STANDARD & POOR'S INSURANCE

Publication date: 18-Jun-2004
Reprinted from RatingsDirect

Protective Life Corp.

Credit Analysts: Robert A Hafner, FSA, New York (1) 212-438-7216; Michael Gross, San Francisco (1) 415-371-5003

CREDIT RATING

Local currency	A/Stable

Credit Rating History

Apr. 13, 1994	A

Company Contact
Protective Life Insurance Co.
2801 Highway 280 South
Birmingham, AL 35223-2488
Tel.: (1) 205- 268-1000
Chairman, President and Chief Executive Officer: John D. Johns
Chief Actuary: Wayne E. Stuenkel

Major Rating Factors

Strengths:

- Very strong diversified business profile.
- Superior execution that produces consistently exceptional earnings performance.
- Strong fixed-charge coverage in excess of 10x and leverage consistent with the ratings.
- Extremely strong operating company capital adequacy.
- Well-diversified high-quality investment portfolio supported by excellent risk management.

Weaknesses:

- Heavy reliance on life reinsurance and businesses that are highly commoditized.
- Above-average exposure to interest rate risk.

Rationale

The issuer credit rating on Protective Life Corp. (PLC) reflects the company's very strong and diversified business profile, superior overall business execution that consistently produces exceptionally strong earnings, extremely strong capitalization, very strong liquidity, and strong investment portfolio. Partially offsetting these positive factors are Protective's heavy reliance on reinsurance, which could restrict its pricing flexibility; above-average exposure to interest rate risk from its large proportion of MBS (27% of invested assets) and commercial mortgages (19%); the relatively modest performance of its asset protection division businesses; and continuing uncertainty related to its runoff auto residual value business.

PLC is a publicly traded insurance holding company and its subsidiaries provide financial services through the production, distribution, and administration of insurance and investment products. The main operating subsidiaries are Protective Life Insurance Co. (PLICO) and its explicitly supported subsidiaries, Empire General Life Assurance Corp., Protective Life and Annuity Insurance Co., and West Coast Life Insurance Co. Another subsidiary of PLICO is the Lyndon Insurance Group Inc., which is the parent of Lyndon Property Insurance Co., the lead operating company in the asset protection division. The group is collectively known as Protective.

Central to the ratings on Protective is its exceptional earnings performance generated by superior execution, which helps lift the ratings above what the group's diversified business profile would otherwise suggest. Operating performance is considered very strong based on Standard & Poor's consolidated GAAP earnings adequacy ratio of 234% in 2003 and a 29% improvement in GAAP pretax income in 2003. Although the company has well-diversified returns, it is also heavily reliant on reinsurance of its life insurance obligations.

Protective has a very strong and diversified business profile, with a solid position in the individual life, fixed and variable annuity, GIC, and credit life and disability markets. A profitable acquisition line of business that acquires in-force blocks of policies and small insurance companies complements these businesses. Most of the growth has been in product lines that are considered commodity-like—such as term life insurance and annuities—or from opportunistic lines of business, such as stable-value products or acquisitions of life insurance blocks.

PLC had consolidated assets of $25.4 billion as of March 31, 2004, and its core competencies are its abilities to sell retail products and make acquisitions. The group's strengthening retail life insurance and annuity franchise has helped diversify the drivers of growth, which previously had been substantially based on acquisitions and institutional asset-management-type products. The strength of its primary retail life insurance franchise depends significantly on maintaining strong underwriting discipline and low expense levels that facilitate competitive pricing of these largely commodity like products. Although the group has well-diversified businesses, they tend to consist of commodity-like products and do not include prominent long-term value-added product lines that are more typically seen in companies rated this highly.

Extremely strong capitalization is generated from strong organic earnings. Excess capitalization is building steadily and if appropriate acquisition or other opportunities do not emerge in the near term the company will consider alternatives to deploying its growing capital base including possibly reducing debt or a share buy-back program.

Protective maintains a high-quality investment portfolio with minimal credit defaults that is well diversified and supported by excellent risk management. Investment performance is above average, and invested assets are of high quality, with an adequate duration match between assets and liabilities. The primary objective in the company's investment strategy is to preserve capital. Instead of obtaining the target spreads by taking on credit risk, the company emphasizes high-quality bonds and commercial mortgages. Management executes this strategy with a very high degree of success, as demonstrated by negligible credit defaults in 2001-2003. Protective has some exposure to interest rate risk, because a substantial portion (27%) of assets is invested in MBS. It is also exposed to commercial real estate, with 19% of assets in commercial mortgages, which includes retained tranches of prior mortgage securitizations. The company reduces this exposure somewhat through diversification, excellent risk management, and the implementation of a hedging program.

Liquidity.
Standard & Poor's views PLC's liquidity as strong because it originates from well-diversified sources of operating cash flows and alternate sources of liquidity. PLC's cash flow depends on cash dividends from its subsidiaries,

revenues from investment, data processing, legal and management services rendered to the subsidiaries, and investment income.

PLC maintains revolving credit facilities of $200 million to support its strong operating company cash flows and to provide funds to temporarily finance maturing debt obligations. PLC does not maintain a commercial paper program so the unused revolving credit capacity is readily available and liquidity is very flexible. As of March 31, 2004, there were no borrowings from the revolving credit facilities. In 2002 and 2003, PLC did not receive dividends from PLICO whose ordinary dividend capacity not requiring prior approval from regulatory authorities has been substantial and is about $293.8 million in 2004. The dividend capacity primarily arises from strong statutory operating earnings. PLC's operating subsidiaries generated net cash flows from insurance operations of about $783 million in 2003.

Outlook

PLC is expected to maintain well-diversified operations producing strong revenues, debt-plus-preferred leverage of about 30%, and GAAP interest coverage of more than 10x. GAAP ROA is expected to be about 125 basis points, and GAAP earnings are expected to grow about 10% annually. In 2004 earnings are expected to grow about 10% because of strong performance in core lines and the exit of ancillary lines in the asset protection division (APD) in 2003 and positive results in other APD lines. If appropriate acquisition or other opportunities do not emerge in the next year or so the company will consider alternatives to deploying its growing excess capital base including possibly reducing debt or a share buy-back program.

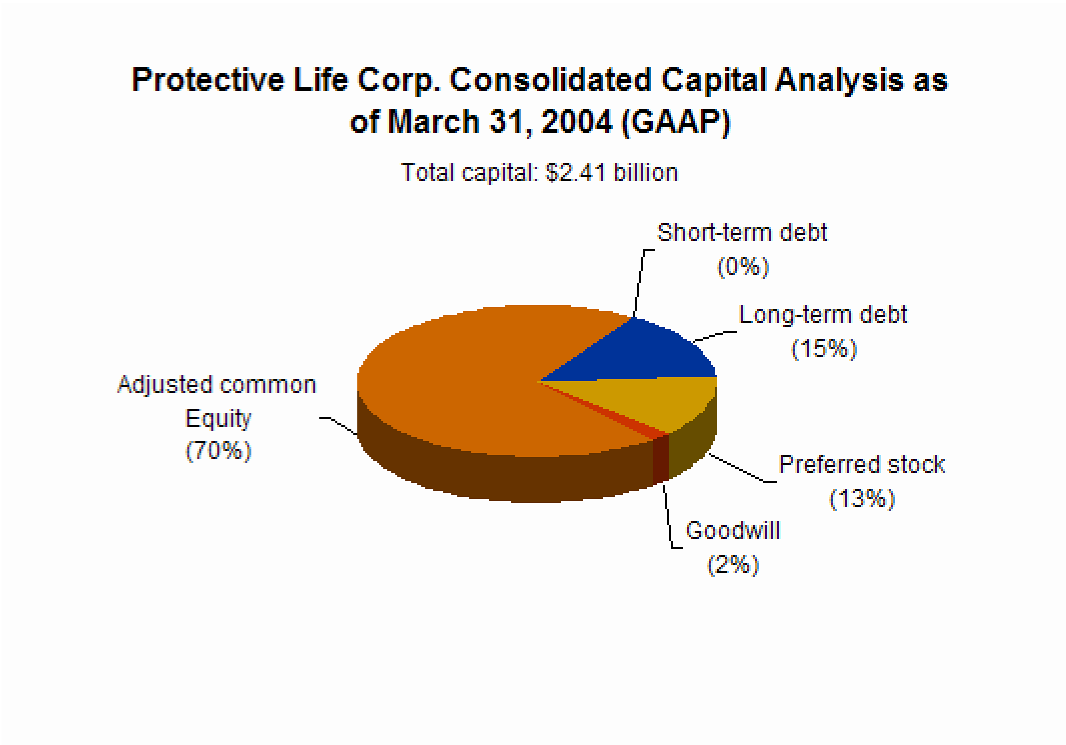
Financial Profile

Protective's demonstrated track record of positive net income growth is based on careful expense management, tight underwriting, and above-average investment return. The ROE has continued to increase and as of first-quarter 2004 was 14.5% on a twelve-month trailing basis. Earnings in 2003 were dampened by pretax reserve additions totaling $28 million in its asset protection division related to its run-off block of auto residual value business. Protective entered the auto residual value business through acquisitions in 1997 and 2000 and ceased writing new residual value business in March 2003 after the venture proved more volatile than expected and underperformed company expectations.

On July 1, 2004, $75 million of 7.95% senior unsecured notes are due to mature. The maturity is expected to be financed using the available revolving credit facility. PLC will term out the revolving debt when it reaches an adequate size to go to market. PLC maintains mixed-use shelf registrations with the SEC and currently has $150 million capacity remaining on current registrations. It is expected that as PLC uses existing capacity it will file further mixed use registrations so as to maintain its flexibility to refinance maturing debt and to fund attractive growth opportunities.

Operating company capital adequacy will continue to meet expectations, with an expected CAR that is, in the absence of acquisitions, significantly more than the 170% required for the ratings. PLC's financial leverage (consolidated debt plus preferred stock to total capital) was 31% as of March 31, 2004, with fixed-charge coverage of 11.3x including the effect of swaps that reduce fixed charges. Financial leverage is expected to be maintained at about 30% though from time to time it may temporarily exceed this level. Fixed-charge coverage should remain more than 10x including the effect of fixed to floating swaps that reduce fixed-charges.

Protective Life Corp. Financial Statistics			
	-- Year ended Dec. 31 --		
	2003	2002	2001
Debt to capital (%)	20.0	19.0	20.0
Debt plus preferred to capital (%)	29.0	29.0	29.0
GAAP interest coverage (x)	12.5	10.6	9.7
GAAP fixed-charge coverage (x)	7.8	7.4	6.9
GAAP fixed-charge coverage (x)	10.1	11.1	8.0
Double leverage (%)	120.0	121.0	123.0
Statutory interest coverage (x)	4.3	5.3	4.6
Statutory fixed-charge coverage (x)	2.7	3.4	3.0



This report was reproduced from Standard & Poor's RatingsDirect, the premier source of real-time, Web-based credit ratings and research from an organization that has been a leader in objective credit analysis for more than 140 years. To preview this dynamic on-line product, visit our RatingsDirect Web site at www.standardandpoors.com/ratingsdirect.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280.