

Protective Life Corporation

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Technical Director File Reference No. 2012-200 Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Dear Financial Accounting Standards Board:

Protective Life Corporation (the "Company" or "Protective") appreciates the opportunity to comment on the "Disclosures about Liquidity Risk and Interest Rate Risk – Financial Instruments (Topic 825) – Exposure Draft," ("ED") issued June 27, 2012. Protective, through its subsidiaries, is a group of domestic insurance companies that market retirement savings, investment, and asset protection products such as life insurance, annuities, guaranteed investment contracts, funding agreements, credit insurance and extended service contracts.

The stated goal of the proposed guidance is to provide users of financial statements with more decision-useful information about entity-level exposures to liquidity risk and interest rate risk. Our management of liquidity and interest rate risks is complex, and involves many forward looking assumptions and significant management judgment. The proposed prescriptive tables and qualitative discussions do not accurately portray our management of liquidity and interest rate risks.

We understand the Board's intention is to increase comparability and usefulness; reduce subjectivity; and improve auditability by excluding the impact of forecasting and strategy from the disclosures. However, we feel the disclosures may be misinterpreted and potentially misleading without including this key information. The Board addressed this concern by concluding that to the extent the results of the proposed disclosures differ from an entity's risk management strategy, the qualitative disclosures would provide an opportunity to explain the differences. We acknowledge the qualitative discussion may help to understand the tabular disclosures; however, this would involve spending significant time and effort explaining data that is not used internally and may not be meaningful even with extensive narratives. Additionally, we are concerned users would focus on the tabular disclosures and not give proper consideration to the accompanying narratives.

Due to the forward looking assumptions and management judgments involved, the Management Discussion and Analysis ("MD&A") section of the Annual Report on Form 10-K would be a more appropriate placement for the proposed disclosures. This would allow preparers the freedom to appropriately discuss management judgments and other key forward looking assumptions in an MD&A discussion protected by certain Safe Harbor Rules.

We have provided below our specific operational, auditability, feasibility and usefulness concerns with the proposed disclosures. We also included an Appendix section where we address some of the specific questions noted in the proposal.

Operational Concerns

Liquidity Gap Maturity and Repricing Gap Analyses

The proposed Liquidity Gap Maturity and Repricing Gap Analyses are neither accurate reflections of our liquidity and interest rate risks nor how we address these risks with our asset-liability management ("ALM"). These disclosures seem more appropriate for pure spread businesses where both assets and liabilities are more generally fixed in nature, and have identifiable maturity dates and reset rates. Insurance liabilities are not maturity-based; and for ALM purposes, the liabilities are evaluated based on expected future cash flows. These expected cash flows are based on forward-looking assumptions (mortality, lapse, surrender rates, etc.). Therefore, liquidity and interest rate risks are managed based on expected future cash flows – not on current liability balances. Further, GAAP policyholder liabilities for life insurance and annuities are not based on maturity dates. These reserves are meant to cover future death and surrender benefits and expenses, which are expected to occur over time, not at a single maturity date. General long-term assumptions and estimates would not be meaningful to be used to depict short-term expected settlement. Therefore, it is impossible to associate policyholder liability reserves with the bucketing of the proposed disclosures (Liquidity Gap - expected maturity dates; Repricing Gap - contractual reset or maturity dates).

The Liquidity Gap and Repricing Gap disclosures also leave out expected interest income, which is a significant component of current liquidity and our ALM process. The disclosures present a false sense of definitiveness. Our actual liquidity analysis, which we perform on a daily basis, is a very fluid and holistic process. Ignoring contractual interest income, premiums and other predictable cash flows is misleading and presents an inaccurate representation of current liquidity and interest rate risks.

Within the Liquidity Gap Analysis, presenting trading securities (Equity and some Debt Securities) which are available to be sold in the "Total Carrying Amount" column implies these assets are not liquid. This classification could also distort the Excess/Deficit and Total Financial Assets to Financial Liabilities ratios as presented in the disclosure.

As it relates to the Repricing Gap Analysis, there is no concept of yield to maturity for several of our insurance liabilities since maturity dates cannot be derived. Therefore, we could only present meaningful amounts in total (and not in columns as prescribed). In addition, some of our products (Universal Life, Fixed Annuities) have explicit credited rates but those rates may not be representative of the real rate of return to the policyholder due to COI and other fees. Other products (Term, Variable Annuities) have no explicit rate of return to the policyholder. Further, in the case of Universal Life and other products the rates can be reset at any time, and it is unclear how those changes would be reflected in the table. The proposed analysis implies repricing at market, which could result in economic loss if interest rates increase. In reality, little such risk exists for many insurance contracts.

Available Liquid Funds Table

For the Available Liquid Funds Table, more clarity and guidance is needed with respect to the "Availability of borrowings" section. For example, how would liquidity that is available to multiple subsidiaries, but that is mutually exclusive be reported? Another area of confusion is with Repurchase Agreements which we regularly use to provide short-term (i.e. 90 days or less) liquidity. The availability of liquidity through Repurchase Agreements is typically not guaranteed by either party; therefore, it may be deemed aggressive to include borrowing availability from counterparties. Conversely, excluding availability of liquidity through

Repurchase Agreements would be a very conservative presentation of available liquidity. To ensure consistency and comparability, the Board should clarify qualifications and requirements of available funds.

Interest Rate Sensitivity Table

The Interest Rate Sensitivity Table would not be useful because it does not include management's response to interest rate changes. To be accurate, the table would need to be developed with consideration of our risk management strategies incorporating hypothetical, forward-looking information. For example, for our Universal Life and Fixed Annuity products, management would review and adjust credited rates as underlying yields change. In addition, various assumptions reflected in the balance sheet reserves (lapse rates, reinvestment strategies, etc.) would also need to be adjusted in any related interest sensitivity analysis. We understand the Board's intention to create a disclosure that would increase comparability; however, this disclosure requires entity specific factors to be meaningful.

Additional Quantitative and Narrative Requirement

The Board's requirement to provide additional quantitative and narrative disclosures necessary for users of financial statements to gain an understanding of the interest rate and liquidity risks, although helpful in assisting the user's understanding, would not compensate for the shortfalls in the tabular disclosures. It may not be possible to take complex management judgment and put it in a meaningful schedule, even with extensive narrative. Requiring additional qualitative disclosures for users to understand an entity's risks depicted in the tables as currently proposed may also cause companies to provide narrative disclosures for depicted risks that do not exist. Further, providing extensive narrative disclosures to explain the shortfalls of the prescribed qualitative charts may give a false sense that management believes the quantitative charts are representative of our interest rate and liquidity risk management.

Auditability and Feasibility Concerns

There would be significant costs and time associated with the adoption of the proposed disclosures. Systems would need to be researched and adjusted to develop data. New processes and controls would be instituted in order to ensure the data inputs and information from the systems are consistent with reporting requirements. Further, these processes would include developing, testing and implementing internal controls over financial reporting. These changes would result in significant cost, time and effort. These expenses would be in addition to our current overhead and provide no internal return or benefit, as development of these disclosures would be solely to comply with the proposal. The various inputs, analyses and management's subjective assumptions utilized in the proposed disclosures would require increased and specialized audit techniques and expertise, which would likely result in increased audit fees. The overall cost, time and effort needed to prepare these disclosures far outweigh the benefits. Additionally, we feel a quarterly reporting requirement would make it much more difficult and costly to meet our accelerated deadlines. If the Board decides to proceed with this initiative, we recommend annual disclosures of liquidity and interest rate risks and require disclosures in interim financial statements only if there are significant changes from the previous year end.

Usefulness Concerns

As expressed previously, we have several concerns related to the usefulness of the proposed disclosures. An overwhelming concern is that providing users with interest rate and liquidity risks information we do not use internally would be misleading. The absence of forward looking assumptions within the tabular disclosures and the other operational concerns noted significantly inhibit the usefulness. Even with extensive qualitative narratives, we feel the user may focus on the prescribed tabular disclosures and be misled as to the Company's interest rate and liquidity risks exposure. A more appropriate approach toward enhancements to

liquidity and interest rate risks discussions would be to include additional information in the MD&A section of Form 10-K.

The following Appendix provides answers to selected exposure draft questions. We appreciate the opportunity to comment on the proposed standard update. If you have any questions regarding this letter or wish to discuss further, please contact me at (205) 268-6775 or Charles Evers, Vice President, Corporate Accounting (responsible for accounting policy matters) at (205) 268-3596.

Sincerely,

Steven G. Walker

Senior Vice President, Controller and

Chief Accounting Officer Protective Life Corporation

APPENDIX

QUESTIONS FOR RESPONDENTS

Questions for Preparers and Auditors—Liquidity Risk

Question 1: For a financial institution, the proposed amendments would require a liquidity gap table that includes the expected maturities of an entity's financial assets and financial liabilities. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes, we foresee significant operational concerns with the proposed liquidity gap table. We do not believe the proposed analysis is comparable to the actual liquidity analysis we perform on a daily basis. The table presents a false sense of definitiveness. In practice, our ALM is very fluid and takes various factors into consideration. One significant component of our current liquidity is interest income, which is ignored in the proposed disclosure. Ignoring contractual interest income, premiums and other predictable cash flows is misleading and presents an inaccurate representation of current liquidity risk.

Insurance liabilities also present a significant operational concern, as they are not maturity-based. Within our ALM process, liabilities are evaluated based on expected future cash flows. These expected future cash flows are based on forward-looking assumptions; therefore, liquidity risk is managed based on expected future cash flows and not on current liability balances. Further, our GAAP policyholder liabilities for life insurance and annuities (including fund value and SOP reserves) are not based on maturity date. These reserves are meant to cover future expected death and surrender benefits and expenses, which are expected to occur over time, not at a single maturity date. Therefore, it is impossible to associate those reserves with expected maturity dates.

We believe the cost and time needed to introduce appropriate processes, system enhancements and controls documentation would far outweigh the benefit. It is more appropriate to include liquidity risk disclosures in Management's Discussion and Analysis. This allows preparers the ability to discuss management judgments, actions, and outlooks without the financial statement's reliance on auditable historic information. This discussion would complement a current SEC S-K, Item 303(a)(5), Tabular disclosure of contractual obligations.

Question 3: The proposed amendments would require information about expected maturities for financial assets and financial liabilities to highlight liquidity risk. *Expected maturity* is the expected settlement of the instrument resulting from contractual terms (for example, call dates, put dates, maturity dates, and prepayment expectations) rather than an entity's expected timing of the sale or transfer of the instrument. Do you agree that the term *expected maturity* is more meaningful than the term *contractual maturity* in the context of the proposed liquidity risk disclosures? If not, please explain the reasons and suggest an alternative approach.

Yes, we agree that expected maturity is more meaningful than the term contractual maturity in the context of the proposed liquidity risk disclosure. However, we do not agree with presenting carrying value in a disclosure related to liquidity risk. As we stated in our response to Question 1, expected cash flows (including interest income, premiums, reinvestment decisions and expected claims), not carrying value, are used to evaluate liquidity risk in our daily analysis. We feel any disclosures related to liquidity risk should reflect these expected cash flows otherwise they would not result in decision-useful information and could be misinterpreted. In addition, the forward-looking assumptions that are necessary for a meaningful disclosure of expected cash flows are not appropriate for footnote disclosures and are more appropriate within MD&A.

Question 4: The proposed amendments would require a quantitative disclosure of an entity's available liquid funds, as discussed in paragraphs 825-10-50-23S through 50-23V. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

More clarity and guidance is needed with respect to the "Availability of borrowings" section. For example, how would liquidity that is available to multiple subsidiaries, but that is mutually exclusive be reported? Another area of confusion is with Repurchase Agreements which we regularly use to provide short-term (i.e. 90 days or less) liquidity. The availability of liquidity through Repurchase Agreements is typically not guaranteed by either party; therefore, it may be deemed aggressive to include borrowing availability from counterparties. Conversely, excluding availability of liquidity through Repurchase Agreements would be a very conservative presentation of available liquidity. To ensure consistency and comparability, the Board should clarify qualifications and requirements of available funds.

Question 6: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to develop an understanding of your entity's exposure to liquidity risk? If not, what other information would better achieve this objective?

We do not believe the proposed amendments will provide sufficient information for users of our financial statements to develop an understanding of our exposure to liquidity risk. These disclosures seem more appropriate for pure spread businesses where both assets and liabilities are more generally fixed in nature, and have identifiable maturity dates and reset rates. Insurance liabilities are not maturity-based; and for ALM purposes, liabilities are evaluated based on expected future cash flows. Expected cash flows are based on forward-looking assumptions (mortality, lapse, surrender rates, etc.). Therefore, liquidity risk is managed based on expected future cash flows – not on current liability balances.

The proposed amendments also leave out expected interest income, which is a significant component of current liquidity and our ALM process. The disclosures present a false sense of definitiveness. Our actual liquidity analysis, which we perform on a daily basis, is a very fluid and holistic process. Ignoring contractual interest income, premiums and other predictable cash flows is misleading and presents an inaccurate representation of current liquidity risk.

We believe the information sought by these disclosures would be more appropriate in an MD&A, allowing a fuller discussion by management of risk management controls.

Questions for Preparers and Auditors—Interest Rate Risk

Question 13: The interest rate risk disclosures in this proposed Update would require a repricing gap table. Do you foresee any significant operational concerns or constraints in complying with this requirement? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

Yes, we foresee significant operational concerns complying with this requirement. Our operational concerns noted in response to Question 1 are also applicable to the repricing gap table. In addition, some of our products (Universal Life, Fixed Annuities) have explicit credited rates but those rates are reviewed and adjusted by management based on underlying yield changes. The current proposed disclosure does not capture this critical portion of our ALM process.

This repricing gap table, as with all the tables and information required in this update, all require significant system and process upgrades and enhancements to develop information solely for complying

with the standard. These disclosures would not be used internally, add no value to our business and have the potential to be misinterpreted by our users.

Question 14: The interest rate risk disclosures in this proposed Update would include a sensitivity analysis of net income and shareholders' equity. Do you foresee any significant operational concerns or constraints in determining the effect of changes in interest rates on net income and shareholders' equity? If yes, what operational concerns or constraints do you foresee and what would you suggest to alleviate them?

We have many operational concerns with the disclosure showing the effect of changes in interest rates on net income and shareholders' equity. We strongly feel the proposed disclosure is misleading with respect to the methodologies used by Protective. The Interest Rate Sensitivity Table would not be useful because it does not include management's response to interest rate changes. To be accurate, the table would need to be developed with considerations of our risk management strategies incorporating hypothetical, forward-looking information. For example, for our Universal Life and Fixed Annuity products, management would review and adjust credited rates as underlying yields change. In addition, various assumptions reflected in the balance sheet reserves (lapse rates, reinvestment strategies, etc.) would also need to be incorporated. The disclosures should reflect primary risk mitigation tools of life insurers (dividends and flexible crediting rates). We understand the Board's intention to create a disclosure that would increase comparability; however, this disclosure requires entity specific factors to be meaningful.

The various inputs, analyses and management's subjective assumptions utilized in the proposed disclosures would require increased and specialized audit techniques and expertise. Further, it may not be possible to take complex management judgment and put it in a meaningful schedule, even with extensive narrative.

Finally, we believe changes in U.S. GAAP Shareholder's Equity are not an appropriate way to measure interest rate risk. An insurance company's ALM is not managed to U.S. GAAP Shareholder's Equity. Increases/Decreases in Shareholder's Equity as presented in this table are not meaningful to most shareholders because assets are marked-to-market, liabilities are carried at book value under current GAAP, and therefore, movement in shareholder's equity does not reflect either solvency or ability to pay dividends.

Question 15: As a preparer, do you feel that the proposed amendments would provide sufficient information for users of your financial statements to understand your entity's exposure to interest rate risk? If not, what other information would better achieve this objective?

No, we do not think the proposed amendments would provide sufficient information for users of our financial statements to understand our exposure to interest rate risk. We feel the operational concerns noted above would significantly impair the meaningfulness of the proposed interest rate risk disclosures. We believe disclosures regarding interest rate sensitivity would be better contained in the MD&A section. This would provide more current and relevant information about management's views and concerns with the interest rate environment and the resulting impact on ALM. We strongly believe users would benefit from managements' discussion of reactions and strategies to unique interest rate environments.

Questions for All Respondents

Question 21: Although the proposed amendments do not have an effective date, the Board intends to address the needs of users of financial statements for more information about liquidity risk and interest rate risk. Therefore, the Board will strive to make these proposed amendments effective on a timely basis. How much time do you think stakeholders would require to prepare for and implement the amendments in this proposed Update? Should nonpublic entities be provided with a delayed effective date? If so, how long of a delay should be permitted and why? Are there specific amendments that would require more time to implement than others? If so, please identify which ones and explain why.

There would be significant time and effort necessary to comply with the amendments as currently proposed. There would be multiple process and system changes necessary to address the operational concerns noted above. These significant changes would require a minimum of 18 months to implement. In addition, as required by Sarbanes-Oxley, we would need another two quarters in order to test the effectiveness of the implemented internal controls. In order to synchronize efforts, we strongly urge the Board to consider coordinating the effective dates of the of the proposed disclosure amendments with the implementation of the insurance contracts project.