Company as of March 31, 2021:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Received	
(Dollars In Millions)						
Offsetting of Assets						
Derivatives:						
Free-Standing derivatives	\$ 1,335	\$ —	\$ 1,335	\$ 950	\$ 316	\$ 69
Total derivatives, subject to a master netting arrangement or similar arrangement	1,335	—	1,335	950	316	69
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	68	—	68	—	—	68
Embedded derivative - GLWB	161	—	161	—	—	161
Embedded derivative - FIA	8	—	8	—	—	8
Total derivatives, not subject to a master netting arrangement or similar arrangement	237	—	237	—	—	237
Total derivatives	1,572	—	1,572	950	316	306
Total Assets	\$ 1,572	\$ —	\$ 1,572	\$ 950	\$ 316	\$ 306

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Posted	
(Dollars In Millions)						
Offsetting of Liabilities						
Derivatives:						
Free-Standing derivatives	\$ 953	\$ —	\$ 953	\$ 950	\$ —	\$ 3
Total derivatives, subject to a master netting arrangement or similar arrangement	953	—	953	950	—	3
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	205	—	205	—	—	205
Embedded derivative - GLWB	579	—	579	—	—	579
Embedded derivative - FIA	643	—	643	—	—	643
Embedded derivative - IUL	179	—	179	—	—	179
Other	56	—	56	—	—	56
Total derivatives, not subject to a master netting arrangement or similar arrangement	1,662	—	1,662	—	—	1,662
Total derivatives	2,615	—	2,615	950	—	1,665
Repurchase agreements ⁽¹⁾	854	—	854	—	—	854
Total Liabilities	\$ 3,469	\$ —	\$ 3,469	\$ 950	\$ —	\$ 2,519

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

The tables below present the derivative instruments by assets and liabilities for the Company as of December 31, 2020:

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Received	
(Dollars In Millions)						
Offsetting of Assets						
Derivatives:						
Free-Standing derivatives	\$ 1,337	\$ —	\$ 1,337	\$ 864	\$ 290	\$ 183
Total derivatives, subject to a master netting arrangement or similar arrangement	1,337	—	1,337	864	290	183
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	101	—	101	—	—	101
Embedded derivative - GLWB	138	—	138	—	—	138
Other	6	—	6	—	—	6
Total derivatives, not subject to a master netting arrangement or similar arrangement	245	—	245	—	—	245
Total derivatives	1,582	—	1,582	864	290	428
Total Assets	\$ 1,582	\$ —	\$ 1,582	\$ 864	\$ 290	\$ 428

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheets	Net Amounts of Liabilities Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Collateral Posted	
(Dollars In Millions)						
Offsetting of Liabilities						
Derivatives:						
Free-Standing derivatives	\$ 871	\$ —	\$ 871	\$ 865	\$ 4	\$ 2
Total derivatives, subject to a master netting arrangement or similar arrangement	871	—	871	865	4	2
Derivatives not subject to a master netting arrangement or similar arrangement						
Embedded derivative - Modco reinsurance treaties	339	—	339	—	—	339
Embedded derivative - GLWB	960	—	960	—	—	960
Embedded derivative - FIA	633	—	633	—	—	633
Embedded derivative - IUL	201	—	201	—	—	201
Other	57	—	57	—	—	57
Total derivatives, not subject to a master netting arrangement or similar arrangement	2,190	—	2,190	—	—	2,190
Total derivatives	3,061	—	3,061	865	4	2,192
Repurchase agreements ⁽¹⁾	437	—	437	—	—	437
Total Liabilities	\$ 3,498	\$ —	\$ 3,498	\$ 865	\$ 4	\$ 2,629

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

8. COMMERCIAL MORTGAGE LOANS

The Company invests a portion of its investment portfolio in commercial mortgage loans. As of March 31, 2021, the Company's commercial mortgage loan holdings were \$10.3 billion, or \$10.1 billion net of allowance for credit losses. The Company has specialized in making loans on credit-oriented commercial properties, credit-anchored strip shopping centers, senior living facilities, and apartments. The Company's underwriting procedures relative to its commercial mortgage loan portfolio are based, in the Company's view, on a conservative and disciplined approach. The Company concentrates on a small number of commercial real estate asset types associated with the necessities of life (retail, multi-family, senior living, professional office buildings, and warehouses). The Company believes that these asset types tend to weather economic downturns better than other commercial asset classes in which it has chosen not to participate. The Company believes this disciplined approach has helped to maintain a relatively low delinquency and foreclosure rate throughout its history. The majority of the Company's commercial mortgage loans portfolio was underwritten by the Company. From time to time, the Company may acquire loans in conjunction with an acquisition.

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

Certain of the commercial mortgage loans have call options that occur within the next 9 years. However, if interest rates were to significantly increase, the Company may be unable to exercise the call options on its existing commercial mortgage loans commensurate with the significantly increased market rates. As of March 31, 2021, assuming the loans are called at their next call dates, \$168 million of principal would become due for the remainder of 2021, \$538 million in 2022 through 2026 and \$10 million in 2027 through 2029.

The Company offers a type of commercial mortgage loan under which the Company will permit a loan-to-value ratio of up to 85% in exchange for a participating interest in the cash flows from the underlying real estate. As of March 31, 2021

and December 31, 2020, \$774 million and \$806 million, respectively, of the Company's total commercial mortgage loans principal balance have this participation feature. Cash flows received as a result of this participation feature are recorded as interest income. During the three months ended March 31, 2021 and 2020, the Company recognized \$7 million and \$16 million, respectively, of participation commercial mortgage loan income.

As of March 31, 2021 and December 31, 2020, \$1 million and \$3 million, respectively, of invested assets consisted of commercial mortgage loans that were nonperforming, restructured or foreclosed and converted to real estate properties. The Company does not expect these investments to adversely affect its liquidity or ability to maintain proper matching of assets and liabilities. For all commercial mortgage loans, the impact of troubled debt restructurings is reflected in our investment balance and in the allowance for commercial mortgage loan credit losses.

During the three months ended March 31, 2021 and 2020, the Company did not recognize any troubled debt restructurings transactions, respectively, as a result of granting concessions to borrowers which included loan terms unavailable from other lenders. The Company did not identify any loans whose principal was permanently impaired during the three months ended March 31, 2021 or during the three months ended March 31, 2020.

The Company provides certain relief under the Coronavirus Aid Relief, and Economic Security Act ("the CARES Act") under its COVID-19 Commercial Mortgage Loan Program (the "Loan Modification Program"). During the three months ended March 31, 2021, the Company modified 7 loans under the Loan Modification Program, representing \$143 million in unpaid principal balance. As of March 31, 2021, since the inception of the CARES Act there were 295 total loans modified under the Loan Modification Program, representing \$2.2 billion in unpaid principal balance. At March 31, 2021, \$1.7 billion of these loans have resumed regular principal and interest payments in accordance with the terms of the modification agreements. The modifications under this program include agreements to defer principal payments only and/or to defer principal and interest payments for a specified period of time. None of these modifications were considered troubled debt restructurings.

The amortized cost basis of the Company's commercial mortgage loan receivables by origination year, net of the allowance, for credit losses is as follows:

Term Loans Amortized Cost Basis by Origination Year

	2021	2020	2019	2018	2017	Prior	Total
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(Dollars In Millions)

As of March 31, 2021

Commercial mortgage loans:

Performing	\$ 314	\$ 1,443	\$ 2,391	\$ 1,560	\$ 1,344	\$ 3,255	\$ 10,307
Non-performing	—	—	—	—	—	1	1
Amortized cost	\$ 314	\$ 1,443	\$ 2,391	\$ 1,560	\$ 1,344	\$ 3,256	\$ 10,308
Allowance for credit losses	(2)	(18)	(35)	(34)	(31)	(51)	(171)
Total commercial mortgage loans	\$ 312	\$ 1,425	\$ 2,356	\$ 1,526	\$ 1,313	\$ 3,205	\$ 10,137

Term Loans Amortized Cost Basis by Origination Year

	2020	2019	2018	2017	2016	Prior	Total
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(Dollars In Millions)

As of December 31, 2020

Commercial mortgage loans:

Performing	\$ 1,463	\$ 2,442	\$ 1,577	\$ 1,344	\$ 943	\$ 2,458	\$ 10,227
Non-performing	—	—	—	—	—	1	1
Amortized cost	\$ 1,463	\$ 2,442	\$ 1,577	\$ 1,344	\$ 943	\$ 2,459	\$ 10,228
Allowance for credit losses	(21)	(46)	(55)	(37)	(25)	(38)	(222)
Total commercial mortgage loans	\$ 1,442	\$ 2,396	\$ 1,522	\$ 1,307	\$ 918	\$ 2,421	\$ 10,006

The following tables provide a comparative view of the key credit quality indicators of the Loan-to-Value and Debt Service Coverage Ratio (“DSCR”):

	As of March 31, 2021			As of December 31, 2020		
	Amortized Cost	% of Total	DSCR ⁽²⁾	Amortized Cost	% of Total	DSCR ⁽²⁾
	(Dollars In Millions)					
Loan-to-Value⁽¹⁾						
Greater than 75%	\$ 393	4 %	0.05	\$ 399	4 %	0.05
50% - 75%	6,504	63 %	1.02	6,557	64 %	1.04
Less than 50%	3,411	33 %	0.67	3,272	32 %	0.63
Total commercial mortgage loans	\$ 10,308	100 %	1.74	\$ 10,228	100 %	1.72

(1) The loan-to-value ratio compares the current unpaid principal of the loan to the estimated fair value of the underlying property collateralizing the loan. Our weighted average loan-to-value ratio was 54% at March 31, 2021 and 54% at December 31, 2020.

(2) The debt service coverage ratio compares a property’s net operating income to its debt service payments, including principal and interest. Our weighted average debt service coverage ratio for March 31, 2021 and December 31, 2020 was 1.74x and 1.72x, respectively.

The ACL decreased by \$58 million during the three months ended March 31, 2021, primarily as a result of improvement in the macroeconomic forecasts, as a result of COVID-19, used in the measurement of the ACL since the initial allowance was established.

	As of and For The Three Months Ended March 31, 2021	As of and For The Year Ended December 31, 2020
	(Dollars In Millions)	
Allowance for Funded Commercial Mortgage Loan Credit Losses		
Beginning balance	\$ 222	\$ 5
Cumulative effect adjustment	—	80
Charge offs	—	—
Recoveries	(5)	(3)
Provision	(46)	140
Ending balance	\$ 171	\$ 222
Allowance for Unfunded Commercial Mortgage Loan Commitments Credit Losses		
Beginning balance	\$ 22	\$ —
Cumulative effect adjustment	—	10
Charge offs	—	—
Recoveries	—	—
Provision	(7)	12
Ending balance	\$ 15	\$ 22

As of March 31, 2021, the Company had a total of one loan of \$1 million that was 90 days and greater delinquent. As of December 31, 2020, the Company had a total of one loan of \$1 million that was 60-89 days delinquent.

The Company’s commercial mortgage loan portfolio consists of commercial mortgage loans that are collateralized by real estate. Due to the collateralized nature of the loans, any assessment of impairment and ultimate loss given a default on the loans is based upon a consideration of the estimated fair value of the real estate.

The Company limits accrued interest income on loans to ninety days of interest. For loans in nonaccrual status, interest income is recognized on a cash basis. For the three months ended March 31, 2021, an immaterial amount of accrued interest was excluded from the amortized cost basis pursuant to the Company's nonaccrual policy.

As of March 31, 2021, the Company had one loan in a nonaccrual status with an allowance recorded. The recorded investment, unpaid principal balance, and average recorded investment was \$1 million. As of December 31, 2020, the Company had one loan in a nonaccrual status with no related allowance recorded. The recorded investment, unpaid principal balance, and average recorded investment was \$1 million.

Commercial mortgage loans that were modified in a troubled debt restructuring as of December 31, 2020 is shown below. The Company did not have any commercial mortgage loans that were modified in a troubled debt restructuring as of March 31, 2021.

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>
		(Dollars In Millions)	
As of December 31, 2020			
Troubled debt restructuring:			
Commercial mortgage loans	2	\$ 2	\$ 2

9. 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 the 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.

Summarized financial information for the Closed Block as of March 31, 2021, and December 31, 2020, is as follows:

	As of	
	March 31, 2021	December 31, 2020
(Dollars In Millions)		
Closed block liabilities		
Future policy benefits, policyholders' account balances and other policyholder liabilities	\$ 5,377	\$ 5,406
Policyholder dividend obligation	234	580
Other liabilities	23	7
Total closed block liabilities	<u>5,634</u>	<u>5,993</u>
Closed block assets		
Fixed maturities, available-for-sale, at fair value	4,530	4,903
Commercial mortgage loans	65	68
Policy loans	587	596
Cash and other invested assets	80	46
Other assets	96	91
Total closed block assets	<u>5,358</u>	<u>5,704</u>
Excess of reported closed block liabilities over closed block assets	276	289
Portion of above representing accumulated other comprehensive income:		
Net unrealized gains (losses) - net of policyholder dividend obligation: 2021 - \$147 and 2020 - \$493; and net of income tax: 2021 - \$(31) and 2020 - \$(104)	—	—
Future earnings to be recognized from closed block assets and closed block liabilities	<u>\$ 276</u>	<u>\$ 289</u>

Reconciliation of the policyholder dividend obligation is as follows:

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Policyholder dividend obligation, beginning balance	\$ 580	\$ 279
Applicable to net revenue (losses)	1	(7)
Change in net unrealized gains (losses) - allocated to the policyholder dividend obligation	(347)	(198)
Policyholder dividend obligation, ending balance	<u>\$ 234</u>	<u>\$ 74</u>

Closed Block revenues and expenses were as follows:

	For The Three Months Ended March 31,	
	2021	2020
(Dollars In Millions)		
Revenues		
Premiums and other income	\$ 34	\$ 35
Net investment income	48	51
Net realized gains (losses)	23	—
Total revenues	105	86
Benefits and other deductions		
Benefits and settlement expenses	89	78
Other operating expenses	—	—
Total benefits and other deductions	89	78
Net revenues before income taxes	16	8
Income tax expense	3	2
Net revenues	\$ 13	\$ 6

10. REINSURANCE

Allowance for Credit Losses – Reinsurance Receivables

The Company establishes an allowance for current expected credit losses related to amounts receivable from reinsurers (the “Reinsurance ACL”). Changes in the Reinsurance ACL are recognized as a component of benefits and settlement expenses. The Reinsurance ACL is remeasured on a quarterly basis using an internally developed probability of default (“PD”) and loss given default (“LGD”) model. Key inputs to the calculation are a conditional probability of insurer liquidation by issuer credit rating and exposure at default derived from a runoff projection of ceded reserves by reinsurer to forecast future loss amounts. Management’s position is that the rate of return implicit in the financial asset (i.e. the ceded reserves) is associated with the discount rate used to value the underlying insurance reserves; that is, the rate of return on the asset portfolio(s) supporting the reserves. For reinsurance receivable exposures that do not share similar risk characteristics with other receivables, including those associated with counterparties that have experienced significant credit deterioration, the Company measures the allowance for credit losses individually, based on facts and circumstances associated with the specific reinsurer or transaction.

As of March 31, 2021 and December 31, 2020, the Reinsurance ACL was \$95 million and \$98 million, respectively. There were no write-offs or recoveries during the three months ended March 31, 2021 and 2020.

The Company had total reinsurance receivables of \$4.3 billion as of March 31, 2021, which includes both ceded policy benefit reserves and receivables for claims. Receivables for claims represented 13% of total reinsurance receivables as of March 31, 2021. Receivables for claims are short-term in nature, and generally carry minimal credit risk. Of reserves ceded as of March 31, 2021, approximately 65% were receivables from reinsurers rated by A.M. Best Company. Of the total rated by A.M. Best, 75% were rated A+ or better, 13% were rated A, and 11% were rated A- or lower. The Company monitors the concentration of credit risk the Company has with any reinsurer, as well as the financial condition of its reinsurers, on an ongoing basis. Certain of the Company’s reinsurance receivables are supported by letters of credit, funds held or trust agreements.

11. DEBT AND OTHER OBLIGATIONS

Debt and Subordinated Debt

Debt and subordinated debt are summarized as follows:

	As of			
	March 31, 2021		December 31, 2020	
	Outstanding Principal	Carrying Amounts	Outstanding Principal	Carrying Amounts
(Dollars In Millions)				
Debt (year of issue):				
Credit Facility	\$ 385	\$ 385	\$ 190	\$ 190
Term Loan Credit Agreement	600	600	600	600
Capital lease obligation	1	1	1	1
8.45% Senior Notes (2009), due 2039	181	268	181	269
4.30% Senior Notes (2018), due 2028	400	396	400	396
3.40% Senior Notes (2019), due 2030	400	398	400	397
	<u>\$ 1,967</u>	<u>\$ 2,048</u>	<u>\$ 1,772</u>	<u>\$ 1,853</u>
Subordinated debt (year of issue):				
5.35% Subordinated Debentures (2017), due 2052	\$ 500	\$ 496	\$ 500	\$ 496
3.55% Subordinated Funding Obligations (2018), due 2038	55	55	55	55
3.55% Subordinated Funding Obligations (2018), due 2038	55	55	55	55
	<u>\$ 610</u>	<u>\$ 606</u>	<u>\$ 610</u>	<u>\$ 606</u>

Under a revolving line of credit arrangement (the “Credit Facility”), the Company has the ability to borrow on an unsecured basis up to an aggregate principal amount of \$1.0 billion. The Company has the right in certain circumstances to request that the commitment under the Credit Facility be increased up to a maximum principal amount of \$1.5 billion. Balances outstanding under the Credit Facility accrue interest at a rate equal to, at the option of the Borrowers, (i) LIBOR plus a spread based on the ratings of the Company’s Senior Debt, or (ii) the sum of (A) a rate equal to the highest of (x) the Administrative Agent’s Prime rate, (y) 0.50% above the Funds rate, or (z) the one-month LIBOR plus 1.00% and (B) a spread based on the ratings of the Company’s Senior Debt. The Credit Facility also provided for a facility fee at a rate that varies with the ratings of the Company’s Senior Debt and that is calculated on the aggregate amount of commitments under the Credit Facility, whether used or unused. The annual facility fee rate is 0.125% of the aggregate principal amount. The Credit Facility provides that the Company is liable for the full amount of any obligations for borrowings or letters of credit, including those of PLICO, under the Credit Facility. The maturity date of the Credit Facility is May 3, 2023. The Company is not aware of any non-compliance with the financial debt covenants of the Credit Facility as of March 31, 2021. The Company had a \$385 million and \$190 million outstanding balance on the Credit Facility as of March 31, 2021 and December 31, 2020, respectively.

Secured Financing Transactions

Repurchase Program Borrowings

While the Company anticipates that the cash flows of its operating subsidiaries will be sufficient to meet its investment commitments and operating cash needs in a normal credit market environment, the Company recognizes that investment commitments scheduled to be funded may, from time to time, exceed the funds then available. Therefore, the Company has established repurchase agreement programs for certain of its insurance subsidiaries to provide liquidity when needed. The Company expects that the rate received on its investments will equal or exceed its borrowing rate. Under this program, the Company may, from time to time, sell an investment security at a specific price and agree to repurchase that security at another specified price at a later date. These borrowings are typically for a term less than 90 days. The market value of securities to be repurchased is monitored and collateral levels are adjusted where appropriate to protect the counterparty against credit exposure. Cash received is invested in fixed maturity securities, and the agreements provide for net settlement in the event of default or on termination of the agreements. As of March 31, 2021, the fair value of securities pledged under the repurchase program was \$917 million, and the repurchase obligation of \$854 million was included in the Company’s consolidated condensed balance sheets (at an average borrowing rate of 15 basis points). During the three months ended March 31, 2021, the maximum balance outstanding at any one point in time related to these programs was \$1,077 million. The average daily balance

was \$347 million (at an average borrowing rate of 17 basis points) during the three months ended March 31, 2021. As of December 31, 2020, the fair value of securities pledged under the repurchase program was \$452 million, and the repurchase obligation of \$437 million was included in the Company’s consolidated condensed balance sheets (at an average borrowing rate of 15 basis points). During 2020, the maximum balance outstanding at any one point in time related to these programs was \$825 million. The average daily balance was \$143 million (at an average borrowing rate of 33 basis points) during the year ended December 31, 2020.

Securities Lending

The Company participates in securities lending, primarily as an investment yield enhancement, whereby securities that are held as investments are loaned out to third parties for short periods of time. The Company requires collateral at least equal to 102% of the fair value of the loaned securities to be separately maintained. The loaned securities’ fair value is monitored on a daily basis and collateral is adjusted accordingly. The Company maintains ownership of the securities at all times and is entitled to receive from the borrower any payments for interest received on such securities during the loan term. Securities lending transactions are accounted for as secured borrowings. As of March 31, 2021 and December 31, 2020, securities with a fair value of \$129 million and \$57 million, respectively, were loaned under this program. As collateral for the loaned securities, the Company receives cash, which is primarily reinvested in short-term repurchase agreements, which are also collateralized by U.S. Government or U.S. Government Agency securities, and government money market funds. These investments are recorded in *short-term investments* with a corresponding liability recorded in *secured financing liabilities* to account for its obligation to return the collateral. As of March 31, 2021 and December 31, 2020, the fair value of the collateral related to this program was \$133 million and \$59 million and the Company has an obligation to return \$133 million and \$59 million of collateral to the securities borrowers, respectively.

The following table provides the fair value of collateral pledged for repurchase agreements, grouped by asset class as of March 31, 2021 and December 31, 2020:

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

	Remaining Contractual Maturity of the Agreements				
	As of March 31, 2021				
	(Dollars In Millions)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	\$ 843	\$ 74	\$ —	\$ —	\$ 917
Total repurchase agreements and repurchase-to-maturity transactions	843	74	—	—	917
Securities lending transactions					
Corporate securities	123	—	—	—	123
Equity securities	5	—	—	—	5
Redeemable preferred stocks	1	—	—	—	1
Total securities lending transactions	129	—	—	—	129
Total securities	\$ 972	\$ 74	\$ —	\$ —	\$ 1,046

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

	Remaining Contractual Maturity of the Agreements				
	As of December 31, 2020				
	(Dollars In Millions)				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions					
U.S. Treasury and agency securities	\$ 366	\$ 86	\$ —	\$ —	\$ 452
Total repurchase agreements and repurchase-to-maturity transactions	366	86	—	—	452
Securities lending transactions					
Fixed maturity securities	49	—	—	—	49
Equity securities	7	—	—	—	7
Redeemable preferred stocks	1	—	—	—	1
Total securities lending transactions	57	—	—	—	57
Total securities	\$ 423	\$ 86	\$ —	\$ —	\$ 509

Golden Gate Captive Insurance Company

On October 1, 2020, Golden Gate Captive Insurance Company (“Golden Gate”), a Vermont special purpose financial insurance company and a wholly owned subsidiary of PLICO, entered into a transaction with a term of 20 years, that may be extended to a maximum of 25 years, to finance up to \$5 billion of “XXX” and “AXXX” reserves related to the term life insurance business and universal life insurance with secondary guarantee business that is reinsured to Golden Gate by PLICO and West Coast Life Insurance Company, an indirect wholly owned subsidiary, pursuant to an Excess of Loss Reinsurance Agreement (the “XOL Agreement”) with Hannover Life Reassurance Company of America (Bermuda) Ltd., The Canada Life Assurance Company (Barbados Branch) and RGA Reinsurance Company (Barbados) Ltd. (collectively, the “Retrocessionaires”). The transaction is “non-recourse” to the Company, WCL, and PLICO, meaning that none of these companies are liable to reimburse the Retrocessionaires for any XOL payments required to be made. As of March 31, 2021, the XOL Asset backing the difference in statutory and economic reserve liabilities was \$4.492 billion.

12. COMMITMENTS AND CONTINGENCIES

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

The Company leases administrative and marketing office space as well as various office equipment. Most leases have terms ranging from two years to twenty-five years. Leases with an initial term of 12 months or less are not recorded on the consolidated condensed balance sheet. The Company accounts for lease components separately from non-lease components (e.g., common area maintenance). Certain of the Company’s lease agreements include options to renew at the Company’s discretion. Management has concluded that the Company is not reasonably certain to elect any of these renewal options. The Company will use the interest rates received on its funding agreement backed notes as the collateralized discount rate when calculating the present value of remaining lease payments when the rate implicit in the lease is unavailable.

Under the insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. From time to time, companies may be asked to contribute amounts beyond prescribed limits. It is possible that the Company could be assessed with respect to product lines not offered by the Company. In addition, legislation may be introduced in various states with respect to guaranty fund assessment laws related to insurance products, including long term care insurance and other specialty products, that increases the cost of future assessments or alters future premium tax offsets received in connection with guaranty fund assessments. The Company cannot predict the amount, nature, or timing of any future assessments or legislation, any of which could have a material and adverse impact on the Company’s financial condition or results of operations.

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

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

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

Advance Trust & Life Escrow Services, LTA, as Securities Intermediary of Life Partners Position Holder Trust v. Protective Life Insurance Company, Case No. 2:18-CV-01290, is a putative class action that was filed on August 13, 2018 in the United States District Court for the Northern District of Alabama. Plaintiff alleges that PLICO required policyholders to pay unlawful and excessive cost of insurance charges. Plaintiff seeks to represent all owners of universal life and variable universal life policies issued by PLICO or its predecessors that provide that cost of insurance rates are to be determined based on expectations of future mortality experience. The plaintiff seeks class certification, compensatory damages, pre-judgment and post-judgment interest, costs, and other unspecified relief. The Company is vigorously defending this matter and cannot predict the outcome of or reasonably estimate the possible loss or range of loss that might result from this litigation.

Scottish Re (U.S.), Inc. ("SRUS") was placed in rehabilitation on March 6, 2019 by the State of Delaware. Under the related order, the Insurance Commissioner of the State of Delaware has been appointed the receiver of SRUS and provided with authority to conduct and continue the business of SRUS in the interest of its cedents, creditors, and stockholder. The order was accompanied by an injunction requiring the continued payment of reinsurance premiums to SRUS and temporarily prohibiting cedents, including the Company, from offsetting premiums payable against receivables from SRUS. On June 20, 2019, the Delaware Court of Chancery entered an order approving a Revised Offset Plan, which allows cedents, including the Company, to offset premiums under certain circumstances.

A proposed Rehabilitation Plan ("Rehabilitation Plan") was filed by the Receiver on June 30, 2020. The Rehabilitation Plan presents the following two options to each cedent: (1) remain in business with SRUS and be governed by the Rehabilitation Plan, or (2) recapture business ceded to SRUS. Due to SRUS's financial status, neither option would pay 100% of outstanding claims. Certain financial terms and conditions will be imposed on the cedents based on the election made, the type of business ceded, the manner in which the business is collateralized, and the amount of losses sustained by a cedent. On October 9, 2020, the Receiver filed a proposed order setting forth a schedule to present the Rehabilitation Plan for Court approval, which order contemplated possible modifications to the Rehabilitation Plan to be filed with the Court by March 16, 2021. On January 15, 2021, the Receiver circulated a draft Amended Rehabilitation Plan ("Amended Plan") with interested parties. The majority of the substance and form of the original Rehabilitation Plan, including its two option structure described above, remained in place. On March 16, 2021, the Receiver filed a draft Amended Plan, which contains the same proposed

revisions as the draft he previously circulated on January 15, 2021. Later on March 19, 2021, the Receiver filed a proposed order asking the Court to revise the schedule to push back dates, including the deadline that the Receiver must file any modifications to the Amended Plan to May 3, 2021. A group of interested parties separately filed a Motion to Appoint a Special Master, and at the hearing on the Motion, held on March 26, 2021, the Court suspended all deadlines in the case to allow the Receiver and interested parties to meet and confer on a number of topics for 30 days. A joint status report was filed with the Court on May 7, 2021. It is anticipated that a new scheduling order will be entered in the near future.

The Company continues to monitor SRUS and the actions of the receiver through discussions with legal counsel and review of publicly available information. An allowance for credit losses related to SRUS is included in the overall reinsurance allowance for credit losses. As of March 31, 2021, management does not believe that the ultimate outcome of the rehabilitation process will have a material impact on our financial position or results of operations.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes in the accumulated balances for each component of accumulated other comprehensive income (loss) (“AOCI”) as of March 31, 2021 and December 31, 2020.

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Unrealized Gains and Losses on Investments ⁽²⁾	Accumulated Gain and Loss on Derivatives	Minimum Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
(Dollars In Millions, Net of Tax)				
Balance, December 31, 2019	\$ 1,424	\$ (8)	\$ (32)	\$ 1,384
Other comprehensive income (loss) before reclassifications	2,054	(2)	(23)	2,029
Other comprehensive income (loss) relating to other-than-temporary impaired investments for which a portion has been recognized in operations	24	—	—	24
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾	63	2	6	71
Balance, December 31, 2020	\$ 3,565	\$ (8)	\$ (49)	\$ 3,508
Other comprehensive income (loss) before reclassifications	(1,772)	2	1	(1,769)
Other comprehensive income (loss) on investments for change in net expected credit losses	5	—	—	5
Amounts reclassified from accumulated other comprehensive income (loss) ⁽¹⁾	(27)	—	—	(27)
Balance, March 31, 2021	\$ 1,771	\$ (6)	\$ (48)	\$ 1,717

(1) See Reclassifications Out of Accumulated Other Comprehensive Income (Loss) table below for details.

(2) As of March 31, 2021 and December 31, 2020, net unrealized gains reported in AOCI were offset by \$(1.0) billion and \$(2.0) billion, respectively, due to the impact those net unrealized losses would have had on certain of the Company’s insurance assets and liabilities if the net unrealized losses had been recognized in net income (loss).

The following tables summarize the reclassifications amounts out of AOCI for the three months ended March 31, 2021 and 2020.

Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

Gains/(losses) in net income (loss):	Affected Line Item in the Condensed Consolidated Financial Statements	For The	
		Three Months Ended	
		March 31,	
		2021	2020
		(Dollars In Millions)	
Derivative instruments	Benefits and settlement expenses, net of reinsurance ceded ⁽¹⁾	\$ —	\$ (1)
	Tax (expense) benefit	—	—
		\$ —	\$ (1)
Unrealized gains and losses on available-for-sale securities	Realized gains (losses) - investments	\$ 30	\$ 39
	Change in net expected credit losses - fixed maturities	5	(52)
	Tax (expense) benefit	(8)	3
		\$ 27	\$ (10)
Postretirement benefits liability adjustment	Other operating expenses	\$ —	\$ —
	Amortization of net actuarial gain (loss)	—	(1)
	Tax (expense) benefit	—	—
		\$ —	\$ (1)

(1) See Note 6, *Derivative Financial Instruments* for additional information.

14. SUBSEQUENT EVENTS

The Company has evaluated the effects of events subsequent to March 31, 2021, and through May 14, 2021, the date the Company's financial statements were issued. All accounting and disclosure requirements related to subsequent events are included in the Company's consolidated condensed financial statements.



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Independent Auditors' Review Report

The Board of Directors
Protective Life Corporation:

Report on the Financial Statements

We have reviewed the accompanying consolidated condensed balance sheet of Protective Life Corporation and its subsidiaries as of March 31, 2021, the related consolidated condensed statements of income (loss), comprehensive loss, shareowner's equity and cash flows for the three-month periods ended March 31, 2021 and 2020.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Birmingham, Alabama
May 14, 2021