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Analysis

May 2004

Contact	Phone
New York	
Robert P. Donohue	1.212.553.1653
Ann Perry	
Weigang Bo	
Robert Riegel	

Protective Life Insurance Company/ West Coast Life Insurance Company

Company Profile

HISTORY AND CORPORATE STRUCTURE

Protective Life Insurance Company (PLIC) is the principal subsidiary of the Protective Life Corporation (collectively, Protective). Protective was formed in 1907 in Birmingham, Alabama and still has its headquarters in Birmingham. PLIC is licensed in the District of Columbia and all states, except New York. While most business is written at PLIC, the company has a number of subsidiaries that also underwrite various insurance products. Organizationally, Protective Life Corporation's other subsidiaries are subsidiaries of PLIC. A simplified organization chart can be found in Appendix 1.

Since 1970, Protective has grown steadily and significantly in size. This growth is attributable to both intrinsic growth and acquisitions. Notable acquisitions in recent years include West Coast Life Insurance Company in 1997, Lyndon Insurance Group in 2000, and Inter-State Assurance Company and First Variable Life Insurance Company in 2001. In the third quarter of 2003, Protective entered into an agreement with Life of the South Corporation (LOTS) for its Asset Protection Division's financial institutions credit insurance business. Under the agreement, LOTS will administer this business for Protective until it completely runs-off in a few years.

In 2003, Protective Life Corporation had total revenue of about $2.0 billion and net income of approximately $217 million. As of December 31, 2003, the company had total assets of about $25 billion and shareholders' equity of approximately $2.0 billion.

OWNERSHIP

Protective Life Corporation's common stock (ticker: PL) is publicly traded on the New York stock exchange. As of year-end 2003, Amsouth Bancorp owned slightly less than 7% of the company's common stock, while no other investor owned more than 4% of Protective.

BUSINESS ACTIVITIES

Protective operates in five divisions:

Moody's Investors Service
Global Credit Research

- **Life and Annuity**. The Life and Annuity Division is Protective's largest in terms of operating income. It markets level premium term life, universal life, variable universal life, fixed rate market value adjusted (MVA) annuities, variable annuities and immediate annuities through regional sales managers working with independent personal producing general agents (PPGAs), Empire General Life Assurance Corporation brokers, banks, financial institutions, broker-dealers and Matrix Direct (a direct response operation).
- **West Coast Life**. It sells level premium term and universal life through brokerage general agents and independent life agents.
- **Acquisitions**. It focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies sold to individuals, such as traditional whole life, term insurance and universal life. These acquisitions may be accomplished through acquisitions of companies or through the reinsurance of blocks of policies from other insurers. Policies acquired through the segment are usually administered as "closed" blocks, transitioned and run-off through existing systems.
- **Asset Protection** (formerly known as the Financial Institutions Division). It principally markets credit life and disability insurance, as well as vehicle and marine service contracts (warranty insurance) through auto and marine (boat) dealers.
- **Stable Value Products**. Through institutional brokers, this division markets guaranteed investment contracts (GICs) to 401(k) and other qualified retirement savings plans and funding agreement-backed notes (both registered and not registered with the SEC) to institutional investors. Notably, Protective was the first company to have a Funding Agreement-backed Note Issuance Program (FANIP) registered with the SEC. These registered programs can sell notes to both retail and institutional investors. This division also markets fixed and floating rate funding agreements to the trustees of municipal bond proceeds, institutional investors, bank trust departments and money market funds.

DISTRIBUTION

Protective uses many distribution channels, including independent agents, banks, stockbrokers, broker general agents (BGAs), direct marketing and worksite arrangements. The Asset Protection Division principally markets its products through a national network of about 2,500 auto and marine dealers.

MARKET SHARE

In recent years, Protective has become a leading writer of term life insurance through independent channels. Also, in its year-end 2003 Form 10-K filing, the company reported that it was the fifth largest credit insurance provider in the U.S. according to industry surveys. However, it should be noted that the company exited the financial institutions credit insurance business in 2003.

NUMBER OF EMPLOYEES

As of December 31, 2003, Protective had about 2,468 employees, including approximately 1,404 in Birmingham, Alabama.

The company's website is www.protective.com.

Analysis

A BROAD PRODUCT OFFERING AND MULTIPLE DISTRIBUTION CHANNELS PROVIDES PROTECTIVE WITH DIVERSE SOURCES OF REVENUE AND EARNINGS

Moody's believes that a key rating strength for Protective is the diversity of its revenues and earnings. While the company focuses primarily on individual lines, it is also active in the institutional investment products (IIP) business through its Stable Value Products Division. Within its individual lines, it offers not only protection and asset accumulation products, but is also active in the market for credit life and credit disability insurance. Revenue growth is generated internally, as well as through acquisitions. Most of the company's business units also use several distribution channels to market their products.

Protective Life Corporation					
(in $ millions)	**GAAP Pre-tax Operating Income**				
Division	**1999**	**2000**	**2001**	**2002**	**2003**
Life and Annuities – Life	32.1	40.2	45.0	75.2	92.9
Life and Annuities – Annuities	12.5	15.1	16.9	15.7	13.4
West Coast Life	26.1	36.4	44.6	50.3	66.3
Acquisitions	63.7	52.8	68.0	95.1	95.1
Stable Value Products	29.5	31.2	33.2	42.3	38.9
Asset Protection	21.9	32.2	34.0	(23.4)	(12.8)
Corporate and Other	17.4	11.2	(10.9)	5.6	1.0
Total Pre-tax Operating Income	203.2	219.1	230.8	260.8	294.8

As can be seen in the accompanying table, with one exception, Protective's various operating divisions have been consistently profitable. Moreover, the profitability in most of the divisions has been steadily increasing in recent years, despite turmoil in the equity and credit markets. Given the company's overall operating prowess, good track record and management focus, Moody's expects that Protective will continue to profitably grow most of its operating divisions in the near term.

LIFE INSURANCE BUSINESS HAS BECOME THE CORNERSTONE OF PROTECTIVE'S FRANCHISE

The preceding table also underscores one other notable development--that the life insurance business continues to account for an increasing proportion of operating earnings at Protective. The company's life insurance business (consisting of the Life section of the Life and Annuities, West Coast Life and the Acquisitions Divisions) accounted for about 57% of GAAP pre-tax operating income in 1998. By 2003, it was up to 86%. Although this trend represents a lessening of earnings diversity, Moody's believes that this trend has been driven by Protective's success at growing its profitable life insurance business and is, therefore, a positive development. Moreover, Moody's believes that the life insurance business is the most creditworthy of Protective's businesses.

CHALLENGES REMAIN IN THE ASSET PROTECTION DIVISION

Compared to the company's four other divisions, the one division we are less sanguine on is Protective's Asset Protection Division (APD) (formerly known as the Financial Institutions Division). APD principally markets credit life and disability insurance, as well as vehicle and marine (boat) service contracts (warranty insurance) through auto and marine dealers. APD had an operating loss in 2002 largely related to adverse claims experience and required reserve strengthening associated with several lines of its business, much of which was in vehicle service contracts (VSC). This issue resulted in the company taking a pre-tax charge of $30.9 million in 2002. Despite efforts by the company to address it, problems with the automobile residual value business persisted in 2003, forcing the company to incur another charge ($28.4 million pre-tax).

The problem in the ancillary residual value business is largely attributable to cars coming off lease with values below what was expected and priced for by Protective. As a residual value insurer, Protective has to make up the shortfall in used car values to the firms that leased the vehicles. Through its residual value business, we believe that Protective has effectively taken on exposure to the domestic auto market. This is direct exposure to the market for used vehicles and indirect exposure to the new vehicle market, inasmuch as new vehicle sales and financing incentives have a direct impact on the residual values of used vehicles.

With the charges Protective has taken in the past two years, the company has significantly strengthened the reserves of its residual value business and Moody's believes that the company's APD will report improved results in 2004. Notably, the company's core APD business lines were profitable in 2003 and in the first quarter of 2004. Nonetheless, Protective continues to prudently scrutinize the various businesses within the APD and in 2003 entered into an agreement with Life of the South Corporation (LOTS) in which LOTS will assume responsibility to run-off APD's financial institutions credit insurance business. Moody's expects that Protective will continue to deemphasize its APD over time and will likely enter into other strategic arrangements, such as the one with LOTS, for many of its APD businesses.

A LEADING PARTICIPANT IN THE TERM LIFE INSURANCE MARKET …

Protective markets a wide range of life insurance products to the retail marketplace, and life insurance accounted for about 44% of the company's reserves as of year-end 2003. While Protective continues to offer a wide array of individual life insurance products, it seems to be best positioned in the term life insurance market, and in recent years it has quietly become a leading participant in this segment of the life insurance market. Operating through its Life and Annuity and West Coast Life Divisions, the company has developed a solid infrastructure for competing in this price sensitive part of the market. Moody's believes that the company's strategy of dissecting the market into different segments and serving these segments through different distribution channels is a sound one.

The West Coast Life Division principally writes its business on the balance sheet of Protective's West Coast Life Insurance Company (West Coast Life) (rated Aa3 for insurance financial strength) subsidiary. The West Coast Life Division largely sells to affluent individuals in relatively good health looking for pure mortality protection. This is a price-sensitive and commodity-like proposition, but West Coast Life's efficient infrastructure allows it to compete. West Coast Life distributes using broker general agents (BGAs). Individuals with more unique underwriting circumstances are the target of Protective's Empire General Life Assurance Corporation (Empire General) (not rated by Moody's) subsidiary. Empire General handles underwriting-intensive cases, and also utilizes the BGA channel for distribution. The group's lead company, Protective Life Insurance Company, targets a more middle-class buyer, using a broad combination of independent agents, banks and stockbrokers for distribution.

In 2001, Protective took full control of a direct marketing company, Matrix Direct, Inc. (Matrix Direct). Sales through Matrix Direct grew quickly in 2001 and 2002, but in 2003 Protective started to deemphasize its direct marketing channel due to higher mortality experience. We believe that this higher level of mortality experience is related to a lack of agents' screening of applicants. In addition, growth in sales of Protective Life products through Matrix Direct slowed as Protective chose to distribute other carriers' life insurance products through Matrix Direct. In the near term, Moody's does not expect Matrix Direct to be a growth area among Protective's various distribution channels.

… BUT THIS NECESSITATES SIGNIFICANT EXPOSURE TO REINSURANCE

In order to rapidly grow its individual life insurance business in recent years, Protective has made extensive use of mortality reinsurance. Notably, the company retains only about 10% of the mortality exposure it underwrites.

Moody's believes that reinsurance has both advantages and disadvantages. On the positive side, it minimizes Protective's surplus strain associated with growing this business, while at the same time, minimizes the company's exposure to adverse mortality development. On the negative side, it exposes Protective to reinsurance recoverables and diminishes the profitability of the business in that much of this profitability passes to the reinsurer should mortality develop as planned. Protective mitigates credit risk to any one reinsurer by using a large number of carriers, avoiding concentrations with just a single company. Protective's reinsurance recoverable exposure tends to be with larger, better-rated reinsurers.

Moody's also believes that direct writers of life insurance, such as Protective, are becoming increasingly exposed to the stringent statutory reserve requirements of Regulation XXX (for term life) and Guideline AXXX (for universal life). Many direct writers reinsure their policies off-shore and use bank letters of credit (LOC) to collateralize the ceded reserves in order to obtain regulatory reserve credit in the U.S. Moody's feels that the ceding companies and the reinsurers that use LOCs to secure reinsurance reserve credit on their U.S. balance sheets are exposed to short-term liquidity and repricing risks that can pose significant negative credit consequences, particularly for business subject to Regulation XXX/Guideline AXXX reserves.

In addition to heavy use of reinsurance, rapid growth has also required Protective to make substantial investments in processing systems. Although the company appears to be efficient in processing and administering policies, the disclosure in 2002 that Protective had been overpaying its reinsurers for a number of years raised the question of whether the company's controls and accounting systems have kept up with growth in the rest of its infrastructure. Moody's believes that the overpayment was an isolated incident, but that any further such incidents would be grounds for doubts about Protective's ability to effectively control and account for its business.

AN ESTABLISHED CORE COMPETENCY IN ACQUIRING OTHER COMPANIES AND BLOCKS OF BUSINESS

Protective is one of a handful of insurers in the U.S. that has a separate division that specializes in acquiring other companies and blocks of business. The Acquisitions Division has a strong track record in executing these transactions, the vast majority of which are "run-off" with Protective realizing the profitability intrinsic in the acquired business. Protective does this by substantially eliminating the overhead associated with the acquired company or block. Moody's believes that this unique competency is positive from a ratings perspective, and notes that the Acquisitions Division consistently produces large GAAP and statutory profits.

After closing no transactions in 1999 and 2000, the Acquisitions Division completed two transactions in 2001. In January 2001, it closed on a block of individual life insurance from Standard Insurance Company. Then in October 2001, it acquired the stock of Inter-State Assurance Company and First Variable Life Insurance Company. Most recently, in June 2002, Protective coinsured a block of traditional and interest-sensitive life insurance from Conseco Variable Insurance Company. No other transactions were announced 2002 or 2003.

Moody's believes that the Acquisitions Divisions lack of new transactions in the second half of 2002 and 2003 speaks in part to the company's pricing discipline and willingness to pass on deals if favorable conditions cannot be achieved. While we feel that Protective is quite proficient in acquiring and running off acquired companies and blocks of business, Moody's believes that the opportunistic nature of these acquisitions suggests that future activity will be sporadic. Citing a tempered sales growth forecast for 2004, company management has publicly stated that it believes that Protective has about $150 million in excess capital that could be used for acquisitions. Moody's believes that the company's Acquisitions Division will remain active, but that it will maintain pricing discipline in pursuing new opportunities.

PROTECTIVE LACKS SCALE IN THE COMPETITIVE VARIABLE ANNUITY BUSINESS …

While the annuity portion of Protective's Life and Annuity Division remains profitable on both a GAAP and statutory basis, the company remains a small participant in the sizeable variable annuity (VA) business. Moody's believes that the VA business is highly competitive and one that lends itself to economies of scale. Without scale, it is very difficult to achieve an appreciable level of profitability in the VA market. As of December 31, 2003, Protective had only about $2.2 billion of VA assets under management. We do not believe that this constitutes sufficient scale in the VA arena.

Exacerbating this, as with many market participants, Protective's VA sales were depressed in 2000 and 2001 as the domestic stock market languished, although sales recovered modestly in 2002 and 2003. However, variable annuity sales were down sequentially in 2003 despite strong equity market performance in the second half of 2003. Protective said that it intends to introduce a new VA product in 2004. At this point, however, Moody's remains skeptical given the economies of scale of many of the large participants in the VA market, as well as the intensely competitive nature of this business. The company also makes extensive use of third party investment managers for its VA sub-accounts. This forces it to share some of the modest profitability of the VA product with external constituencies.

Somewhat mitigating Protective's position in the VA market is our belief that the company's presence here broadens its asset accumulation product offering and makes its overall annuity business, consisting of both fixed and variable annuities, more attractive to product distributors. Thus, Protective's continued presence in the VA market is helpful to it from a distribution standpoint. In order to further enhance distribution, Protective merged the former Investment Products Division, which housed the annuity business, with its Individual Life Division, forming the Life and Annuity Division. Protective has also avoided much of the difficulty other insurers have had with Guaranteed Living Benefits (GLBs) simply because the company's book of VA business is relatively small. In addition, Protective has reinsurance covering approximately two-thirds of its modest Guaranteed Minimum Death Benefit (GMDB) exposure.

…BUT HAS A DISCIPLINED APPROACH IN THE FIXED ANNUITY MARKET, ALTHOUGH A MAJORITY OF DISTRIBUTION IS THROUGH ONE INDEPENDENT BROKER-DEALER

On a relative basis, Protective is better positioned in the fixed annuity market than it is in the VA market. In each of the years from 2000 through 2002, the company's fixed annuity sales exceeded $625 million. However, in 2003, Protective intentionally de-emphasized fixed annuity sales in the low interest rate environment and only recorded fixed annuity sales of $164 million for the year. Moody's feels that discipline in fixed annuity pricing is prudent in the long run, even if it costs the company sales in the near term. Notably, the fixed annuity segment still reported positive pretax operating income for 2003.

With interest rates falling to forty-year lows in 2003, Protective exercised restraint by declining to offer rate guarantees of less than three years and cutting crediting rates offered to new customers. While Moody's believes that this is a prudent strategy, we expect that spread compression will continue to pressure Protective's earnings as long as market interest rates (especially as the short-end of the yield curve) remain at historically low levels. Although Moody's expects Protective to continue exercising restraint while interest rates remain low, we believe that the company will be under some pressure to grow revenue and therefore may be tempted to accept lower spreads on this business.

Moody's believes that Protective does a good job in mitigating much of the risk associated with the underwriting of fixed annuities, chiefly by issuing relatively simple, CD-like products. Specifically, for deferred annuities, the company only sells policies that have a market value adjustment (MVA) feature. New policies contain the MVA feature in addition to a typical multi-year surrender charge. However, unlike the surrender charge that eventually lapses after a number of years, the MVA feature remains active on the policy for the entire guaranty period. Essentially, the MVA works to penalize a policyholder who withdraws funds from a fixed annuity when such a withdrawal would be disadvantageous to Protective. In addition, Protective has never sold equity-indexed annuities, a product we believe to be relatively risky for an insurance company, and has not sold a single premium deferred annuity (SPDA) fixed annuity for over a decade. Protective has also been only a minor player in the bonus annuity market, chiefly offering this product only as a limited accommodation to distributors.

One concern we have with Protective's annuity business is that a majority of the annuities underwritten by Protective are distributed by just one independent broker-dealer. In 2003, this broker-dealer accounted for over half of Protective's annuity sales. While this distributor has a good track record with regard to product persistency and proper sales practices, it is nonetheless risky to have such a high percentage of sales derived from just a single, independent source.

THE COMPANY MAINTAINS A HIGH QUALITY BOND PORTFOLIO AND AMPLE LIQUIDITY …

Protective's investment portfolio consists principally of bonds, commercial mortgage loans, and bank loans. Investments in unaffiliated common stock and real estate are *de minimus*. The quality of the company's $7.3 billion bond portfolio (including assets supporting guaranteed separate account liabilities) is good. According to Moody's analysis, Protective's bond portfolio performed much better than the industry average in 2001-2002 with respect to realized losses and impairments. Notably, the company reported that it experienced no material credit defaults in 2003.

The company's exposure to below-investment grade (BIG) bonds accounted for about 7.5% of the bond portfolio as of year-end 2003, a very significant decrease from 13.2% as of December 31, 2002. This change was principally due to an improving credit environment, as well as a conscious effort on Protective's part to substantially reduce its investment in BIG syndicated bank loans. This is an asset class that Protective invests in sporadically and has had good success with in the past. Moody's expects the company's BIG holdings will stay in the 5% to 8% range as a percentage of total investments in the coming quarters.

Protective reduced its holdings of privately-placed bonds in 2003, and we believe it is somewhat under-weighted in this asset class. However, the company maintains significant exposure to residential mortgage backed securities (MBS) with these holdings accounting for approximately 27% of its year-end invested asset portfolio. However, this risk is somewhat mitigated by Protective's focus on less risky MBS tranches.

We feel that Protective's high quality bond portfolio, coupled with its strong operating cash flows and reserve liquidity at its holding company, provides the company with ample liquidity. This liquidity profile is enhanced by the fact that, as of year-end 2003, just 8.7% of its liabilities were subject to withdrawal at book value with minimal or no surrender charge. Also, Protective Life Corporation has a committed $200 million revolving credit facility from a syndicate of banks available to it. As of March 31, 2004, there were no outstanding borrowings under this facility. Moreover, Protective's Insurance Quick Ratio (IQR)[1] of 1.1 times as of December 31, 2003 also indicates that the company has ample liquidity with respect to its Institutional Investment Products (IIP) business. An IQR of less than 1.0 indicates that a company would have to access sources of liquidity other than cash and short-term investments and maturing investment grade bonds to satisfy its maturing IIP liabilities over the following twelve months.

… AND ABOVE-AVERAGE EXPOSURE TO COMMERCIAL MORTGAGE LOANS

Protective continues to have well above-average exposure to commercial mortgage loans, with this asset class accounting for almost 17% of general account assets as of December 31, 2003. The portfolio is somewhat concentrated in the Southeast, and has a very high concentration in the strip-center retail sector (about three-quarters of all loans) exposing Protective to the potential credit weakness of retailers and supermarket chains.

Protective's exposure to this asset class is actually higher than it appears because of past asset securitizations. In the mid-to-late 1990s, the company securitized about $1.4 billion of its commercial mortgage loan portfolio. The four securitizations--one each year from 1996 through 1999-- improved the liquidity characteristics of the company's balance sheet, because the company reinvested the proceeds in investment-grade securities.

However, the company's overall credit risk profile was not significantly reduced as a result of the securitizations, because Protective retained the subordinated securities issued in the transactions. Thus, Protective remains in the "first loss" position with respect to these securitizations. A mitigating factor is that the mortgages underlying these securitizations have begun to pay down in significant amounts, thereby improving the creditworthiness of the subordinated tranches which Protective retained. If Protective's general account invested assets as of December 31, 2003 were adjusted to include the securitized mortgages for which it retains credit exposure, commercial mortgage loans would total to approximately 19% of invested assets. Given the dates of the securitizations and the performance of the underlying loans, the risk to Protective from these securitizations continues to diminish.

1. *Insurance Quick Ratio (IQR) is defined as (1) the sum of cash and short-term investments, and investment grade bonds maturing in the next twelve months, divided by (2) IIP liabilities maturing in the next twelve months.*

Moody's believes that this credit sensitive asset class can be volatile and is generally illiquid. Furthermore, the company uses commercial mortgage loans to back liabilities in all of its operating divisions. Our concern centers on the matching of long-dated and relatively illiquid assets with shorter and frequently interest-sensitive liabilities. We feel that the company somewhat mitigates this risk by keeping ample liquidity available in its bond portfolio and by closely matching asset and liability durations.

Although Protective continues to maintain relatively high exposure to commercial mortgages, it is noteworthy that at the end of 2003 aggregate exposure was the lowest it has been as a percentage of assets in the past decade. Moody's believes that this trend is positive, as a reduction in exposure to this asset class provides Protective with some much needed diversification. We believe that this reduction in asset allocation to commercial mortgages is a long-term shift in Protective's overall asset allocation strategy toward more liquid assets. We also believe that Protective maintains conservative underwriting practices in this increasingly competitive business.

AMPLE STATUTORY CAPITAL, BUT MODERATELY HIGH FINANCIAL LEVERAGE AT PROTECTIVE LIFE CORPORATION

As of December 31, 2003, Protective Life Insurance Company had a capitalization ratio of 11.6%. As of the same date, the company reported that its NAIC Risk-Based Capital (RBC) was 328% of its Company Action Level. Moody's believes that this represents ample statutory capitalization.

As year-end 2003, Protective Life Corporation's financial leverage ratio was about 29.3%, down slightly from 29.5% as of the prior year-end. The financial leverage ratio is defined here as the ratio of total debt-to-capital, counting trust preferred securities and finite reinsurance at the company's Protective Life Insurance Company subsidiary as debt. We believe that the company remains near fully leveraged for its rating category.

When Protective acquired the Lyndon Insurance Group in January 2000, it used $57 million of finite reinsurance to partially finance the acquisition. As of December 31, 2003, only about $9 million of this finite reinsurance was still outstanding. While we consider finite reinsurance to be debt, the small remaining balance of finite reinsurance at Protective does not appreciably alter its financial leverage and coverage ratios.

Despite a moderately high amount of financial leverage on the basis of the debt-to-total capital ratio, Protective's statutory cash flow interest coverage ratio[2] was good at about 4 times in 2003. For 2004, cash flow interest coverage is projected to remain at about 4 times cash interest expense. On a GAAP basis, interest coverage[3] was about 9 times in 2003 and is projected to be about 9 to 12 times in 2004. We consider these coverage ratios to be good, thus mitigating some of our concern about the amount of financial leverage at the company.

We feel that a high level of financial leverage somewhat limits a company's strategic alternatives in a competitive marketplace. In the coming years, Moody's expects that financial leverage at Protective Life Corporation will remain at roughly 30%, give or take a few percentage points. We say this because we see Protective's management team as having a strong shareholder focus, which will likely make it unwilling to dramatically abandon the enhanced returns offered by financial leverage.

SIGNIFICANT EXPOSURE TO INSTITUTIONAL INVESTMENT PRODUCTS BUSINESS

Protective remains an active participant in the institutional investment products (IIP) business, a market that includes guaranteed investment contracts (GICs), funding agreements, and funding agreement-backed note issuance programs (FANIPs). As of December 31, 2003 and on a consolidated basis, Protective had roughly $4.5 billion of IIP exposure, equal to about 30% of its consolidated general account liabilities (including about $2.2 billion of guaranteed separate accounts). We feel this level of exposure is moderately high, although not excessively so. Going forward, we expect Protective to grow this business in proportion to its overall general account business.

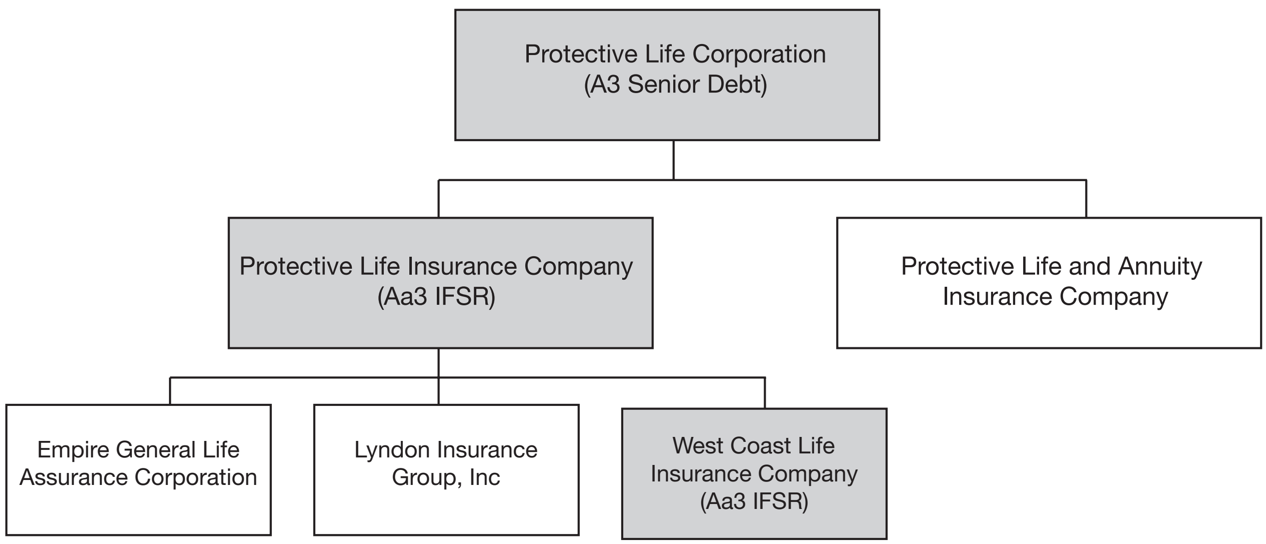
Moody's views the IIP market as being thin-margined and commodity-like, offering few sustainable competitive advantages for its participants. Furthermore, the market is extremely confidence-sensitive and is thus susceptible to a "run on the bank" scenario, as was evidenced at General American Life Insurance Company in August 1999. This potential liquidity crisis scenario applies most specifically to companies aggressively issuing funding agreements with short-dated puts. Notably, as of December 31, 2003, Protective had completely exited this risky segment of the IIP market. In addition, Protective's FANIP programs have no early termination provisions. We believe that this lack of optionality enhances the creditworthiness of these programs from the perspective of an issuer.

2. *Statutory cash flow interest coverage ratio is defined as the amount of cash available from all sources to the holding company divided by cash interest expense for debt and trust preferred securities.*
3. *Interest coverage is defined as GAAP earnings before interest and taxes (EBIT) divided by GAAP interest expense.*

In November 2003, Protective was the first insurer ever to receive SEC approval for a registered FANIP program. This new FANIP program, Protective Life Secured Trusts, can be used to issue funding agreement-backed notes to both retail and institutional investors in the US and abroad. After an inaugural institutional issuance in November 2003, Protective became the first insurer to issue retail funding agreement-backed notes in January 2004. Moody's believes that the registered FANIP market will ultimately prove to be broader and deeper than the current Euro and Global FANIP markets and that Protective is well positioned to grow with this new market.

Appendix 1

Simplified Organizational Chart
As of May 1, 2004



Note: Only shaded entities are rated.

Appendix 2

Protective Life Corporation Business Summary

Division	Primary Products	2003 Data ($ Millions)*	Distribution
Life and Annuity	Level Premium Term Life Universal Life Variable Universal Life Fixed Rate Market Value Adjusted Annuities Variable Annuities Immediate Annuities	Sales $680 GAAP Income $106	Regional sales managers –independent personal producing general agents. Empire General Life Assurance Corp. Brokerage Banks, financial institutions, broker-dealers, stockbrokers, Matrix Direct (direct response operation).
West Coast Life	Level Premium Term Universal Life	Sales $124 GAAP Income $66	Brokerage general agents and independent life agents.
Acquisitions	Traditional Whole Life Term Insurance Universal Life	Sales NA GAAP Income $95	Acquires in-force blocks of insurance and insurance companies. Usually closed, transitioned and run off through existing systems.
Asset Protection	Traditional Single-Premium Credit Life and Disability Warranty Insurance	Sales $492 GAAP Income $(13)	Banks, thrifts and auto dealers. Markets to financial institutions through field force and to auto dealers through independent agency.
Stable Value Products	Guaranteed Investment Contracts (GICs) Funding agreements Funding Agreement-backed Note Issuance Programs (FANIPs)	Sales $1,608 GAAP Income $39	Institutional brokers

** Sales represent annualized new sales during the year. GAAP income is before income taxes.*

Related Research

Special Comments:

The Real Truth: Bond Credit Losses of US Life Insurers, October 2003, #79247

Moody's Liquidity Model for U.S. Life Insurance Companies, January 2004, #80818

Industry Outlook:

U.S. Life Insurance Industry Outlook, January 2004, #80468

Related Websites

www.protective.com

MOODY'S has provided links or references to third party World Wide Websites or URLs ("Links or References") solely for your convenience in locating related information and services. The websites reached through these Links or References have not necessarily been reviewed by MOODY'S, and are maintained by a third party over which MOODY'S exercises no control. Accordingly, MOODY'S expressly disclaims any responsibility or liability for the content, the accuracy of the information, and/or quality of products or services provided by or advertised on any third party web site accessed via a Link or Reference. Moreover, a Link or Reference does not imply an endorsement of any third party, any website, or the products or services provided by any third party.

Protective Life Insurance Company

	12/31/03	12/31/02	[1] 12/31/01	12/31/00	12/31/99
BUSINESS PROFILE					
As % policy reserves & liabilities:					
Individual life	40.7	33.1	27.8	23.9	26.8
Individual health	0.5	0.4	0.5	0.7	0.8
Individual annuities	8.2	59.5	62.3	29.9	28.2
Group life	0.3	0.3	0.2	0.7	0.7
Group health	0.1	0.0	0.0	0.3	0.2
Group pension	0.2	0.2	0.2	43.4	41.8
Deposit-type contracts	49.7	5.8	7.9	—	—
Other	0.3	0.7	1.1	1.1	1.6
As % of total net premiums & deposits:					
Individual life	18.4	17.5	9.9	12.7	13.0
Individual health	1.4	1.3	1.2	2.0	1.8
Individual annuities	16.4	43.7	48.3	26.3	19.6
Group life	0.2	0.1	0.5	1.0	0.8
Group health	0.1	0.2	5.9	9.6	8.7
Group pension	2.5	29.8	29.8	45.1	55.4
Deposit-type contracts	61.1	6.7	3.5	—	—
Other	-0.2	0.7	0.8	0.7	0.6
Premium Profile ($mil)					
Direct	1,290	2,484	2,701	924	816
Assumed	175	219	179	147	204
Deposit-type funds	1,555	192	111	795	528
Total prems & deposit funds	3,020	2,894	2,990	1,866	1,547
Ceded premium	475	543	381	486	403
Net prems & deposit funds	2,545	2,351	2,608	1,380	1,144
Ceded Premiums/Total Premiums (%)	32.4	20.1	13.2	45.4	39.5
Reserve Profile					
Financial Modco Reinsurance Ratio	0.2	0.0	0.0	—	—
Deposit-type contracts as a % General Account Reserves	49.4	7.4	9.7	—	—
As % of ordinary life direct premiums:					
First year (%)	29.0	24.7	27.4	25.8	26.0
Paid-up additions (%)	0.2	0.6	0.6	0.3	0.4
Single premium (%)	0.0	0.0	0.0	0.9	0.9
Renewal (%)	70.7	74.7	72.0	73.0	72.8
Lapse ratio (%)	6.1	6.4	6.6	6.8	7.8
Renewal premium persistency (%)	79.8	101.4	80.3	85.1	82.8
Avg prem / $1,000 in-force (%)	5.50	5.70	5.55	5.93	5.70
Avg prem / $1,000 issued (%)	7.53	6.96	6.72	5.48	7.36
Avg policy size in-force	127,716	115,001	115,114	102,420	101,917
Avg policy size issued	284,454	232,539	223,378	220,208	186,184
Participating in-force/Total in-force (%)	1.9	2.5	2.8	0.5	0.5
Participating issued/Total issued (%)	0.0	0.0	0.0	0.0	0.0
Individual Annuity Statistics					
Average Deferred Annuity Size	24,785	102,483	79,108	3,077	2,955
Persistency Ratio	80.6	8.6	79.4	90.6	92.0
Accident & Health Statistics					
Loss ratio - Individual	82.2	88.4	68.1	90.9	60.9
Expense Ratio - Individual	32.9	30.0	31.1	32.0	36.4
Loss Ratio - Group	356.0	62.8	72.8	65.9	65.3
Expense Ratio - Group	198.1	168.2	-59.0	41.6	33.8

Protective Life Insurance Company

	12/31/03	12/31/02	[1] 12/31/01	12/31/00	12/31/99
INVESTMENT PROFILE					
As % of cash and invested assets:					
Bonds	69.0	63.3	63.7	62.3	65.6
Affiliated common stock	7.4	7.3	8.7	9.1	6.7
Unaffiliated common stock	0.0	0.0	0.1	0.1	0.1
Preferred stock	0.1	0.1	0.1	0.2	0.2
Commercial mortgage loans	16.8	17.8	21.2	24.6	23.6
Other mortgage loans	0.0	0.0	0.0	0.0	0.0
Real estate	0.3	0.3	0.5	0.4	0.5
Policy loans	3.9	4.7	3.4	2.1	2.3
Cash & short term investments	0.5	4.8	1.8	0.5	0.4
Other invested assets	1.9	1.7	0.4	0.7	0.6
Total cash & invested assets	100.0	100.0	100.0	100.0	100.0
Bond Quality					
Private Placements as % of Total Bonds	13.9	17.7	14.4	14.4	11.9
Private Below Investment Grade Bonds as % of Total Bonds [2]	6.9	7.6	3.5	1.3	0.6
Public Below Investment Grade Bonds as % of Total Bonds [2]	3.9	5.7	2.3	3.4	2.5
Total Below Investment Grade Bonds as % of Total Bonds [2]	10.8	13.2	5.8	4.7	3.1
Class 3 Bonds as % of Total Below Investment Grade Bonds [2]	59.2	62.9	66.4	74.2	67.6
Class 4 Bonds as % of Total Below Investment Grade Bonds [2]	31.2	28.5	26.7	11.6	15.0
Classes 5&6 Bonds as % of Total Below Investment Grade Bonds [2]	9.6	8.6	6.9	14.2	17.4
Total Below Investment Grade Bonds as % of Invested Assets [2]	7.5	9.0	3.8	3.0	2.1
Residential Mtg Backed Securities as % of Invested Assets	29.1	25.6	29.5	23.9	26.5
Commercial MBS & ABS as % of Invested Assets	1.1	2.3	1.3	1.8	1.0
Mortgage & Real Estate Quality					
Mortgages + Real Estate as % of Invested Assets	17.1	18.1	21.7	25.1	24.1
Commercial Mortgages + Real Estate as % of Invested Assets	17.1	18.1	21.7	25.1	24.1
Underperforming Mtgs + Fclsd RE as % of Total Mtgs + Fclsd RE [3]	0.7	1.0	1.3	1.2	1.5
Underperforming Assets					
Bonds in or near default as % of Invested Assets	0.0	0.1	0.1	0.1	0.0
Underperforming Mortgages + Foreclosed RE as % of Invested Assets [3]	0.1	0.2	0.3	0.3	0.4
Mortgage & RE Reserves as % of Underperforming Mtgs + Fclsd RE [3]	380.4	302.4	141.5	159.4	48.5
Total Underperforming Assets as % of Invested Assets [4]	0.1	0.2	0.3	0.4	0.4
Total Investment Reserves as % of Total Underperforming Assets [4]	888.8	743.8	303.2	345.3	110.7
AVR Funding %	76.9	96.5	79.1	81.8	31.0
As % mean assets:					
Gross investment yield	7.18	8.15	8.10	7.53	10.19
Investment expense	0.61	0.61	0.70	0.78	0.96
Net investment yield	6.58	7.55	7.40	6.75	9.23
Realized capital gains	0.23	0.30	0.19	-0.34	-0.09
Less - Transfer of gains(losses) to IMR	0.19	0.15	0.10	-0.11	-0.05
Plus - Amortization of IMR	0.04	0.03	0.04	0.04	-0.01
Unrealized capital gains	-0.58	-0.35	-1.33	-0.19	-1.51
Total investment return	6.08	7.37	6.20	6.37	7.68
Liquidity					
Liquid Assets as % Surrenderable Annuity Liabs	127.2	108.1	100.5	95.5	104.6
Surrenderable Annuity Liabs as % Total Reserves	44.0	45.9	57.3	55.5	54.5

Protective Life Insurance Company

	12/31/03	12/31/02	[1] 12/31/01	12/31/00	12/31/99
FINANCIAL PROFILE					
Profitability ($mil)					
Net gain bef PH div & tax/avg assets	2.34	1.53	1.91	0.95	2.30
Net gain bef PH div & tax/avg capital	30.15	21.44	27.27	14.19	32.92
Operating return on avg assets (%)	1.96	0.70	0.88	0.86	2.07
Operating return on avg capital (%)	25.24	9.73	12.48	12.82	29.67
Operating return on required capital (%)	26.66	8.51	9.76	10.71	29.90
Operating return on revenues (%)	15.00	3.03	3.03	4.14	9.43
Net investment income	653	671	550	426	518
Required interest	522	426	353	348	292
Excess (deficiency)	131	245	196	78	226
Interest margin (%)	25.0	57.4	55.6	22.5	77.4
Expected mortality cost [5]	371	435	228	264	244
Actual mortality cost [5]	142	121	97	69	71
Excess (deficiency) [5]	229	314	131	195	173
Mortality margin (%) [5]	61.7	72.3	57.3	73.7	70.9
Insurance general expenses	183	188	227	196	188
Investment general expenses	55	49	47	42	45
Total general expenses	238	238	274	238	233
Expense growth (%)	0.2	-13.3	15.2	2.3	25.5
Commissions/Premiums & Deposit-type funds	8.6	10.3	8.1	16.0	19.2
Tot general expenses/Premiums & Deposit-type funds	9.4	10.1	10.5	17.2	20.3
Tot expenses/Premiums & Deposit-type funds	17.90	20.41	18.60	33.25	39.48
Total general expenses/Avg assets	1.59	1.78	2.42	2.46	2.75
Insurance General Expenses as a % of Premiums:					
Individual life	25.4	24.3	34.6	37.1	33.4
Individual health	9.0	5.6	9.3	10.8	13.7
Individual annuities	4.9	1.4	1.0	3.2	4.0
Group life	4.3	10.4	13.4	13.4	14.8
Group health	145.8	120.2	35.5	29.5	24.6
Group pension	20.4	4.7	4.4	4.0	5.0
Other	-460.8	110.5	56.5	104.6	120.7
Gain (loss) from operations ($mil):					
Individual life	168	45	-35	37	114
Individual health	3	-3	3	-5	1
Individual annuities	96	13	9	5	-2
Group life	0	-1	10	2	3
Group health	-7	4	97	3	8
Group pension	13	25	17	23	39
Other	22	10	-2	18	12
Derivative Exposure					
Net Inv Inc from Derivatives as % of Total Net Investment Income	2.51	1.23	1.97	0.34	0.00
Capital Gains from Derivatives as % of Total Capital Gains	31.23	1360.32	11.73	10.87	0.00
Net Real. Cap. Gains from Derivatives as % of Total Capital Gains	32.41	1293.85	8.43	12.32	0.00
Net Unreal. Cap. Gains from Derivatives as % of Total Capital Gains	-1.17	66.47	3.30	-1.46	0.00
Capitalization (%)					
Surplus excl. surpl notes & capital notes($mil)	1,134	849	763	616	552
Surplus notes & capital notes($mil)	0	2	6	10	14
Surplus ($mil)	1,134	851	769	626	566
Asset valuation reserve ($mil)	140	170	91	84	26
50% of dividend reserve liab.($mil)	16	18	16	1	1
Capital ($mil)	1,290	1,038	875	711	593
Capital/Assets	11.6	8.1	8.1	8.6	8.1
Capital/(Assets - Pol loan)	12.1	8.4	8.4	8.8	8.2
Growth of statutory surplus	33.3	10.7	22.7	10.7	5.1
Cum effect of change in accting prin/Beg.Capital	0.0	0.0	5.1	—	—
Moody's Risk adjusted capital ratio	117.1	94.9	86.3	91.1	101.0
NAIC Risk based capital ratio	328.7	280.8	280.4	268.0	301.3
Below inv grade bonds/Capital [2]	61.6	84.2	37.7	27.9	21.6
Commercial Mtgs + RE/Capital	140.2	169.8	214.1	236.5	252.0
Mortgages + RE/Capital	140.2	169.8	214.1	236.5	252.0
Underperforming Mtgs+Fclsd RE/Capital [3]	1.0	1.7	2.7	2.7	3.7
Total Underperforming Assets/Capital [4]	1.2	2.2	3.4	3.4	3.9
Risk Assets/Capital	203.0	255.6	254.0	268.5	277.8
Residential MBS/Capital	238.5	240.2	291.5	225.1	277.4
Commercial MBS & ABS/Capital	8.8	21.1	12.9	16.5	10.5
Debt/Capital	0.0	0.0	13.4	0.0	0.0
Surplus Notes+Capital notes/Capital	0.0	0.2	0.7	1.4	2.4
Reins recoverable/Capital	120.0	152.7	82.0	66.0	84.6
Net Credit for Ceded Ins/Surplus	131.8	—	—	—	—
Affiliated common stock/Capital	60.6	68.7	86.3	85.7	69.5
Total Affiliated Inv/Capital	60.9	69.0	86.8	86.4	71.0

[1] Due to statutory codification changes in 2001, trend analysis with prior years may be difficult.
[2] Below investment grade bonds include bonds in NAIC classes 3,4,5 & 6.
[3] Underperforming mortgages refer to the sum of mortgages with interest 3 months overdue, mortgages in process of foreclosure, and mortgage loans with restructured terms. Foreclosed real estate represents properties acquired in satisfaction of debt.
[4] Underperforming assets are bonds in or near default + underperforming mortgages + foreclosed real estate.
[5] Individual Life only.

West Coast Life Insurance Company

	12/31/02 [1]	12/31/01	12/31/00	12/31/99	12/31/98
BUSINESS PROFILE					
Segment Analysis					
As % policy reserves & liabilities:					
Individual life	98.3	97.8	98.0	97.4	96.6
Individual health	0.1	0.1	0.1	0.2	0.2
Individual annuities	1.1	1.5	1.8	2.3	3.0
Group life	0.1	0.1	0.1	0.1	0.1
Group health	0.0	0.0	0.0	0.0	0.0
Group pension	0.0	0.0	0.0	0.0	0.0
Deposit-type contracts	0.5	0.5	—	—	—
Other	0.0	0.0	0.0	0.0	0.0
As % of total net premiums & deposits:					
Individual life	99.5	99.2	99.3	99.5	99.4
Individual health	0.1	0.1	0.1	0.1	0.1
Individual annuities	0.2	0.3	0.6	0.5	0.5
Group life	0.0	0.0	0.0	0.0	0.0
Group health	0.0	0.0	0.0	0.0	0.0
Group pension	0.0	0.0	0.0	0.0	0.0
Deposit-type contracts	0.2	0.4	—	—	—
Other	0.0	0.0	0.0	0.0	0.0
Premium Profile ($mil)					
Direct	483	345	289	322	287
Assumed	3	3	3	3	4
Deposit-type funds	1	1	0	0	0
Total prems & deposit funds	487	349	292	326	291
Ceded premium	175	116	125	66	53
Net prems & deposit funds	312	233	167	260	237
Ceded Premiums/Total Premiums (%)	36.0	33.2	42.8	20.2	18.4
Reserve Profile					
Financial Modco Reinsurance Ratio	0.0	0.0	—	—	—
Deposit-type contracts as a % General Account Reserves	0.5	0.5	—	—	—
Ordinary Life Statistics					
As % of ordinary life direct premiums:					
First year (%)	37.4	24.2	27.6	36.5	47.0
Paid-up additions (%)	0.3	0.4	0.4	0.4	0.4
Single premium (%)	28.0	33.4	28.8	37.4	30.3
Renewal (%)	34.4	42.1	43.2	25.7	22.3
Lapse ratio (%)	4.6	4.9	6.0	7.6	7.8
Renewal premium persistency (%)	72.7	70.9	62.5	41.9	75.0
Avg prem / $1,000 in-force (%)	5.29	6.06	6.33	13.16	18.55
Avg prem / $1,000 issued (%)	8.31	14.28	6.98	22.46	43.73
Avg policy size in-force	325,237	272,763	250,319	174,697	127,506
Avg policy size issued	444,954	366,809	435,745	360,173	346,030
Participating in-force/Total in-force (%)	0.2	0.4	0.5	0.9	1.4
Participating issued/Total issued (%)	0.0	0.0	0.0	0.0	0.0
Individual Annuity Statistics					
Average Deferred Annuity Size	-10,467	-10,671	3,315	3,436	2,777
Persistency Ratio	100.3	323.4	95.1	97.6	91.1
Accident & Health Statistics					
Loss ratio - Individual	135.0	213.5	124.0	136.4	69.0
Expense Ratio - Individual	57.7	63.6	56.3	49.3	42.4
Loss Ratio - Group	—	—	—	—	—
Expense Ratio - Group	—	—	—	—	—
INVESTMENT PROFILE					
Asset Composition					

West Coast Life Insurance Company

	12/31/02 [1]	12/31/01	12/31/00	12/31/99	12/31/98
As % of cash and invested assets:					
Bonds	74.8	74.0	73.3	71.5	72.3
Affiliated common stock	0.0	0.0	0.0	0.0	0.0
Unaffiliated common stock	0.0	0.1	0.0	0.0	0.0
Preferred stock	0.0	0.0	0.0	0.0	0.0
Commercial mortgage loans	16.4	16.6	21.4	24.4	21.6
Other mortgage loans	0.0	0.0	0.0	0.0	0.0
Real estate	0.0	0.0	0.0	0.0	0.1
Policy loans	1.7	2.1	2.4	2.6	3.1
Cash & short term investments	7.0	7.1	2.8	1.2	2.9
Other invested assets	0.0	0.0	0.0	0.2	0.0
Total cash & invested assets	100.0	100.0	100.0	100.0	100.0
Bond Quality					
Private Placements as % of Total Bonds	15.7	18.4	12.0	14.3	11.9
Private Below Investment Grade Bonds as % of Total Bonds [2]	1.1	0.1	0.6	0.7	0.7
Public Below Investment Grade Bonds as % of Total Bonds [2]	6.6	3.8	3.7	2.0	0.7
Total Below Investment Grade Bonds as % of Total Bonds [2]	7.1	4.0	4.3	2.6	1.4
Class 3 Bonds as % of Total Below Investment Grade Bonds [2]	69.6	72.8	81.1	91.9	91.0
Class 4 Bonds as % of Total Below Investment Grade Bonds [2]	28.5	23.3	17.7	6.1	2.4
Classes 5&6 Bonds as % of Total Below Investment Grade Bonds [2]	1.9	3.9	1.2	2.0	6.5
Total Below Investment Grade Bonds as % of Invested Assets [2]	5.4	3.2	3.3	1.9	1.0
Residential Mtg Backed Securities as % of Invested Assets	17.2	14.9	26.8	27.5	27.8
Commercial MBS & ABS as % of Invested Assets	1.2	0.4	0.5	0.6	0.8
Mortgage & Real Estate Quality					
Mortgages + Real Estate as % of Invested Assets	16.5	16.6	21.5	24.5	21.7
Commercial Mortgages + Real Estate as % of Invested Assets	16.5	16.6	21.5	24.5	21.7
Underperforming Mtgs + Fclsd RE as % of Total Mtgs + Fclsd RE [3]	0.2	0.2	0.4	0.4	0.6
Underperforming Assets					
Bonds in or near default as % of Invested Assets	0.1	0.0	0.0	0.0	0.1
Underperforming Mortgages + Foreclosed RE as % of Invested Assets [3]	0.0	0.0	0.1	0.1	0.1
Mortgage & RE Reserves as % of Underperforming Mtgs + Fclsd RE [3]	1637.8	1334.7	586.0	461.3	272.7
Total Underperforming Assets as % of Invested Assets [4]	0.1	0.0	0.1	0.1	0.2
Total Investment Reserves as % of Total Underperforming Assets [4]	751.5	2888.2	753.5	623.6	428.4
AVR Funding %	74.5	83.6	88.6	80.0	78.2
Investment Results					
As % mean assets:					
Gross investment yield	7.13	7.38	7.45	7.36	7.52
Investment expense	0.49	0.42	0.44	0.62	0.65
Net investment yield	6.65	6.96	7.02	6.73	6.87
Realized capital gains	0.07	-0.02	0.00	-0.01	0.04
Less - Transfer of gains(losses) to IMR	0.17	0.06	0.01	0.04	0.05
Plus - Amortization of IMR	0.04	0.03	0.02	0.03	0.02
Unrealized capital gains	-0.05	0.03	0.02	0.00	0.00
Total investment return	6.54	6.95	7.05	6.72	6.88
Liquidity					
Liquid Assets as % Surrenderable Annuity Liabs	5392.2	4160.0	3534.3	2714.3	2432.0
Surrenderable Annuity Liabs as % Total Reserves	1.1	1.5	1.8	2.3	3.0
FINANCIAL PROFILE					
Profitability ($mil)					
Net gain bef PH div & tax/avg assets	-1.70	0.83	-0.79	-1.60	-0.32
Net gain bef PH div & tax/avg capital	-26.39	11.84	-11.19	-20.93	-3.39
Operating return on avg assets (%)	-1.45	0.38	-0.65	-2.10	-0.44
Operating return on avg capital (%)	-22.52	5.37	-9.30	-27.45	-4.75
Operating return on required capital (%)	-31.16	9.07	-15.97	-51.79	-11.25
Operating return on revenues (%)	-5.22	1.53	-2.80	-6.71	-1.34
Net investment income	117	102	91	76	63
Required interest	93	77	68	61	44
Excess (deficiency)	24	26	23	15	19
Interest margin (%)	25.8	33.2	33.3	23.8	44.1

West Coast Life Insurance Company

	12/31/02 [1]	12/31/01	12/31/00	12/31/99	12/31/98
Expected mortality cost [5]	45	45	35	25	11
Actual mortality cost [5]	9	7	6	5	3
Excess (deficiency) [5]	35	38	29	20	8
Mortality margin (%) [5]	79.1	84.3	83.7	78.8	71.8
Insurance general expenses	51	33	34	28	16
Investment general expenses	9	6	6	7	6
Total general expenses	60	40	39	35	22
Expense growth (%)	51.5	0.3	12.0	58.5	25.4
Commissions/Premiums & Deposit-type funds	33.6	29.8	50.6	21.2	14.7
Tot general expenses/Premiums & Deposit-type funds	19.2	17.0	23.5	13.5	9.3
Tot expenses/Premiums & Deposit-type funds	52.79	46.73	74.03	34.70	23.99
Total general expenses/Avg assets	3.25	2.57	2.93	3.01	2.33
Insurance General Expenses as a % of Premiums:					
Individual life	16.5	14.4	20.2	10.7	6.7
Individual health	56.8	65.9	54.6	47.8	40.4
Individual annuities	3.1	3.8	4.3	21.4	21.1
Group life	—	—	—	—	—
Group health	—	—	—	—	—
Group pension	—	—	—	—	—
Other	—	—	—	-3228.1	-145.8
Gain (loss) from operations ($mil):					
Individual life	-28	5	-7	-24	-5
Individual health	0	0	0	0	0
Individual annuities	1	1	-1	0	1
Group life	0	0	0	0	0
Group health	0	0	0	0	0
Group pension	0	0	0	0	0
Other	0	0	0	0	0
Derivative Exposure					
Net Inv Inc from Derivatives as % of Total Net Investment Income	0.00	0.00	0.00	0.00	0.00
Capital Gains from Derivatives as % of Total Capital Gains	0.00	0.00	0.00	0.00	0.00
Net Real. Cap. Gains from Derivatives as % of Total Capital Gains	0.00	0.00	0.00	0.00	0.00
Net Unreal. Cap. Gains from Derivatives as % of Total Capital Gains	0.00	0.00	0.00	0.00	0.00
Capitalization (%)					
Surplus excl. surpl notes & capital notes($mil)	104	99	87	77	81
Surplus notes & capital notes($mil)	0	0	0	0	0
Surplus ($mil)	104	99	87	77	81
Asset valuation reserve ($mil)	18	15	13	11	8
50% of dividend reserve liab.($mil)	1	1	1	1	1
Capital ($mil)	123	115	101	89	90
Capital/Assets	6.1	6.9	7.1	6.9	8.5
Capital/(Assets - Pol loan)	6.2	7.0	7.3	7.1	8.8
Growth of statutory surplus	4.7	14.5	12.6	-5.2	2.3
Cum effect of change in accting prin/Beg.Capital	0.0	0.1	—	—	—
Moody's Risk adjusted capital ratio	143.1	179.6	183.0	186.7	241.4
NAIC Risk based capital ratio	251.5	332.7	340.4	337.6	422.1
Below inv grade bonds/Capital [2]	87.4	44.5	45.0	27.1	11.8
Commercial Mtgs + RE/Capital	266.2	233.7	296.0	345.7	250.9
Mortgages + RE/Capital	266.2	233.7	296.0	345.7	250.9
Underperforming Mtgs+Fclsd RE/Capital [3]	0.4	0.4	1.2	1.4	1.4
Total Underperforming Assets/Capital [4]	2.0	0.4	1.8	2.0	2.2
Risk Assets/Capital	354.1	279.3	341.2	373.0	262.9
Residential MBS/Capital	277.4	209.3	369.2	387.8	321.6
Commercial MBS & ABS/Capital	19.0	5.4	6.6	7.9	9.7
Debt/Capital	0.0	0.0	0.0	0.0	0.0
Surplus Notes+Capital notes/Capital	0.0	0.0	0.0	0.0	0.0
Reins recoverable/Capital	420.8	242.1	186.9	128.5	105.8
Net Credit for Ceded Ins/Surplus	—	—	—	—	—
Affiliated common stock/Capital	0.0	0.0	0.0	0.0	0.0
Total Affiliated Inv/Capital	0.0	0.0	0.0	0.0	0.0

[1] Due to statutory codification changes in 2001, trend analysis with prior years may be difficult.
[2] Below investment grade bonds include bonds in NAIC classes 3,4,5 & 6.
[3] Underperforming mortgages refer to the sum of mortgages with interest 3 months overdue, mortgages in process of foreclosure, and mortgage loans with restructured terms. Foreclosed real estate represents properties acquired in satisfaction of debt.
[4] Underperforming assets are bonds in or near default + underperforming mortgages + foreclosed real estate.
[5] Individual Life only.

Protective Life Corporation

	2003Y	2002Y	2001Y	2000Y	1999Y
Segment Analysis ($ millions)					
Life Marketing	490	486	360	220	302
Acquisitions	463	478	371	323	245
Stable Value Contracts	243	239	268	237	210
Annuities	282	257	208	174	142
Asset Protection	344	379	346	309	160
Corporate & Other	136	124	79	103	99
Adjustments	—	—	(29)	(1)	(2)
Revenue	1,958	1,963	1,603	1,365	1,155
As a % of Revenue					
Life Marketing	25.0%	24.7%	22.5%	16.1%	26.1%
Acquisitions	23.6%	24.4%	23.1%	23.6%	21.2%
Stable Value Contracts	12.4%	12.2%	16.7%	17.3%	18.1%
Annuities	14.4%	13.1%	13.0%	12.8%	12.3%
Asset Protection	17.6%	19.3%	21.6%	22.6%	13.8%
Corporate & Other	6.9%	6.3%	4.9%	7.6%	8.6%
Adjustments	0.0%	0.0%	-1.8%	-0.1%	-0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Balance Sheet ($ millions)					
Cash and Equivalents	137	102	127	55	52
Total Investment Securities	13,403	11,729	9,915	7,474	6,377
Mortgage Loans	2,734	2,518	2,513	2,268	1,946
Policy Loans	503	543	522	231	232
Real Estate Investments	18	21	26	13	16
Short-term Investments	519	448	237	189	114
Other Investments	249	222	105	66	37
Total Cash and Investments	17,563	15,583	13,444	10,297	8,774
Accrued Investment Income	189	182	160	122	103
Reinsurance Assets	2,351	2,368	2,242	1,100	860
Deferred Policy Acquisition Cost	1,359	1,165	1,009	846	671
Cost of Policies Acquired	502	543	523	344	341
Intangible Assets	47	47	48	250	218
Other Assets	342	413	300	278	242
Separate Account Assets	2,221	1,633	1,992	1,909	1,822
Total Assets	24,574	21,933	19,719	15,146	13,032
L&H Policy Reserves	17,264	16,138	14,068	10,252	9,010
Unearned Premiums Reserve	785	876	904	938	509
Total Policy Reserves	18,049	17,014	14,972	11,190	9,519
Reinsurance Liabilities	—	—	—	—	—
Total Debt *	461	406	493	306	236
Separate Account Liabilities	2,221	1,633	1,992	1,909	1,822
Other Liabilities	1,824	943	686	436	399
Total Liabilities	22,555	19,996	18,143	13,841	11,976
Redeemable Preferred**	222	216	176	191	190
Total Shareholders' Equity	2,002	1,721	1,400	1,114	865
Total Liabilities + Shareholders' Equity	24,574	21,933	19,719	15,146	13,032

** After 9/30/2003 may include trust preferred securities and redeemable preferred stock per FAS 150.*
*** Includes trust preferred securities and minority interest through 9/30/2003. After 9/30/2003 may be included in Debt per FAS 150.*

Protective Life Corporation

	2003Y	2002Y	2001Y	2000Y	1999Y
Asset Composition					
as a % of total cash & investments					
Cash and Equivalents	0.8%	0.7%	0.9%	0.5%	0.6%
Total Investment Securities	76.3%	75.3%	73.7%	72.6%	72.7%
Mortgage Loans	15.6%	16.2%	18.7%	22.0%	22.2%
Policy Loans	2.9%	3.5%	3.9%	2.2%	2.6%
Real Estate Investments	0.1%	0.1%	0.2%	0.1%	0.2%
Short-term Investments	3.0%	2.9%	1.8%	1.8%	1.3%
Other Investments	1.4%	1.4%	0.8%	0.6%	0.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Capital Structure ($ millions)					
Short-term Debt	75	100	117	—	55
Long-term Debt	386	306	376	306	181
Total Debt *	461	406	493	306	236
Redeemable Preferred**	222	216	176	191	190
Non-redeemable Preferred	—	—	—	—	—
Common Equity	2,002	1,721	1,400	1,114	865
Total Shareholders' Equity	2,002	1,721	1,400	1,114	865
Accumulated Other Comprehensive Income	333	236	54	(51)	(146)
Total Shareholders' Equity, Net of FAS 130	1,670	1,485	1,346	1,165	1,011
Tangible Equity	1,955	1,673	1,352	864	647
Total Capital, Net of FAS 130	2,148	2,107	2,015	1,662	1,437
Market Capitalization as of year-end	2,335	1,890	1,983	2,082	2,052

** After 9/30/2003 may include trust preferred securities and redeemable preferred stock per FAS 150.*
*** Includes trust preferred securities and minority interest through 9/30/2003. After 9/30/2003 may be included in Debt per FAS 150.*

Leverage and Capitalization^	2003Y	2002Y	2001Y	2000Y	1999Y
Short-term Debt	3.5%	4.7%	5.8%	0.0%	3.8%
Long term Debt	18.0%	14.5%	18.7%	18.4%	12.6%
Total Debt *	21.5%	19.3%	24.5%	18.4%	16.4%
Redeemable Preferred **	10.3%	10.3%	8.7%	11.5%	13.2%
Equity	77.7%	70.5%	66.8%	70.1%	70.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Equity/Assets	6.9%	6.8%	6.8%	7.7%	7.7%
Total Debt/Equity	27.6%	27.4%	36.6%	26.3%	23.3%
Debt plus Redeemable Pfd/Equity	40.9%	41.9%	49.7%	42.6%	42.1%
Debt/Capital	21.5%	19.3%	24.5%	18.4%	16.4%
Debt plus Redeemable Pfd/Capital	31.8%	29.5%	33.2%	29.9%	29.6%
Debt/Market Capitalization	19.8%	21.5%	24.9%	14.7%	11.5%
Debt plus Rdm Pfd/Market Capitalization	29.3%	32.9%	33.7%	23.9%	20.8%
Mortgage Loans & RE/Equity	164.8%	171.0%	188.7%	195.7%	194.0%
Mortgage Loans & RE/Capital	128.1%	120.5%	126.0%	137.2%	136.5%
DPAC/Equity	81.4%	78.4%	75.0%	72.6%	66.3%
DPAC+ Tot Intangible Assets/Equity	114.3%	118.2%	117.5%	123.5%	121.6%

^ Excluding accumulated other comprehensive income, except for market capitalization.
** After 9/30/2003 may include trust preferred securities and redeemable preferred stock per FAS 150.*
*** Includes trust preferred securities and minority interest through 9/30/2003. After 9/30/2003 may be included in Debt per FAS 150.*

Protective Life Corporation

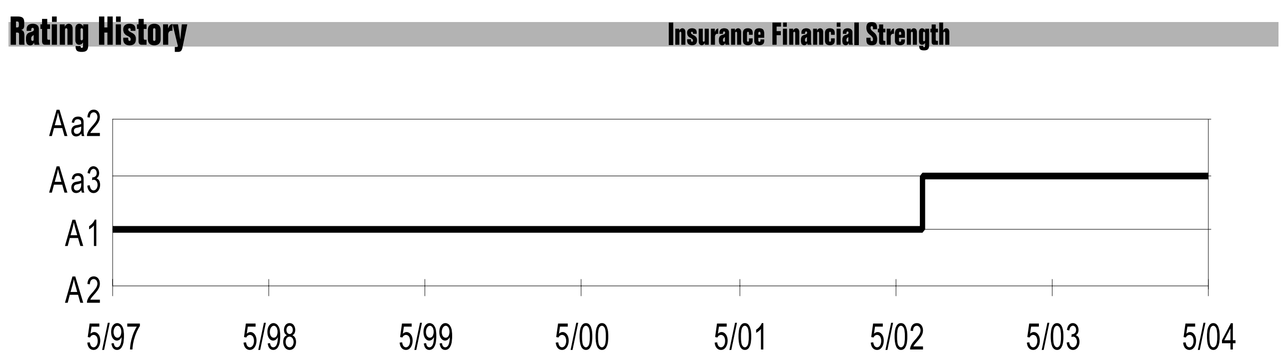
	2003Y	2002Y	2001Y	2000Y	1999Y
Income ($ millions)					
L&H Policy Revenue	591	631	467	381	728
Total Insurance Revenues	736	810	619	490	761
Other revenues	120	100	121	152	97
Net Investment Income	1,031	1,023	884	730	676
Realized Gains/(Losses)	71	29	(20)	(7)	(1)
Total Revenues	1,958	1,963	1,603	1,365	1,534
L&H Claims and Benefits					
Total Insurance Expenses	1,152	1,167	973	761	865
Interest Expense	44	41	33	34	16
Other expenses	437	490	388	358	398
Total Expenses	1,632	1,698	1,394	1,153	1,278
Earnings before interest and taxes	369	306	242	246	272
Earnings before taxes	325	265	210	212	256
Earnings after taxes	217	177	141	137	164
Other after-tax adjustments	—	—	—	—	(11)
Earnings before extraordinary items	217	177	141	137	153
Extraordinary items	—	—	(38)	16	(2)
Net Income	217	177	103	153	151
Preferred Dividends	—	—	—	—	—
Net Income available to common shareholders	217	177	103	153	151
Operating Cash Flow	786	902	1,181	877	390
Liquidity and Fixed Charge Coverage					
Cash & ST inv./inv. assets	3.7%	3.5%	2.7%	2.4%	1.9%
EBIT/Interest Expense (X)	8.5	7.5	7.4	7.2	17.0
Net Op Cash Flow/ Interest Expense (X)	18.0	22.2	35.9	25.7	24.3
Profitability					
ROAA (%)	0.93	0.85	0.59	1.09	1.21
ROAE (%)	11.66	11.37	8.19	15.51	16.73
Asset Growth (%)	12.04	11.23	30.19	16.22	8.69
Investment Yield (%)	6.65	7.25	7.28	7.58	7.77
Insurance Revenues/Total Revenues (%)	37.59	41.29	38.59	35.89	49.63
Investment Revenues/Total Revenues (%)	56.26	53.61	53.88	52.99	44.03
Insurance Expenses/Total Expenses (%)	70.56	68.75	69.79	65.98	67.65
Effective Tax Rate (%)	33.3	33.08	32.7	35.11	36
Net Income Growth (%)	22.38	72.28	-32.93	1.42	15.71

Description	Coupon (%)	Currency	Face Amount (mil)	Maturity	Moody's Rating
Protective Life Corporation					
Sr. Notes	7.950	USD	75	2004	A3
Medium Term Notes	7.450	USD	10	2011	A3
Medium Term Notes	7.450	USD	10	2011	A3
Medium Term Notes	7.000	USD	13	2011	A3
Medium Term Notes	7.100	USD	13	2011	A3
Sr. Notes	4.300	USD	250	2013	A3
Sr. Notes	8.250	USD	35	2030	A3
415 Shelf Registration	—	USD	500	—	(P)A3/(P)Baa1/(P)Baa2
415 Shelf Registration	—	USD	500	—	(P)A3/(P)Baa1/(P)Baa2
MTN Program	—	USD	45	—	A3
Protective Life Insurance Company					
Insurance Financial Strength Rating	—	—	—	—	Aa3
ST Insurance Financial Strength	—		—	—	P-1
PLC Capital Trust IV					
7.25% Gtd. Cum. Trust Orig. Pfd. Secs. (TOPrS) [1]	—	USD	115	2032	Baa1
PLC Capital Trust V					
6.125% Gtd. Trust Pfd. Stk. [1]	—	USD	100	2034	Baa1
415 Shelf Registration	—	USD	500	—	(P)Baa1
Premium Asset Trust Series 2000-6					
Coll. Notes [1]	—	USD	200	2005	Aa3
Premium Asset Trust Series 2002-9					
Flt. Rt. Trust Global Ctfs. [1]	—	USD	300	2007	A1
Premium Asset Trust Series 2003-10					
Trust Global Certificates [1]	4.150	USD	105	2009	Aa3
Protective Life Secured Trust 2003-1					
Sr. Sec. Medium-Term Notes [1]	3.700	USD	450	2008	Aa3
Protective Life Secured Trust 2004-1					
Sr. Sec. Medium-Term Notes [1]	4.050	USD	8	2010	Aa3
Protective Life Secured Trust 2004-10					
Sr. Sec. Medium-Term Notes [1]	4.000	USD	3	2011	Aa3
Protective Life Secured Trust 2004-11					
Sr. Sec. Medium-Term Notes [1]	5.650	USD	6	2029	Aa3
Protective Life Secured Trust 2004-12					
Sr. Sec. Medium-Term Notes [1]	3.625	USD	7	2010	Aa3
Protective Life Secured Trust 2004-13					
Sr. Sec. Medium-Term Notes [1]	5.500	USD	18	2024	Aa3
Protective Life Secured Trust 2004-14					
Sr. Sec. Medium-Term Notes [1]	3.650	USD	1	2011	Aa3
Protective Life Secured Trust 2004-15					
Sr. Sec. Medium-Term Notes [1]	5.150	USD	2	2020	Aa3
Protective Life Secured Trust 2004-16					
Sr. Sec. Medium-Term Notes [1]	4.250	USD	2	2014	Aa3
Protective Life Secured Trust 2004-17					
Sr. Sec. Medium-Term Notes [1]	5.250	USD	6	2024	Aa3
Protective Life Secured Trust 2004-18					
Sr. Sec. Medium-Term Notes [1]	3.000	USD	1	2009	Aa3
Protective Life Secured Trust 2004-19					
Sr. Sec. Medium-Term Notes [1]	5.000	USD	5	2018	Aa3
Protective Life Secured Trust 2004-2					
Sr. Sec. Medium-Term Notes [1]	5.750	USD	44	2019	Aa3
Protective Life Secured Trust 2004-20					
Sr. Sec. Medium-Term Notes [1]	4.000	USD	1	2012	Aa3
Protective Life Secured Trust 2004-21					
Sr. Sec. Medium-Term Notes [1]	5.250	USD	2	2019	Aa3
Protective Life Secured Trust 2004-22					

Description	Coupon (%)	Currency	Face Amount (mil)	Maturity	Moody's Rating
Sr. Sec. Medium-Term Notes [1]	4.000	USD	4	2010	Aa3
Protective Life Secured Trust 2004-23					
Sr. Sec. Medium-Term Notes [1]	5.000	USD	2	2014	Aa3
Protective Life Secured Trust 2004-24					
Sr. Sec. Medium-Term Notes [1]	4.550	USD	1	2013	Aa3
Protective Life Secured Trust 2004-25					
Sr. Sec. Medium-Term Notes [1]	5.550	USD	2	2019	Aa3
Protective Life Secured Trust 2004-3					
Sr. Sec. Medium-Term Notes [1]	6.100	USD	80	2029	Aa3
Protective Life Secured Trust 2004-4					
Sr. Sec. Medium-Term Notes [1]	3.250	USD	3	2009	Aa3
Protective Life Secured Trust 2004-5					
Sr. Sec. Medium-Term Notes [1]	5.350	USD	5	2019	Aa3
Protective Life Secured Trust 2004-6					
Sr. Sec. Medium-Term Notes [1]	4.000	USD	4	2011	Aa3
Protective Life Secured Trust 2004-7					
Sr. Sec. Medium-Term Notes [1]	5.000	USD	6	2015	Aa3
Protective Life Secured Trust 2004-8					
Sr. Sec. Medium-Term Notes [1]	3.750	USD	2	2010	Aa3
Protective Life Secured Trust 2004-9					
Sr. Sec. Medium-Term Notes [1]	5.500	USD	18	2020	Aa3
Protective Life Secured Trust 2004-A					
Sr. Sec. Medium-Term Notes [1]	4.000	USD	300	2011	Aa3
Protective Life Secured Trusts					
Secured MTN Program [1]	—	USD	3,000	—	Aa3
Protective Life U.S. Funding Trust					
Floating Rate Secured Notes	—	USD	200	2005	Aa3
Flt. Rt. Medium Term Note [1]	—	USD	100	2005	Aa3
Trust Ctfs. [1]	5.875	USD	350	2006	Aa3
Sr. Sec. Floating Rate Medium Term Notes [1]	—	USD	200	2006	Aa3
Flt. Rt. Medium Term Note [1]	—	USD	100	2006	Aa3
MTN Program	—	USD	1,500	—	Aa3
West Coast Life Insurance Company					
Insurance Financial Strength Rating	—	—	—	—	Aa3

[1] Backed rating.

Protective Life Insurance Company



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Report Number: 87102

Author	Associate Analyst	Senior Associate	Senior Production Associate
Robert P. Donohue	*Weigang Bo*	*Marc Abusch*	*Mark A. Lee*