# UNITED STATES SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 1O-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

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| **For the fiscal year ended**<br>**December 31, 2004** | **Commission file number**<br>**333-42425** |

# PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Alabama**<br>(State or other jurisdiction of incorporation or organization) | **63-0761690**<br>(I.R.S. Employer Identification No.) |
| **2801 Highway 280 South**<br>**Birmingham, Alabama**<br>(Address of principal executive offices) | **35223**<br>(Zip Code) |

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ✓

Indicate by checkmark whether the registrant is an accelerated filer. Yes _____ No ✓

Aggregate market value of voting stock held by nonaffiliates of the registrant: None

Number of shares of Common Stock, $10.00 Par Value, outstanding as of February 25, 2005: 250,000

**The registrant meets the conditions set forth in General Instruction I(1) (a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format pursuant to General Instruction I(2).**

**DOCUMENTS INCORPORATED BY REFERENCE**

None, except Exhibits

## PART I

### Item 1. Business

Protective Life and Annuity Insurance Company ("the Company"), a stock life insurance company, was founded in 1978. Since 1983, all outstanding shares of the Company's common stock have been owned by Protective Life Insurance Company ("Protective"), which is a wholly-owned subsidiary of Protective Life Corporation ("PLC"), an insurance holding company whose common stock is traded on the New York Stock Exchange under the symbol "PL". All outstanding shares of the Company's preferred stock are owned by PLC. The Company is authorized to transact insurance business, as an insurance company or a reinsurance company, in 49 states, including New York.

PLC, through its subsidiaries, provides financial services through the production, distribution, and administration of insurance and investment products. PLC, through its subsidiaries, operates several business segments each having a strategic focus. An operating segment is generally distinguished by products and/or channels of distribution. PLC periodically evaluates its operating segments in light of the segment reporting requirements prescribed by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" and makes adjustments to its segment reporting as needed. PLC's operating segments are Life Marketing, Acquisitions, Stable Value Products, Annuities, and Asset Protection. The Company has an additional segment referred to as Corporate and Other.

The Company, since it is licensed in the State of New York, is the entity through which PLC markets, distributes, and services insurance and annuity products in New York. As of December 31, 2004, the Company was involved in the businesses of four of PLC's operating segments: Life Marketing, Acquisitions, Asset Protection, and Annuities.

Protective has entered into an intercompany guaranty agreement, enforceable by the Company or its successors, whereby Protective has guaranteed the Company's payment of claims made by the holders of Company policies according to the terms of such policies. The guarantee will remain in force until the earlier of (a) when the Company achieves a claims-paying rating equal to or better than Protective without the benefit of any intercompany guaranty agreement or (b) 90 days after the guaranty agreement is revoked by written instrument; provided, however, even after any revocation or termination by such notice, the guarantee shall remain effective as to policies issued during the existence of the guaranty agreement.

### Item 2. Properties

The Company has no properties. The Company has contracts with PLC and Protective under which it receives investment, legal, and data processing services on a fee basis and other managerial and administrative services on a shared cost basis.

Protective's administrative office building is located at 2801 Highway 280 South, Birmingham, Alabama 35223.

### Item 3. Legal Proceedings

To the knowledge and in the opinion of management, there are no material pending legal proceedings, other than ordinary routine litigation incidental to the business of the Company, to which the Company or any of its affiliates is a party or of which any of its affiliates' properties is subject. For additional information regarding legal proceedings see Note 5 to the financial statements included herein.

### Item 4. Submission of Matters to a Vote of Security Holders

Not required in accordance with General Instruction I(2)(c).

## PART II

### Item 5. Market for the Registrant's Common Stock and Related Share-Owner Matters

The Company is a wholly-owned subsidiary of Protective. All of the preferred stock issued by the Company is owned by PLC. Therefore, neither the Company’s common stock nor its preferred stock is publicly traded.

At December 31, 2004, $82.9 million of share-owners’ equity, excluding net unrealized gains and losses, represented net assets of the Company that cannot be transferred to Protective in the form of dividends, loans, or advances.

Insurers are subject to various state statutory and regulatory restrictions on the insurers' ability to pay dividends. In general, dividends up to specific levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as ordinary dividends to Protective by the Company in 2005 is estimated to be $19.6 million.

In 2004, the Company declared and paid a cash dividend on common stock of $17.0 million. In 2003, the Company declared and paid a cash dividend on common stock of $12.1 million. The Company expects to continue to be able to pay cash dividends, subject to its earnings, financial condition and other relevant factors.

### Item 6. Selected Financial Data

Not required in accordance with General Instruction I(2)(a).

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

In accordance with General Instruction I(2)(a), the Company includes the following analysis with the reduced disclosure format.

### Forward-Looking Statements – Cautionary Language

This report reviews the Company’s financial condition and results of operations. Historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements instead of historical facts, and may contain words like “believe,” “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “plan,” “will,” “shall,” “may,” and other words, phrases or expressions with similar meaning. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from the results contained in the forward-looking statements, and the Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

### CRITICAL ACCOUNTING POLICIES

The Company’s accounting policies inherently require the use of judgments relating to a variety of assumptions and estimates, in particular expectations of current and future mortality, morbidity, persistency, expenses, and interest rates. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the financial statements. A discussion of the various critical accounting policies is presented below.

The Company incurs significant costs in connection with acquiring new insurance business. These costs, which vary with and are primarily related to the production of new business and coinsurance of blocks of policies, are deferred. The recovery of such costs is dependent on the future profitability of the related policies. The amount of future profit is dependent principally on investment returns, mortality, morbidity, persistency, and expenses to administer the business and certain economic variables, such as inflation. These factors enter into management’s estimates of future profits which generally are used to amortize certain of such costs. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in the impairment of the asset and a charge to income if estimated future profits are less than the unamortized deferred amounts. At December 31, 2004, the Company had a deferred acquisition cost asset of $93.1 million.

The Company has a deferred policy acquisition costs asset of approximately $0.7 million related to its variable annuity product lines with an account balance of $14.1 million at December 31, 2004. The Company monitors the rate of amortization of the deferred policy acquisition costs associated with its variable annuity product line. The Company's monitoring methodologies employ varying assumptions about how much and how quickly the stock markets will appreciate. The primary assumptions used to project future profits as part of the recoverability analysis include: a long-term equity market growth rate of 9%, reversion to the mean methodology with a reversion to the mean cap rate of 14%, reversion to the mean period of 5 years, and an amortization period of 20 years. A recovery in equity markets, or the use of methodologies and assumptions that anticipate a recovery, result in lower amounts of amortization, and a worsening of equity markets results in higher amounts of amortization.

Establishing an adequate liability for the Company's obligations to its policyholders requires the use of assumptions. Estimating liabilities for future policy benefits on life and health insurance products requires the use of assumptions relative to future investment yields, mortality, morbidity, persistency and other assumptions based on the Company's historical experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. At December 31, 2004, the Company had total policy liabilities and accruals of $494.5 million.

Determining whether a decline in the current fair value of invested assets is an other-than-temporary decline in value can involve a variety of assumptions and estimates, particularly for investments that are not actively traded in established markets. For example, assessing the value of some investments requires the Company to perform an analysis of expected future cash flows or rates of prepayments. Other investments, such as collateralized mortgage or bond obligations, represent selected tranches of a structured transaction, supported overall by underlying investments in a wide variety of issuers. The Company's specific accounting policies related to its invested assets are discussed in Notes 1 and 3 to the Financial Statements. At December 31, 2004, the Company held $625.1 million of available-for-sale investments, including $63.7 million in investments with a gross unrealized loss of $2.8 million.

The assessment of potential obligations for tax, regulatory, and litigation matters inherently involve a variety of estimates of potential future outcomes. The Company makes such estimates after consultation with its advisors and a review of available facts.

## RESULTS OF OPERATIONS

### Revenues

The following table sets forth revenues by source for the periods shown:

| | **Year Ended December 31** | | **Percentage Increase/(Decrease)** |
|---|---|---|---|
| | **2004** | **2003** | |
| Premiums and policy fees | $24,090,797 | $24,898,748 | (3.2)% |
| Net investment income | 40,379,954 | 41,295,486 | (2.2) |
| Realized investment gains | 530,433 | 3,347,309 | (84.2) |
| Other income | 47,463 | 156,495 | (69.7) |
| | $65,048,647 | $69,698,038 | |

Premiums and policy fees, net of reinsurance ("premiums and policy fees") decreased $0.8 million or 3.2% in 2004 as compared to 2003. Premiums and policy fees in the Life Marketing segment increased $0.2 million in 2004 as compared to 2003 due to growth of business in-force. Premiums and policy fees in the Acquisitions segment are expected to decline with time unless new acquisitions are made. There were no new acquisitions made in 2004 or 2003, resulting in a decrease in premiums of $0.9 million.

Net investment income for 2004 was $40.4 million, 2.2% lower than for the preceding year primarily due to lower amounts of invested assets for the year 2004 as compared to 2003. The percentage earned on average cash and investments was 6.0% in 2004 and 5.9% in 2003.

Realized investment gains in 2004 were approximately $0.5 million as compared to $3.3 million in 2003. The Company generally purchases its investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, the Company may sell any of its investments to maintain proper matching of assets and liabilities. Accordingly, the Company has classified its fixed maturities and certain other securities as "available for sale."

The sales of investments that have occurred generally result from portfolio management decisions to maintain proper matching of assets and liabilities. During 2004, the Company recorded other-than-temporary impairments in its investments of $0.2 million, as compared to $0.3 million in 2003. Additional details on the Company's investment performance and evaluation is provided in the section entitled "Investments" included herein.

**Income Before Income Tax**

In the following discussion, segment operating income is defined as income before income tax excluding net realized investment gains and losses and related amortization of deferred policy acquisition costs (DAC). Management believes that segment operating income provides relevant and useful information to investors, as it represents the basis on which the performance of the Company's business is internally assessed. Although the items excluded from segment operating may be significant components in understanding and assessing the Company's overall financial performance, management believes that segment operating income enhances an investor's understanding of the Company's results of operations. Note that the Company's segment operating income measures may not be comparable to similarly titled measures reported by other companies.

The following table sets forth segment operating income (loss) and income (loss) before income tax by business segment for the periods shown:

**Segment Operating Income (Loss) and Income (Loss) Before Income Tax**

| | Year Ended December 31 | |
|---|---|---|
| | **2004** | **2003** |
| **Segment Operating Income (Loss)[1]** | | |
| Life Marketing | $ 856,955 | $ 771,259 |
| Acquisitions | 9,937,149 | 10,690,666 |
| Annuities | (7,724) | (189,642) |
| Asset Protection | 603,761 | 639,252 |
| Corporate and Other | 6,979,145 | 7,970,227 |
| **Realized Investment Gains** | | |
| Annuities | 274,035 | 262,490 |
| Corporate and Other | 256,398 | 3,084,819 |
| **Income Before Income Tax** | | |
| Life Marketing | 856,955 | 771,259 |
| Acquisitions | 9,937,149 | 10,690,666 |
| Annuities | 266,311 | 72,848 |
| Asset Protection | 603,761 | 639,252 |
| Corporate and Other | 7,235,543 | 11,055,046 |
| Total income before income tax | $18,899,719 | $23,229,071 |

[1] Income before income tax excluding realized investment gains and related amortization of deferred policy acquisition costs.

The Company became involved with PLC's Life Marketing segment during 2002. Segment operating income in 2004 was relatively unchanged as the $0.2 million increase in net premiums was substantially offset by higher benefits expense and amortization of DAC. Income from the Acquisitions segment decreased $0.8 million in 2004 as compared to 2003, as no new acquisitions were made in 2004 or 2003. Earnings from the Acquisitions segment are normally expected to decline over time (due to the lapsing of policies resulting from deaths of insureds or terminations of coverage) unless new acquisitions are made. The Annuities segment 2004 operating income improved by $0.2 million primarily due to an increase in net investment income and a reduction in benefits expense. The Asset Protection segment's 2004 income remained relatively unchanged as compared to 2003.

The Corporate and Other segment consists of net investment income and expenses not identified with the preceding business segments. Operating income in 2004 decreased $1.0 million as compared to 2003, primarily due to decreased net investment income on unallocated capital.

### Income Tax Expense

The following table sets forth the effective income tax rates for the periods shown:

| Year Ended December 31 | Effective Income Tax Rates |
|---|---|
| 2004 | 35.2% |
| 2003 | 34.9 |

Management's current estimate of the effective income tax rate for 2005 is 34.9%.

### Net Income

The following table sets forth net income for the periods shown:

| | Net Income | |
|---|---|---|
| Year Ended December 31 | Amount | Percentage Increase/(Decrease) |
| 2004 | $12,251,849 | (19.0)% |
| 2003 | 15,117,367 | 75.3 |

Net income for 2004 decreased compared to 2003, reflecting lower realized investment gains and lower operating earnings in Acquisitions, Asset Protection, and Corporate and Other, partially offset by improved operating earnings in the Life Marketing and Annuities segments.

## INVESTMENTS

### Portfolio Description

The Company's investment portfolio consists primarily of fixed maturity securities. The Company generally purchases its investments with the intent to hold to maturity by purchasing investments that match future cash flow needs. However, the Company may sell any of its investments to maintain proper matching of assets and liabilities. Accordingly, the Company has classified its fixed maturities and certain other securities as "available for sale."

The Company's investments in debt securities are reported at market value, and investments in mortgage loans are reported at amortized cost. At December 31, 2004, the Company's fixed maturity investments (bonds) had a market value of $625.1 million, which is 8.0% above amortized cost of $578.8 million. The Company had $1.2 million in mortgage loans at December 31, 2004. While the Company's mortgage loans do not have quoted market values, at December 31, 2004, the Company estimates the market value of its mortgage loans to also be $1.2 million (using discounted cash flows from the next call date).

At December 31, 2003, the Company's fixed maturity investments had a market value of $636.5 million, which was 6.3% above amortized cost of $598.9 million. The Company estimated the market value of its mortgage loans to be $1.4 million at December 31, 2003.

Market values for private, non-traded securities are determined as follows: 1) the Company obtains estimates from independent pricing services or 2) the Company estimates market value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics. The market value of private, non-traded securities was $80.5 million at December 31, 2004, representing 11.8% of the Company's total invested assets.

**Risk Management and Impairment Review**

The Company monitors the overall credit quality of the Company's portfolio within general guidelines. The approximate percentage distribution of the Company's fixed maturity investments by quality rating at December 31 is as follows:

| Rating | 2004 | 2003 |
|---|---|---|
| AAA | 7.9% | 9.7% |
| AA | 8.8 | 6.7 |
| A | 36.9 | 38.4 |
| BBB | 40.3 | 40.0 |
| BB or Less | 6.1 | 5.2 |
| | 100.0% | 100.0% |

The Company's management considers a number of factors when determining the impairment status of individual securities. These include the economic condition of various industry segments and geographic locations and other areas of identified risks. Although it is possible for the impairment of one investment to affect other investments, the Company engages in ongoing risk management to safeguard against and limit any further risk to its investment portfolio. Special attention is given to correlative risks within specific industries, related parties and business markets.

The Company generally considers a number of factors in determining whether the impairment is other than temporary. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability of the Company to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer's industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance, collateral position and continued viability of the issuer are significant measures considered.

The Company generally considers a number of factors relating to the issuer in determining the financial strength, liquidity, and recoverability of an issuer. These include but are not limited to: available collateral, tangible and intangible assets that might be available to repay debt, operating cash flows, financial ratios, access to capital markets, quality of management, market position, exposure to litigation or product warranties, and the effect of general economic conditions on the issuer. Once management has determined that a particular investment has suffered an other-than-temporary impairment, the asset is written down to its estimated fair value.

There are certain risks and uncertainties associated with determining whether declines in market values are other-than-temporary. These include significant changes in general economic conditions and business markets, trends in certain industry segments, interest rate fluctuations, rating agency actions, changes in significant accounting estimates and assumptions, commission of fraud and legislative actions. The Company continuously monitors these factors as they relate to the investment portfolio in determining the status of each investment. Provided below are additional facts concerning the potential effect upon the Company's earnings should circumstances lead management to conclude that some of the current declines in market value are other-than-temporary.

**Unrealized Gains and Losses**

The information presented below relates to investments at a certain point in time and is not necessarily indicative of the status of the portfolio at any time after December 31, 2004, the balance sheet date. Information about unrealized gains and losses is subject to rapidly changing conditions, including volatility of financial markets and changes in interest rates. As indicated above, the Company's management considers a number of factors in determining if an unrealized loss is other-than-temporary, including its ability and intent to hold the security until recovery. Furthermore, since the timing of recognizing realized gains and losses is largely based on management's decisions as to the timing and selection of investments to be sold, the tables and information provided below should be considered within the context of the overall unrealized gain (loss) position of the portfolio. At December 31, 2004, the Company had an overall pretax net unrealized gain of $46.3 million.

For traded and private fixed maturity securities held by the Company that are in an unrealized loss position at December 31, 2004, the estimated market value, amortized cost, unrealized loss and total time period that the security has been in an unrealized loss position are presented in the table below.

| | Estimated Market Value | % Market Value | Amortized Cost | % Amortized Cost | Unrealized Loss | % Unrealized Loss |
|---|---|---|---|---|---|---|
| <= 90 days | $21,611,576 | 34.0% | $21,952,730 | 33.0% | $ (341,154) | 12.3% |
| >90 days but <= 180 days | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| >180 days but <= 270 days | 6,703,519 | 10.5 | 6,833,223 | 10.3 | (129,704) | 4.7 |
| >270 days but <= 1 year | 3,751,571 | 5.9 | 3,825,228 | 5.8 | (73,657) | 2.7 |
| >1 year but <= 2 years | 25,630,997 | 40.3 | 26,812,077 | 40.4 | (1,181,080) | 42.6 |
| >2 years but <= 3 years | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| >3 years but <= 4 years | 3,530,000 | 5.5 | 4,000,000 | 6.0 | (470,000) | 17.0 |
| >4 years but <= 5 years | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| >5 years | 2,445,000 | 3.8 | 3,016,754 | 4.5 | (571,754) | 20.7 |
| Total | $63,672,663 | 100.0% | $66,440,012 | 100.0% | $(2,767,349) | 100.0% |

The Company has no material concentrations of issuers or guarantors of fixed maturity securities. The industry segment composition of all securities in an unrealized loss position held by the Company at December 31, 2004, is presented in the following table.

| | Estimated Market Value | % Market Value | Amortized Cost | % Amortized Cost | Unrealized Loss | % Unrealized Loss |
|---|---|---|---|---|---|---|
| Agency mortgages | $ 8,114,820 | 12.8% | $ 8,140,498 | 12.3% | $ (25,678) | 0.9% |
| Basic industrial | 6,833,520 | 10.7 | 6,999,233 | 10.5 | (165,713) | 6.0 |
| Communications | 6,033,080 | 9.5 | 6,934,067 | 10.4 | (900,987) | 32.5 |
| Electric | 15,986,213 | 25.1 | 16,929,939 | 25.5 | (943,726) | 34.1 |
| Energy | 1,926,408 | 3.0 | 1,998,444 | 3.0 | (72,036) | 2.6 |
| Insurance | 6,629,422 | 10.4 | 6,939,123 | 10.4 | (309,701) | 11.2 |
| Natural gas | 5,683,002 | 8.9 | 5,963,840 | 9.0 | (280,838) | 10.1 |
| Non-agency mortgages | 2,256,466 | 3.6 | 2,258,660 | 3.4 | (2,194) | 0.1 |
| Other finance | 642,553 | 1.0 | 644,293 | 1.0 | (1,740) | 0.1 |
| Transportation | 3,970,403 | 6.2 | 3,999,972 | 6.0 | (29,569) | 1.1 |
| U.S. Government | 5,596,776 | 8.8 | 5,631,943 | 8.5 | (35,167) | 1.3 |
| Total | $63,672,663 | 100.0% | $66,440,012 | 100.0% | $(2,767,349) | 100.0% |

The range of maturity dates for securities in an unrealized loss position at December 31, 2004 varies, with 26.8% maturing in less than 5 years, 22.5% maturing between 5 and 10 years, and 50.7% maturing after 10 years. The following table shows the credit rating of securities in an unrealized loss position at December 31, 2004.

| S&P or Equivalent Designation | Estimated Market Value | % Market Value | Amortized Cost | % Amortized Cost | Unrealized Loss | % Unrealized Loss |
|---|---|---|---|---|---|---|
| AAA/AA/A | $45,196,261 | 71.0% | $46,473,592 | 69.9% | $(1,277,331) | 46.2% |
| BBB | 12,501,402 | 19.6 | 12,949,666 | 19.5 | (448,264) | 16.2 |
| Investment grade | 57,697,663 | 90.6 | 59,423,258 | 89.4 | (1,725,595) | 62.4 |
| B | 5,975,000 | 9.4 | 7,016,754 | 10.6 | (1,041,754) | 37.6 |
| Below investment grade | 5,975,000 | 9.4 | 7,016,754 | 10.6 | (1,041,754) | 37.6 |
| Total | $63,672,663 | 100.0% | $66,440,012 | 100.0% | $(2,767,349) | 100.0% |

At December 31, 2004, securities in an unrealized loss position that were rated as below investment grade represented 9.4% of the total market value and 37.6% of the total unrealized loss. Unrealized losses related to below investment grade securities that had been in an unrealized loss position for more than twelve months were $1.0 million. The Company generally purchases its investments with the intent to hold to maturity. The Company does not consider these unrealized losses as other-than-temporary impairments.

The following table shows the estimated market value, amortized cost, unrealized loss and total time period that the security has been in an unrealized loss position for all below investment grade securities.

| | Estimated Market Value | % Market Value | Amortized Cost | % Amortized Cost | Unrealized Loss | % Unrealized Loss |
|---|---|---|---|---|---|---|
| >3 years but <= 4 years | $3,530,000 | 59.1% | $4,000,000 | 57.0% | $ (470,000) | 45.1% |
| >5 years | 2,445,000 | 40.9 | 3,016,754 | 43.0 | (571,754) | 54.9 |
| Total | $5,975,000 | 100.0% | $7,016,754 | 100.0% | $(1,041,754) | 100.0% |

### Realized Losses

Realized losses are comprised of both write-downs on other-than-temporary impairments and actual sales of investments. During the year ended December 31, 2004, the Company recorded pretax other-than-temporary impairments in its investments of $0.2 million as compared to $0.3 million in the year ended December 31, 2003.

As discussed earlier, the Company's management considers several factors when determining other-than-temporary impairments. Although the Company generally intends to hold securities until maturity, the Company may change its position as a result of a change in circumstances. Any such decision is consistent with the Company's classification of its investment portfolio as available for sale. During the year ended December 31, 2004, the Company sold securities in an unrealized loss position with a market value of $5.7 million resulting in a realized loss of less than $0.1 million. For such securities, the proceeds, realized loss and total time period that the security had been in an unrealized loss position are presented in the table below.

| | Proceeds | Realized Loss |
|---|---|---|
| <=90 days | $5,964,600 | $(34,492) |

## Market Risk Exposures

The Company's financial position and earnings are subject to various market risks including changes in interest rates, changes in the yield curve, changes in spreads between risk-adjusted and risk-free interest rates, and equity price risks. The Company analyzes and manages the risks arising from market exposures of financial instruments, as well as other risks, through an integrated asset/liability management process. The Company's asset/liability management programs and procedures involve the monitoring of asset and liability durations for various product lines; cash flow testing under various interest rate scenarios; and the continuous rebalancing of assets and liabilities with respect to yield, risk, and cash flow characteristics.

The Company believes its asset/liability management programs and procedures and certain product features provide protection for the Company against the effects of changes in interest rates under various scenarios. Additionally, the Company believes its asset/liability management programs and procedures provide sufficient liquidity to enable it to fulfill its obligation to pay benefits under its various insurance and deposit contracts. However, the Company's asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve), relationships between risk-adjusted and risk-free interest rates, market liquidity and other factors, and the effectiveness of the Company's asset/liability management programs and procedures may be negatively affected whenever actual results differ from those assumptions.

The following table sets forth the estimated market values of the Company's fixed maturity investments and mortgage loans resulting from a hypothetical immediate 1 percentage point increase in interest rates from levels prevailing at December 31, and the percent change in market value the following estimated market values would represent.

| At December 31 | Amount | Percent Change |
|---|---|---|
| **2004** | | |
| Fixed maturities | $575,039,418 | (8.0)% |
| Mortgage loans | 1,191,084 | (0.6) |
| **2003** | | |
| Fixed maturities | $588,314,990 | (7.6)% |
| Mortgage loans | 1,418,972 | (0.7) |

Estimated market values were derived from the durations of the Company's fixed maturities and mortgage loans. Duration measures the relationship between changes in market value to changes in interest rates. While these estimated market values generally provide an indication of how sensitive the market values of the Company's fixed maturities and mortgage loans are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

The Company's annuity products tend to be more sensitive to market risks than the Company's other products. As such, many of these products contain surrender charges and other features that reward persistency and penalize the early withdrawal of funds. Certain annuity contracts have market-value adjustments that protect the Company against investment losses if interest rates are higher at the time of surrender than at the time of issue.

At December 31, 2004, the Company had $60.0 million of annuity account balances with an estimated fair value of $64.3 million (using surrender values). At December 31, 2003, the Company had $57.9 million of annuity account balances with an estimated fair value of $62.2 million.

The following table sets forth the estimated fair values of the Company's annuity account balances resulting from a hypothetical immediate 1 percentage point decrease in interest rates from levels prevailing at December 31, and the percent change in fair value the following estimated fair values would represent.

| At December 31 | Amount | Percent Change |
|---|---|---|
| **2004** | | |
| Annuity account balances | $64,487,145 | 5.0% |
| **2003** | | |
| Annuity account balances | $64,959,635 | 4.5% |

Estimated fair values were derived from the durations of the Company's annuity account balances. While these estimated fair values generally provide an indication of how sensitive the fair values of the Company's annuity account balances are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates.

Approximately 10% of the Company's liabilities relate to products (primary whole life insurance) the profitability of which could be affected by changes in interest rates. The effect of such changes in any one year is not expected to be material.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

The information required by this item is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data".

**Item 8. Financial Statements and Supplementary Data**

Index to Financial Statements

The following financial statements are located in this report on the pages indicated.


| | *Page* |
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| Report of Independent Registered Public Accounting Firm | 11 |
| Statements of Income for the years ended December 31, 2004, 2003, and 2002 | 12 |
| Balance Sheets as of December 31, 2004 and 2003 | 13 |
| Statements of Share-Owners' Equity for the years ended December 31, 2004, 2003, and 2002 | 14 |
| Statements of Cash Flows for the years ended December 31, 2004, 2003, and 2002 | 15 |
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| Financial Statement Schedules: | |
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All other schedules to the financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Share Owners of
Protective Life and Annuity Insurance Company:

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Protective Life and Annuity Insurance Company at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/S/PRICEWATERHOUSECOOPERS LLP
***PricewaterhouseCoopers, LLP***
Birmingham, Alabama
March 30, 2005

## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
## STATEMENTS OF INCOME

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| **Revenues** | | | |
| Premiums and policy fees | $ 61,713,352 | $ 72,195,967 | $ 51,293,397 |
| Reinsurance ceded | (37,622,555) | (47,297,219) | (23,734,401) |
| Net of reinsurance ceded | 24,090,797 | 24,898,748 | 27,558,996 |
| Net investment income | 40,379,954 | 41,295,486 | 36,245,837 |
| Realized investment gains (losses) | 530,433 | 3,347,309 | (696,209) |
| Other income | 47,463 | 156,495 | 11,087 |
| | 65,048,647 | 69,698,038 | 63,119,711 |
| **Benefits and Expenses** | | | |
| Benefits and settlement expenses (net of reinsurance ceded: 2004 - $28,535,116; 2003 - $30,371,296; 2002 - $18,296,707) | 31,579,558 | 30,776,253 | 33,299,046 |
| Amortization of deferred policy acquisition costs | 6,950,982 | 7,890,345 | 8,639,183 |
| Other operating expenses (net of reinsurance ceded: 2004 - $483,839; 2003 - $(1,700,478); 2002 - $31,857,142) | 7,618,388 | 7,802,369 | 7,934,561 |
| | 46,148,928 | 46,468,967 | 49,872,790 |
| **Income before income tax** | 18,899,719 | 23,229,071 | 13,246,921 |
| Income tax expense | | | |
| Current | 5,258,677 | 702,883 | 0 |
| Deferred | 1,389,193 | 7,408,821 | 4,622,272 |
| Total income tax expense | 6,647,870 | 8,111,704 | 4,622,272 |
| **Net income** | $ 12,251,849 | $ 15,117,367 | $ 8,624,649 |

See notes to financial statements.

## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
## BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2004** | **2003** |
| **ASSETS** | | |
| Investments: | | |
| Fixed maturities, at market (amortized cost: 2004 - $578,812,588; 2003 - $598,941,913) | $625,095,231 | $636,460,275 |
| Mortgage loans | 1,177,521 | 1,393,720 |
| Policy loans | 52,994,451 | 54,066,125 |
| Short-term investments | 10 | 1,200,413 |
| Total investments | 679,267,213 | 693,120,533 |
| Cash | 10,337,198 | 13,052,781 |
| Accrued investment income | 10,825,632 | 11,116,301 |
| Accounts and premiums receivable, net of allowance for uncollectible amounts (2004 - $7,000; 2003 - $7,000) | 396,654 | 530,133 |
| Reinsurance receivables | 43,363,998 | 61,159,477 |
| Deferred policy acquisition costs | 93,107,390 | 95,168,662 |
| Other assets | 13,027 | 14,897 |
| Assets related to separate accounts | | |
| Variable annuity | 10,629,080 | 10,987,259 |
| Total assets | $847,940,192 | $885,150,043 |
| **LIABILITIES** | | |
| Policy liabilities and accruals: | | |
| Future policy benefits and claims | $486,995,573 | $496,884,724 |
| Unearned premiums | 7,513,955 | 13,824,017 |
| Total policy liabilities and accruals | 494,509,528 | 510,708,741 |
| Annuity account balances | 59,989,579 | 57,894,232 |
| Other policyholders' funds | 2,765,727 | 2,695,070 |
| Funds held-coinsurance | 25,713,359 | 46,762,354 |
| Other liabilities | 8,736,280 | 15,506,447 |
| Accrued income taxes | (529,937) | 702,883 |
| Deferred income taxes | 41,614,693 | 36,842,882 |
| Liabilities related to separate accounts | | |
| Variable annuity | 10,629,080 | 10,987,259 |
| Total liabilities | 643,428,309 | 682,099,868 |
| **COMMITMENTS AND CONTINGENT LIABILITIES – NOTE 5** | | |
| **SHARE-OWNERS' EQUITY** | | |
| Preferred Stock, $1.00 par value, shares authorized, issued and outstanding: 2,000 | 2,000 | 2,000 |
| Common Stock, $10.00 par value | | |
| Shares authorized: 2004 and 2003 – 500,000 | | |
| Shares issued and outstanding: 2004 and 2003 – 250,000 | 2,500,000 | 2,500,000 |
| Additional paid-in capital | 171,386,324 | 171,386,324 |
| Retained earnings | 7,662,382 | 12,410,533 |
| Accumulated other comprehensive income: | | |
| Net unrealized gains on investments (net of income tax: 2004 - $12,363,711; 2003 - $9,019,940) | 22,961,177 | 16,751,318 |
| Total share-owners' equity | 204,511,883 | 203,050,175 |
| | $847,940,192 | $885,150,043 |

See notes to financial statements.

## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
## STATEMENTS OF SHARE-OWNERS' EQUITY

| | Preferred Stock | Common Stock | Additional Paid-In Capital | Retained Earnings | Net Unrealized Gains (Losses) On Investments | Total Share-Owners' Equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2001 | $2,000 | $2,500,000 | $101,386,324 | $ 15,468,517 | $ 2,388,252 | $121,745,093 |
| Net income for 2002 | | | | 8,624,649 | | 8,624,649 |
| Change in net unrealized gains/losses on investments (net of income tax: $3,589,263) | | | | | 6,665,774 | 6,665,774 |
| Reclassification adjustment for amounts included in net income (net of income tax: $243,673) | | | | | 452,536 | 452,536 |
| Comprehensive income for 2002 | | | | | | 15,742,959 |
| Common dividends ($58.80 per share) | | | | (14,700,000) | | (14,700,000) |
| Preferred dividends ($25.00 per share) | | | | (50,000) | | (50,000) |
| Capital contribution | | | 70,000,000 | | | 70,000,000 |
| Balance, December 31, 2002 | 2,000 | 2,500,000 | 171,386,324 | 9,343,166 | 9,506,562 | 192,738,052 |
| Net income for 2003 | | | | 15,117,367 | | 15,117,367 |
| Change in net unrealized gains/losses on investments (net of income tax: $5,072,581) | | | | | 9,420,507 | 9,420,507 |
| Reclassification adjustment for amounts included in net income (net of income tax: $(1,171,558)) | | | | | (2,175,751) | (2,175,751) |
| Comprehensive income for 2003 | | | | | | 22,362,123 |
| Common dividends ($48.20 per share) | | | | (12,050,000) | | (12,050,000) |
| Balance, December 31, 2003 | 2,000 | 2,500,000 | 171,386,324 | 12,410,533 | 16,751,318 | 203,050,175 |
| Net income for 2004 | | | | 12,251,849 | | 12,251,849 |
| Change in net unrealized gains/losses on investments (net of income tax: $3,529,422) | | | | | 6,554,640 | 6,554,640 |
| Reclassification adjustment for amounts included in net income (net of income tax: $(185,652)) | | | | | (344,781) | (344,781) |
| Comprehensive income for 2004 | | | | | | 18,461,708 |
| Common dividends ($68.00 per share) | | | | (17,000,000) | | (17,000,000) |
| Balance, December 31, 2004 | $2,000 | $2,500,000 | $171,386,324 | $ 7,662,382 | $22,961,177 | $204,511,883 |

See notes to financial statements.

## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
## STATEMENTS OF CASH FLOWS

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net income | $ 12,251,849 | $ 15,117,367 | $ 8,624,649 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Realized investment (gains) losses | (530,433) | (3,347,309) | 696,209 |
| Amortization of deferred policy acquisition costs | 6,950,982 | 7,890,345 | 8,639,183 |
| Capitalization of deferred policy acquisition costs | (4,081,194) | (2,813,504) | (2,161,267) |
| Deferred income taxes | 1,389,193 | 7,408,821 | 4,622,272 |
| Accrued income tax | (1,232,820) | 0 | 0 |
| Interest credited to universal life and investment products | 20,737,779 | 21,321,965 | 29,693,764 |
| Policy fees assessed on universal life and investment products | (33,214,101) | (33,916,456) | (34,641,740) |
| Change in accrued investment income and other receivables | 18,219,627 | 28,158,814 | (64,001,084) |
| Change in policy liabilities and other policyholders’ funds of traditional life and health products | (18,694,411) | (40,194,549) | 70,326,971 |
| Change in funds held-coinsurance | (21,048,995) | (42,789,661) | 86,607,188 |
| Change in other liabilities | (6,770,167) | 1,292,187 | (231,372) |
| Other, net | 654,508 | 7,058 | (2,266) |
| Net cash provided by (used in) operating activities | (25,368,183) | (41,864,922) | 108,172,507 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investments available for sale, net of short-term investments | | | |
| Maturities and principal reductions of investments | 36,548,305 | 94,119,188 | 54,755,061 |
| Sale of investments | 36,032,255 | 81,324,718 | 80,524,090 |
| Cost of investments acquired | (52,553,760) | (303,472,324) | (155,307,511) |
| Repayments of mortgage loans | 216,199 | 399,870 | 923,905 |
| Change in policy loans, net | 1,071,674 | 741,026 | (242,135) |
| Change in other long-term investments, net | 0 | 572,818 | (102,788) |
| Change in short-term investments, net | 1,200,403 | 177,604,832 | (166,805,245) |
| Net cash provided by (used in) investing activities | 22,515,076 | 51,290,128 | (186,254,623) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Dividends to share owners | (17,000,000) | (12,050,000) | (14,750,000) |
| Capital contribution | 0 | 0 | 70,000,000 |
| Investment product deposits and change in universal life deposits | 25,656,649 | 23,487,618 | 69,229,610 |
| Investment product withdrawals | (8,519,125) | (9,479,575) | (49,012,219) |
| Net cash provided by financing activities | 137,524 | 1,958,043 | 75,467,391 |
| **CHANGE IN CASH** | (2,715,583) | 11,383,249 | (2,614,725) |
| **CASH AT BEGINNING OF YEAR** | 13,052,781 | 1,669,532 | 4,284,257 |
| **CASH AT END OF YEAR** | $ 10,337,198 | $ 13,052,781 | $ 1,669,532 |

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

There was no cash paid during any of the periods presented related to interest on indebtedness or income taxes.

See notes to financial statements.

## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY

## NOTES TO FINANCIAL STATEMENTS

**Note 1 — SIGNIFICANT ACCOUNTING POLICIES**

*BASIS OF PRESENTATION*

The accompanying financial statements of Protective Life and Annuity Insurance Company ("the Company") are prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"). Such accounting principles differ from statutory reporting practices used by insurance companies in reporting to state regulatory authorities (see also Note 2).

The Company was founded in 1978 as American Foundation Life Insurance Company. Effective March 1, 1999, the Company's name was changed to Protective Life and Annuity Insurance Company. Since 1983, all outstanding shares of the Company's common stock have been owned by Protective Life Insurance Company ("Protective"), which is a wholly-owned subsidiary of Protective Life Corporation ("PLC"), an insurance holding company domiciled in the state of Delaware. All outstanding shares of the Company's preferred stock are owned by PLC.

The preparation of financial statements in conformity with GAAP requires management to make various estimates that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, as well as the reported amounts of revenues and expenses. Actual results could differ from these estimates.

*NATURE OF OPERATIONS*

The Company, since it is licensed in the State of New York, is the entity through which PLC markets, distributes, and services insurance and annuity products in New York. The operating results of companies in the insurance industry have historically been subject to significant fluctuations due to changing competition, economic conditions, interest rates, investment performance, insurance ratings, and other factors.

*RECENTLY ISSUED ACCOUNTING STANDARDS*

On October 1, 2003, the Company adopted Derivatives Implementation Group Issue No. B36, "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments" (DIG B36). DIG B36 requires the bifurcation of embedded derivatives within certain modified coinsurance and funds withheld coinsurance arrangements that expose the creditor to credit risk of a company other than the debtor, even if the debtor owns as invested assets the third-party securities to which the creditor is exposed. The adoption did not have a material impact on its financial condition or results of operations.

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts." SOP 03-1 was effective for fiscal years beginning after December 15, 2003. SOP 03-1 provides guidance related to the reporting and disclosure of certain insurance contracts and separate accounts, including the calculation of guaranteed minimum death benefits (GMDB). SOP 03-1 also addresses the capitalization and amortization of sales inducements to contract holders. The adoption of SOP 03-1 did not have a material impact on the Company's financial condition or results of operations.

*INVESTMENTS*

The Company has classified all of its investments in fixed maturities and short-term investments as "available for sale."

Investments are reported on the following bases:

- Fixed maturities (bonds) – at current market value. Where market values are unavailable, the Company obtains estimates from independent pricing services or estimates market value based upon a comparison to quoted issues of the same issuer or issues of other issuers with similar terms and risk characteristics.

- Mortgage loans – at unpaid balances, adjusted for loan origination costs, net of fees, and amortization of premium or discount.

- Policy loans – at unpaid balances.

- Other long-term investments – at a variety of methods similar to those listed above, as deemed appropriate for the specific investment.

- Short-term investments – at amortized cost, which approximates current market value.

Estimated market values were derived from the durations of the Company's fixed maturities and mortgage loans. Duration measures the relationship between changes in market value to changes in interest rates. While these estimated market values generally provide an indication of how sensitive the market values of the Company's fixed maturities and mortgage loans are to changes in interest rates, they do not represent management's view of future market changes, and actual market results may differ from these estimates. Substantially all short-term investments have maturities of three months or less at the time of acquisition.

The market values of fixed maturities increase or decrease as interest rates fall or rise. As prescribed by GAAP investments deemed as "available for sale" are recorded at their market values with the resulting unrealized gains and losses reduced by a related adjustment to deferred policy acquisition costs, net of income tax, reported as a component of share-owners' equity.

Investment securities are regularly reviewed for impairment. Unrealized losses that are deemed to be other-than-temporary are recognized in realized gains (losses). See Note 3 for further discussion of the Company's policies regarding identification of other-than-temporary impairments. Realized gains and losses on sales of investments are recognized in net income using the specific identification basis.

*CASH*

Cash includes all demand deposits reduced by the amount of outstanding checks and drafts. The Company has deposits with certain financial institutions which exceed federally insured limits. The Company has reviewed the creditworthiness of these financial institutions and believes there is minimal risk of a material loss.

*DEFERRED POLICY ACQUISITION COSTS*

Commissions and other costs of acquiring traditional life and health insurance, credit insurance, universal life insurance, and investment products that vary with and are primarily related to the production of new business, have been deferred. Traditional life and health insurance acquisition costs are amortized over the premium-payment period of the related policies in proportion to the ratio of annual premium income to the present value of the total anticipated premium income. Credit insurance acquisition costs are being amortized in proportion to earned premium. Acquisition costs for universal life and investment products are amortized over the lives of the policies in relation to the present value of estimated gross profits before amortization. Under SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments," the Company makes certain assumptions regarding the mortality, persistency, expenses, and interest rates (equal to the rate used to compute liabilities for future policy benefits; currently 2.6% to 9.4%) it expects to experience in future periods. These assumptions are to be best estimates and are to be periodically updated whenever actual experience and/or expectations for the future change from that assumed. Additionally, relating to SFAS No. 115, these costs have been adjusted by an amount equal to the amortization that would have been recorded if unrealized gains or losses on investments associated with the Company's universal life and investment products had been realized.

The cost to acquire blocks of insurance representing the present value of future profits from such blocks of insurance is also included in deferred policy acquisition costs. The Company amortizes the present value of future profits over the premium payment period, including accrued interest of up to approximately 8%. The unamortized present value of future profits was approximately $95.0 million and $100.1 million at December 31, 2004 and 2003, respectively. During 2004, $5.1 million of present value of future profits was amortized. During 2003, $6.4 million of present value of future profits was amortized. No amounts were capitalized during 2004 or 2003.

The expected amortization of the present value of future profits for the next five years is as follows:

| Year | Expected Amortization |
|---|---|
| 2005 | $5,576,901 |
| 2006 | 5,698,837 |
| 2007 | 5,910,611 |
| 2008 | 6,155,289 |
| 2009 | 5,820,536 |

*SEPARATE ACCOUNTS*

The assets and liabilities related to separate accounts in which the Company does not bear the investment risk are valued at market and reported separately as assets and liabilities related to separate accounts in the accompanying financial statements. Amounts assessed against policy account balances for the costs of insurance, policy administration, and other services are included in premiums and policy fees in the accompanying statements of income.

*REVENUES AND BENEFITS EXPENSE*

Traditional Life, Health, and Credit Insurance Products:

Traditional life insurance products consist principally of those products with fixed and guaranteed premiums and benefits and include whole life insurance policies, term and term-like life insurance policies, limited-payment life insurance policies, and certain annuities with life contingencies. Life insurance premiums are recognized as revenue when due. Health and credit insurance premiums are recognized as revenue over the terms of the policies. Benefits and expenses are associated with earned premiums so that profits are recognized over the life of the contracts. This is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs. Gross premiums in excess of net premiums related to immediate annuities are deferred and recognized over the life of the policy.

Liabilities for future policy benefits on traditional life insurance products have been computed using a net level method including assumptions as to investment yields, mortality, persistency, and other assumptions based on the Company's experience, modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation. Reserve investment yield assumptions on December 31, 2004 range from 6.6% to 7.0%. The liability for future policy benefits and claims on traditional life, health, and credit insurance products includes estimated unpaid claims that have been reported to the Company and claims incurred but not yet reported. Policy claims are charged to expense in the period in which the claims are incurred.

Activity in the liability for unpaid claims is summarized as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Balance beginning of year | $9,966,882 | $ 7,834,114 | $ 7,074,480 |
| Less reinsurance | 4,616,804 | 2,339,338 | 1,459,829 |
| Net balance beginning of year | 5,350,078 | 5,494,776 | 5,614,651 |
| Incurred related to: | | | |
| Current year | 9,046,450 | 13,466,361 | 11,448,215 |
| Prior year | 228,614 | 776,513 | 181,838 |
| Total incurred | 9,275,064 | 14,242,874 | 11,630,053 |
| Paid related to: | | | |
| Current year | 7,217,505 | 13,396,238 | 10,612,857 |
| Prior year | 1,966,999 | 991,334 | 1,137,071 |
| Total paid | 9,184,504 | 14,387,572 | 11,749,928 |
| Net balance end of year | 5,440,641 | 5,350,078 | 5,494,776 |
| Plus reinsurance | 2,904,719 | 4,616,804 | 2,339,338 |
| Balance end of year | $8,345,360 | $ 9,966,882 | $ 7,834,114 |

Universal Life and Investment Products:

Universal life and investment products include universal life insurance, deferred annuities, and annuities without life contingencies. Premiums and policy fees for universal life and investment products consist of policy fees that have been assessed against policy account balances for the costs of insurance, policy administration, and surrenders. Such fees are recognized when assessed and earned. Benefit reserves for universal life and investment products represent policy account balances before applicable surrender charges plus certain deferred policy initiation fees that are recognized in income over the term of the policies. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to policy account balances. Interest credit rates for universal life ranged from 4.6% to 6.0% and investment products ranged from 2.6% to 7.8% in 2004.

The Company's accounting policies with respect to variable universal life and variable annuities are identical except that policy account balances (excluding account balances that earn a fixed rate) are valued at market and reported as components of assets and liabilities related to separate accounts.

*INCOME TAXES*

The Company uses the asset and liability method of accounting for income taxes. Income tax provisions are generally based on income reported for financial statement purposes. Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Such temporary differences are principally related to the deferral of policy acquisition costs and the provision for future policy benefits and expenses.

*RECLASSIFICATIONS*

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net income, total assets, or share-owners' equity.

**Note 2 —STATUTORY REPORTING PRACTICES**

Financial statements prepared in conformity with GAAP differ in some respects from the statutory accounting practices prescribed or permitted by insurance regulatory authorities. The most significant differences are as follows: (a) acquisition costs of obtaining new business are deferred and amortized over the approximate life of the policies rather than charged to operations as incurred; (b) benefit liabilities are computed using a net level method and are based on realistic estimates of expected mortality, interest, and withdrawals as adjusted to provide for possible unfavorable deviation from such assumptions; (c) deferred income taxes are not subject to statutory limitations as to amounts recognized and are recognized through earnings as opposed to being charged to share-owners' equity; (d) the Asset Valuation Reserve and Interest Maintenance Reserve are restored to share-owners' equity; (e) agents' debit balances and prepaid expenses are reported as assets rather than being charged directly to surplus (referred to as nonadmitted items); (f) certain items of interest income, such as mortgage and bond discounts, are amortized differently; and (g) bonds are recorded at their market values instead of amortized cost.

The net income and share-owners' equity prepared in conformity with statutory reporting practices as compared to that reported in the accompanying financial statements are as follows:

| | Net Income | | | Share-Owners' Equity | | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2004** | **2003** | **2002** |
| In conformity with statutory reporting practices | $14,668,506 | $23,154,434 | $10,879,132 | $105,382,711 | $108,738,317 | $102,550,549 |
| In conformity with GAAP | $12,251,849 | $15,117,367 | $ 8,624,649 | $204,511,883 | $203,050,175 | $192,738,052 |

## Note 3 — INVESTMENT OPERATIONS

Major categories of net investment income for the years ended December 31 are summarized as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Fixed maturities | $38,588,641 | $38,891,316 | $33,778,487 |
| Mortgage loans | 107,197 | 113,288 | 170,428 |
| Policy loans | 3,630,393 | 3,703,603 | 3,748,912 |
| Other, principally short-term investments | 218,724 | 460,662 | 312,989 |
| | 42,544,955 | 43,168,869 | 38,010,816 |
| Investment expenses | (2,165,001) | (1,873,383) | (1,764,979) |
| | $40,379,954 | $41,295,486 | $36,245,837 |

Realized investment gains (losses) for the years ended December 31 are summarized as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Fixed maturities | $530,433 | $2,645,663 | $(480,629) |
| Short-term investments | 0 | 701,646 | (215,580) |
| | $530,433 | $3,347,609 | $(696,209) |

In 2004, gross gains on the sale of investments available for sale (fixed maturities and short-term investments) were $0.7 million and gross losses were $0.2 million. In 2003, gross gains were $3.6 million and gross losses were $0.3 million. In 2002, gross gains were $2.1 million and gross losses were $2.8 million.

The amortized cost and estimated market values of the Company's investments classified as available for sale at December 31 are as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| **2004** | | | | |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| Mortgage-backed securities | $ 30,473,593 | $ 539,303 | $ (27,872) | $ 30,985,024 |
| US Government and authorities | 7,648,875 | 67,288 | (35,168) | 7,680,995 |
| Public utilities | 117,289,471 | 8,067,338 | (1,083,796) | 124,273,013 |
| All other corporate bonds | 423,400,649 | 40,376,063 | (1,620,513) | 462,156,199 |
| | 578,812,588 | 49,049,992 | (2,767,349) | 625,095,231 |
| Short-term investments | 10 | 0 | 0 | 10 |
| | $578,812,598 | $49,049,992 | $(2,767,349) | $625,095,241 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Market Value |
|---|---|---|---|---|
| **2003** | | | | |
| Fixed maturities: | | | | |
| Bonds: | | | | |
| Mortgage-backed securities | $ 42,286,991 | $ 931,855 | $ (130,262) | $ 43,088,584 |
| US Government and authorities | 7,702,497 | 155,328 | (516) | 7,857,309 |
| Public utilities | 123,694,171 | 6,064,624 | (2,018,769) | 127,740,026 |
| All other corporate bonds | 425,258,254 | 34,228,100 | (1,711,998) | 457,774,356 |
| | 598,941,913 | 41,379,907 | (3,861,545) | 636,460,275 |
| Short-term investments | 1,200,413 | 0 | 0 | 1,200,413 |
| | $600,142,326 | $41,379,907 | $ (3,861,545) | $637,660,688 |

The amortized cost and estimated market value of fixed maturities at December 31, 2004, by expected maturity, are shown below. Expected maturities are derived from rates of prepayment that may differ from actual rates of prepayment.

| | Amortized Cost | Estimated Market Values |
|---|---|---|
| Due in one year or less | $ 27,211,620 | $ 27,616,557 |
| Due after one year through five years | 77,040,962 | 81,048,206 |
| Due after five years through ten years | 153,802,505 | 165,163,942 |
| Due after ten years | 320,757,501 | 351,266,526 |
| | $578,812,588 | $625,095,231 |

Each quarter the Company reviews investments with unrealized losses and tests for other-than-temporary impairments. The Company analyzes various factors to determine if any specific other than temporary asset impairments exist. These include, but are not limited to: 1) actions taken by rating agencies, 2) default by the issuer, 3) the significance of the decline, 4) the intent and ability of the Company to hold the investment until recovery, 5) the time period during which the decline has occurred, 6) an economic analysis of the issuer’s industry, and 7) the financial strength, liquidity, and recoverability of the issuer. Management performs a security by security review each quarter in evaluating the need for any other-than-temporary impairments. Although no set formula is used in this process, the investment performance and continued viability of the issuer are significant measures considered. Once a determination has been made that a specific other-than-temporary impairment exists, a realized loss is incurred and the cost basis of the impaired asset is adjusted to its fair value. During 2004, 2003, and 2002, the Company recorded other-than-temporary impairments in its investments of $0.2 million, $0.3 million, and $4.3 million, respectively.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position at December 31, 2004.

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| | Market Value | Unrealized Loss | Market Value | Unrealized Loss | Market Value | Unrealized Loss |
| Mortgage-backed securities | $10,371,286 | $ (27,872) | $ 0 | $ 0 | $10,371,286 | $ (27,872) |
| US Government | 5,596,776 | (35,168) | 0 | 0 | 5,596,776 | (35,168) |
| Public Utilities | 988,133 | (10,087) | 20,739,162 | (1,073,710) | 21,727,295 | (1,083,797) |
| Other Corporate bonds | 15,110,471 | (471,388) | 10,866,835 | (1,149,124) | 25,977,306 | (1,620,512) |
| | $32,066,666 | $(544,515) | $31,605,997 | $(2,222,834) | $63,672,663 | $(2,767,349) |

The other corporate bonds and public utilities categories had gross unrealized losses in an unrealized loss position for greater than 12 months of $1.1 million and $1.1 million, respectively, at December 31, 2004. The aggregate decline in market value of these securities was deemed temporary due to positive factors supporting the recoverability of the respective investments. Positive factors considered included credit ratings, the financial health of the investee, the continued access of the investee to capital markets, and other pertinent information, including the Company's ability and intent to hold these securities to recovery.

At December 31, 2004 and 2003, the Company had bonds which were rated less than investment grade of $38.4 million and $33.4 million, respectively, having an amortized cost of $35.4 million and $31.8 million, respectively. Approximately $80.5 million of bonds are not publicly traded.

The change in unrealized gains (losses), net of income tax, on fixed maturities for the years ended December 31 is summarized as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Fixed maturities | $5,696,783 | $10,231,417 | $12,109,764 |

At December 31, 2004 and 2003, the Company had no problem mortgage loans (over sixty days past due) or foreclosed properties. Since the Company's mortgage loans are collateralized by real estate, any assessment of impairment is based upon the estimated fair value of the real estate. Based on the Company's evaluation of its mortgage loan portfolio, the Company does not expect any material losses on its mortgage loans.

Policy loan interest rates generally range from 4.5% to 8.0%.

## Note 4 — FEDERAL INCOME TAXES

The Company's effective income tax rate varied from the maximum federal income tax rate as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Statutory federal income tax rate applied to pretax income | 35.0% | 35.0% | 35.0% |
| State taxes | 0.3 | 0.0 | 0.0 |
| Tax-exempt interest | (0.1) | (0.1) | (0.1) |
| Effective income tax rate | 35.2% | 34.9% | 34.9% |

The provision for federal income tax differs from amounts currently payable due to certain items reported for financial statement purposes in periods which differ from those in which they are reported for income tax purposes.

The components of the Company's income tax expense for the years ended December 31 are as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Taxes estimated to be payable currently: | | | |
| Federal | $5,154,776 | $ 702,883 | $ 0 |
| State | 103,901 | 0 | 0 |
| Total current | $5,258,677 | $ 702,883 | $ 0 |
| Taxes deferred: | | | |
| Federal | $1,389,193 | $7,408,821 | $4,622,272 |

The components of the Company's net deferred income tax liability as of December 31 were as follows:

| | 2004 | 2003 |
|---|---|---|
| Deferred income tax assets: | | |
| Policy and policyholder liability reserves | $ 4,357,520 | $ 3,364,248 |
| Unrealized (gains) losses on investments | (12,251,844) | (6,041,629) |
| | (7,894,324) | (2,677,381) |
| Deferred income tax liabilities: | | |
| Deferred policy acquisition costs | 33,866,477 | 34,322,937 |
| Other | (146,108) | (157,436) |
| | 33,720,369 | 34,165,501 |
| Net deferred income tax liability | $ 41,614,693 | $36,842,882 |

The Company's income tax returns are included in the consolidated income tax returns of PLC. The allocation of income tax liabilities among affiliates is based upon separate income tax return calculations. At December 31, 2004, $529,937 was due from PLC for income tax liabilities. At December 31, 2003, $702,883 was payable to PLC for income tax liabilities.

**Note 5 — COMMITMENTS AND CONTINGENT LIABILITIES**

Under insurance guaranty fund laws, in most states insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. The Company does not believe such assessments will be materially different from amounts already provided for in the financial statements. Most of these laws do provide, however, that an assessment may be excused or deferred if it would threaten an insurer's own financial strength.

A number of civil jury verdicts have been returned against insurers and other providers of financial services involving sales practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or persons with whom the insurer does business, and other matters. Increasingly these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive and non-economic compensatory damages. In some states, juries, judges and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very little appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments. The Company, like other financial service companies, in the ordinary course of business, is involved in such litigation or, alternatively, in arbitration. Although the outcome of any such litigation or arbitration cannot be predicted, the Company believes that at the present time there are no pending or threatened lawsuits that are reasonably likely to have a material adverse effect on the financial position, results of operations, or liquidity of the Company.

**Note 6 — SHARE-OWNERS' EQUITY AND RESTRICTIONS**

Dividends on common stock are noncumulative and are paid as determined by the Board of Directors. At December 31, 2004, approximately $82.9 million of share-owners' equity excluding net unrealized gains and losses represented net assets of the Company that cannot be transferred to Protective. In general, dividends up to specified levels are considered ordinary and may be paid thirty days after written notice to the insurance commissioner of the state of domicile unless such commissioner objects to the dividend prior to the expiration of such period. Dividends in larger amounts are considered extraordinary and are subject to affirmative prior approval by such commissioner. The maximum amount that would qualify as ordinary dividends to Protective by the Company in 2005 is estimated to be $14.7 million.

**Note 7 — PREFERRED STOCK**

The Company's preferred stock pays, when and if declared, noncumulative participating dividends to the extent the Company's statutory earnings for the immediately preceding year exceeded $1.0 million. No preferred dividends were paid in 2004 or 2003. In 2002, the Company paid $50,000 of preferred dividends.

**Note 8 — RELATED PARTY MATTERS**

The Company purchases data processing, legal, investment, and other management services from PLC and other affiliates. The cost of such services was $10.2 million in 2004, $9.6 million in 2003, and $8.4 million in 2002.

Receivables from and payables to related parties consisted of receivables from and payables to affiliates under control of PLC in the amount of a $3.3 million payable at December 31, 2004 and a $7.5 million payable at December 31, 2003. The Company routinely receives from or pays to affiliates under the control of PLC reimbursements for expenses incurred on one another's behalf. Receivables and payables among affiliates are generally settled monthly.

Protective and the Company entered into a guaranty agreement on October 27, 1993, whereby Protective guaranteed the payment of all insurance policy claims made by the holders or beneficiaries of any of the Company's policies which were issued after the date of the guaranty agreement in accordance with the terms of said policies. Total liabilities for policies covered by this agreement were $108.8 million and $100.4 million at December 31, 2004 and 2003, respectively.

Protective and the Company also entered into a guaranty agreement on December 31, 1995, whereby Protective guaranteed that the Company will perform all of the obligations of Protective pursuant to the terms and conditions of an indemnity coinsurance agreement between Protective and an unaffiliated life insurance company. Total liabilities related to this coinsurance agreement were $9.4 million at December 31, 2004 and 2003.

**Note 9 — OPERATING SEGMENTS**

PLC, through its subsidiaries, operates several business segments each having a strategic focus. An operating segment is generally distinguished by products and/or channels of distribution. A brief description of each segment follows.

- The Company became involved with PLC's Life Marketing segment beginning in 2002. PLC's Life Marketing segment markets level premium term and term-like insurance, universal life, variable universal life and "bank owned life insurance" (BOLI) products on a national basis primarily through networks of independent insurance agents and brokers, and in the BOLI market.

- The Acquisitions segment focuses on acquiring, converting, and servicing policies acquired from other companies. The segment's primary focus is on life insurance policies sold to individuals.

- The Annuities segment manufactures, sells, and supports fixed annuity products. These products are primarily sold through stockbrokers, but are also sold through financial institutions and the Life Marketing segment's sales force.

- The Asset Protection segment markets extended service contracts and credit life and disability insurance to protect consumers' investments in automobile and watercraft.

The Company has an additional segment herein referred to as Corporate and Other. The Corporate and Other segment primarily consists of net investment income and expenses not attributable to the segments above (including net investment income on unallocated capital and interest on all debt).

The Company uses the same accounting policies and procedures to measure segment operating income and assets as it uses to measure its net income and assets. Segment operating income is generally income before income tax, adjusted to exclude net realized investment gains and losses. Segment operating income represents the basis on which the performance of the Company's business is assessed by management. Premiums and policy fees, other income, benefits and settlement expenses, and amortization of deferred policy acquisition costs are attributed directly to each operating segment. Net investment income is allocated based on directly related assets required for transacting the business of that segment. Realized investment gains (losses) and other operating expenses are allocated to the segments in a manner which most appropriately reflects the operations of that segment.

Assets are allocated based on statutory policy liabilities and deferred policy acquisition costs directly attributable to each segment.

There are no significant intersegment transactions.

The following table sets forth segment operating income and assets for the periods shown. Asset adjustments represent the inclusion of assets related to discontinued operations.

| | Life Marketing | Acquisitions | Asset Protection | Annuities | Corporate and Other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **2004** | | | | | | | |
| Premiums and policy fees | $ 6,890,124 | $ 37,700,453 | $ 16,805,378 | $ 317,397 | | | $ 61,713,352 |
| Reinsurance ceded | (6,483,743) | (17,652,243) | (13,486,569) | | | | (37,622,555) |
| Net of reinsurance ceded | 406,381 | 20,048,210 | 3,318,809 | 317,397 | | | 24,090,797 |
| Net investment income | 23,957 | 28,894,424 | 502,922 | 3,814,727 | $ 7,143,924 | | 40,379,954 |
| Realized investment gains | | | | 274,035 | 256,398 | | 530,433 |
| Other income | 9,488 | 15 | | 32,977 | 4,983 | | 47,463 |
| Total revenues | 439,826 | 48,942,649 | 3,821,731 | 4,439,136 | 7,405,305 | | 65,048,647 |
| Benefits and settlement expenses | 161,747 | 25,809,622 | 2,014,126 | 3,594,063 | | | 31,579,558 |
| Amortization of deferred policy acquisition costs | 663,408 | 5,168,083 | 741,134 | 378,357 | | | 6,950,982 |
| Other operating expenses | (1,242,284) | 8,027,795 | 462,710 | 200,405 | 169,762 | | 7,618,388 |
| Total benefits and expenses | (417,129) | 39,005,500 | 3,217,970 | 4,172,825 | 169,762 | | 46,148,928 |
| Income before income tax | 856,955 | 9,937,149 | 603,761 | 266,311 | 7,235,543 | | 18,899,719 |
| Less: realized investment gains | | | | 274,035 | 256,398 | | |
| Operating income (loss) | 856,955 | 9,937,149 | 603,761 | (7,724) | 6,979,145 | | |
| Income tax expense | | | | | | $6,647,870 | 6,647,870 |
| Net income | | | | | | | $ 12,251,849 |
| **2003** | | | | | | | |
| Premiums and policy fees | $ 3,569,913 | $ 39,619,941 | $ 28,719,566 | $ 286,547 | | | $ 72,195,967 |
| Reinsurance ceded | (3,351,825) | (18,675,274) | (25,270,120) | | | | (47,297,219) |
| Net of reinsurance ceded | 218,088 | 20,944,667 | 3,449,446 | 286,547 | | | 24,898,748 |
| Net investment income | 38,387 | 29,143,524 | 499,944 | 3,720,590 | $ 7,893,041 | | 41,295,486 |
| Realized investment gains | | | | 262,490 | 3,084,819 | | 3,347,309 |
| Other income (loss) | | (5,045) | | 24,909 | 136,631 | | 156,495 |
| Total revenues | 256,475 | 50,083,146 | 3,949,390 | 4,294,536 | 11,114,491 | | 69,698,038 |
| Benefits and settlement expenses | (4,920) | 24,672,248 | 2,374,123 | 3,734,802 | | | 30,776,253 |
| Amortization of deferred policy acquisition costs | 335,099 | 6,461,913 | 778,226 | 315,107 | | | 7,890,345 |
| Other operating expenses | (844,963) | 8,258,319 | 157,789 | 171,779 | 59,445 | | 7,802,369 |
| Total benefits and expenses | (514,784) | 39,392,480 | 3,310,138 | 4,221,688 | 59,445 | | 46,468,967 |
| Income before income tax | 771,259 | 10,690,666 | 639,252 | 72,848 | 11,055,046 | | 23,229,071 |
| Less: realized investment gains | | | | 262,490 | 3,084,819 | | |
| Operating income (loss) | 771,259 | 10,690,666 | 639,252 | (189,642) | 7,970,227 | | |
| Income tax expense | | | | | | $8,111,704 | 8,111,704 |
| Net income | | | | | | | $ 15,117,367 |
| **2002** | | | | | | | |
| Premiums and policy fees | $ 1,026,426 | $ 43,313,961 | $ 6,799,480 | $ 153,530 | | | $ 51,293,397 |
| Reinsurance ceded | (883,972) | (19,505,909) | (3,344,520) | | | | (23,734,401) |
| Net of reinsurance ceded | 142,454 | 23,808,052 | 3,454,960 | 153,530 | | | 27,558,996 |
| Net investment income | 8,123 | 30,989,460 | 571,275 | 3,729,514 | $ 947,465 | | 36,245,837 |
| Realized investment gains (losses) | | | | 79,719 | (775,928) | | (696,209) |
| Other income | | 5,072 | | 6,015 | | | 11,087 |
| Total revenues | 150,577 | 54,802,584 | 4,026,235 | 3,968,778 | 171,537 | | 63,119,711 |
| Benefits and settlement expenses | 186,800 | 27,513,318 | 2,087,070 | 3,511,858 | | | 33,299,046 |
| Amortization of deferred policy acquisition costs | 76,132 | 7,225,750 | 669,620 | 667,681 | | | 8,639,183 |
| Other operating expenses | (254,425) | 8,330,634 | (324,360) | 246,104 | (63,392) | | 7,934,561 |
| Total benefits and expenses | 8,507 | 43,069,702 | 2,432,330 | 4,425,643 | (63,392) | | 49,872,790 |
| Income before income tax | 142,070 | 11,732,882 | 1,593,905 | (456,865) | 234,929 | | 13,246,921 |
| Less: realized investment gains (losses) | | | | 79,719 | (775,928) | | |
| Operating income (loss) | 142,070 | 11,732,882 | 1,593,905 | (536,584) | 1,010,857 | | |
| Income tax expense | | | | | | $4,622,272 | 4,622,272 |
| Net income | | | | | | | $ 8,624,649 |

## Note 9 — OPERATING SEGMENTS (continued)

| Operating Segment Assets | Life Marketing | Acquisitions | Asset Protection | Annuities | Corporate and Other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **2004** | | | | | | | |
| Investments and other assets | $ 8,440,192 | $558,422,751 | $23,408,930 | $59,057,983 | $105,382,771 | $120,175 | $754,832,802 |
| Deferred policy acquisition costs | 4,094,472 | 85,663,856 | 1,258,756 | 2,090,306 | | | 93,107,390 |
| Total assets | $12,534,664 | $644,086,607 | $24,667,686 | $61,148,289 | $105,382,771 | $120,175 | $847,940,192 |
| **2003** | | | | | | | |
| Investments and other assets | $ 3,114,579 | $580,346,285 | $43,040,563 | $57,121,591 | $106,236,317 | $122,046 | $789,981,381 |
| Deferred policy acquisition costs | 2,114,680 | 89,265,855 | 1,495,557 | 2,292,570 | | | 95,168,662 |
| Total assets | $ 5,229,259 | $669,612,140 | $44,536,120 | $59,414,161 | $106,236,317 | $122,046 | $885,150,043 |

## Note 10 — REINSURANCE

The Company reinsures certain of its risks with, and assumes risks from, other insurers under yearly renewable term, coinsurance, and modified coinsurance agreements. Under yearly renewable term agreements, the Company generally pays specific premiums to the reinsurer and receives specific amounts from the reinsurer as reimbursement for certain expenses. Coinsurance agreements are accounted for by passing a portion of the risk to the reinsurer. Generally, the reinsurer receives a proportionate part of the premiums less commissions and is liable for a corresponding part of all benefit payments. Modified coinsurance is accounted for similarly to coinsurance except that the liability for future policy benefits is held by the original company, and settlements are made on a net basis between the companies. A substantial portion of the Company's new life insurance and credit insurance sales is being reinsured. The Company regularly reviews the financial condition of its reinsurers.

The Company continues to monitor the consolidation of reinsurers and the concentration of credit risk the Company has with any reinsurer. At December 31, 2004, the Company had reinsured approximately 83.0% of the face value of its life insurance in force. Approximately 34% and 28% of the reinsurance receivable balances at December 31, 2004 and 2003, respectively, relate to one unaffiliated insurance company rated "A+" (Superior) by the A. M. Best Company, an independent rating organization. Another $16.0 million or 37% and $34.7 million or 57% of the reinsurance receivable balances at December 31, 2004 and 2003, respectively relates to Protective.

The Company has reinsured approximately $7.8 billion, $7.0 billion, and $6.6 billion in face amount of life insurance risks with other insurers representing $30.9 million, $50.1 million, and $23.0 million of premium income for 2004, 2003, and 2002 respectively. The Company has also reinsured accident and health risks representing $6.7 million, $(2.8) million, and $0.8 million of premium income for 2004, 2003, and 2002, respectively. In 2004 and 2003, policy and claim reserves relating to insurance ceded of $43.4 million and $61.2 million respectively are included in reinsurance receivables. Should any of the reinsurers be unable to meet its obligation at the time of the claim, obligation to pay such claim would remain with the Company. At December 31, 2004 and 2003, the Company had paid $2.9 million and $4.1 million, respectively, of ceded benefits which are recoverable from reinsurers.

The Company has assumed approximately $5.4 billion, $6.1 billion, and $7.2 billion in face amount of life insurance risks from other insurers representing $43.6 million, $66.0 million, and $42.2 million of premium income for 2004, 2003, and 2002 respectively. The Company has also assumed accident and health risks representing $6.7 million, $(3.4) million, and $(0.4) million of premium income for 2004, 2003, and 2002, respectively.

## Note 11 — ESTIMATED FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of the Company's financial instruments at December 31 are as follows:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Carrying Amounts | Fair Values | Carrying Amounts | Fair Values |
| Assets (see Notes 1 and 3): | | | | |
| Investments: | | | | |
| Fixed maturities | $625,095,231 | $625,095,231 | $636,460,275 | $636,460,275 |
| Mortgage loans on real estate | 1,177,521 | 1,197,430 | 1,393,720 | 1,428,543 |
| Short-term investments | 10 | 10 | 1,200,413 | 1,200,413 |
| Cash | 10,337,198 | 10,337,198 | 13,052,781 | 13,052,781 |
| Liabilities (see Note 1): | | | | |
| Annuity account balances | 59,989,579 | 64,292,109 | 57,894,232 | 62,162,330 |

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

The Company estimates the fair value of its mortgage loans using discounted cash flows from the next call date.

The Company believes the fair value of short-term investments approximates their book value due to their short-term nature.

The Company estimates the fair value of its annuities using surrender values.

The Company believes it is not practicable to determine the fair value of its policy loans since there is no stated maturity, and policy loans are often repaid by reductions to policy benefits.

## SCHEDULE III — SUPPLEMENTARY INSURANCE INFORMATION
## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY

| COL. A | COL. B | COL. C | COL. D | COL. E | COL. F | COL. G | COL. H | COL. I | COL. J |
|---|---|---|---|---|---|---|---|---|---|
| **Segment** | **Deferred Policy Acquisition Costs** | **Future Policy Benefits and Claims** | **Unearned Premiums** | **Annuity Account Balances and Other Policyholders' Funds** | **Net Premiums And Policy Fees** | **Net Investment Income (1)** | **Benefits And Settlement Expenses** | **Amortization of Deferred Policy Acquisition Costs** | **Other Operating Expenses (1)** |
| Year Ended December 31, 2004 | | | | | | | | | |
| Life Marketing | $ 4,094,472 | $ 8,430,315 | $ 0 | $ 9,877 | $ 406,381 | $ 23,957 | $ 161,747 | $ 663,408 | $(1,242,284) |
| Acquisitions | 85,663,856 | 461,191,023 | 37,043 | 5,009,487 | 20,048,210 | 28,894,424 | 25,809,622 | 5,168,083 | 8,027,795 |
| Asset Protection | 1,258,756 | 15,326,387 | 7,476,912 | 605,631 | 3,318,809 | 502,922 | 2,014,126 | 741,134 | 462,710 |
| Annuities | 2,090,306 | 1,927,672 | 0 | 57,130,311 | 317,397 | 3,814,727 | 3,594,063 | 378,357 | 200,405 |
| Corporate and Other | 0 | 0 | 0 | 0 | 0 | 7,143,924 | 0 | 0 | 169,762 |
| Adjustments(2) | 0 | 120,176 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | $ 93,107,390 | $486,995,573 | $ 7,513,955 | $62,755,306 | $24,090,797 | $40,379,954 | $31,579,558 | $6,950,982 | $ 7,618,388 |
| Year Ended December 31, 2003 | | | | | | | | | |
| Life Marketing | $ 2,114,680 | $ 3,110,738 | $ 0 | $ 3,841 | $ 218,088 | $ 38,387 | $ (4,920) | $ 335,099 | $ (844,963) |
| Acquisitions | 89,265,855 | 462,928,399 | 39,188 | 4,931,676 | 20,944,667 | 29,143,524 | 24,672,248 | 6,461,913 | 8,258,319 |
| Asset Protection | 1,495,557 | 28,646,283 | 13,784,829 | 609,451 | 3,449,446 | 499,944 | 2,374,123 | 778,226 | 157,789 |
| Annuities | 2,292,570 | 2,077,258 | 0 | 55,044,334 | 286,547 | 3,720,590 | 3,734,802 | 315,107 | 171,779 |
| Corporate and Other | 0 | 0 | 0 | 0 | 0 | 7,893,041 | 0 | 0 | 59,445 |
| Adjustments(2) | 0 | 122,046 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | $ 95,168,662 | $496,884,724 | $13,824,017 | $60,589,302 | $24,898,748 | $41,295,486 | $30,776,253 | $7,890,345 | $ 7,802,369 |
| Year Ended December 31, 2002 | | | | | | | | | |
| Life Marketing | $ 583,131 | $ 689,662 | $ 0 | $ 0 | $ 142,454 | $ 8,123 | $ 186,800 | $ 76,132 | $ (254,425) |
| Acquisitions | 100,007,935 | 460,211,404 | 43,965 | 4,841,464 | 23,808,052 | 30,989,460 | 27,513,318 | 7,225,750 | 8,330,634 |
| Asset Protection | 1,607,207 | 54,415,603 | 26,305,063 | 614,369 | 3,454,960 | 571,275 | 2,087,070 | 669,620 | (324,360) |
| Annuities | 2,581,309 | 1,962,360 | 0 | 57,272,062 | 153,530 | 3,729,514 | 3,511,858 | 667,681 | 246,104 |
| Corporate and Other | 0 | 0 | 0 | 0 | 0 | 947,465 | 0 | 0 | (63,392) |
| Adjustments(2) | 0 | 345,835 | 0 | 3,377,253 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | $104,779,582 | $517,624,864 | $26,349,028 | $66,105,148 | $27,558,996 | $36,245,837 | $33,299,046 | $8,639,183 | $ 7,934,561 |

(1) Allocations of net investment income and other operating expenses are based on a number of assumptions and estimates and results would change if different methods were applied.

(2) Adjustments represent the inclusion of assets related to discontinued operations.

## SCHEDULE IV — REINSURANCE
## PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY

| COL. A | COL. B | COL. C | COL. D | COL. E | COL. F |
|---|---|---|---|---|---|
| | **Gross Amount** | **Ceded to Other Companies** | **Assumed from Other Companies** | **Net Amount** | **Percentage of Amount Assumed to Net** |
| Year Ended December 31, 2004: | | | | | |
| Life insurance in force [1] | $ 4,016,805 | $ 7,805,845 | $ 5,387,174 | $ 1,598,134 | 337.1% |
| Premiums and policy fees: | | | | | |
| Life insurance | $ 9,654,242 | $30,940,183 | $43,639,087 | $22,353,146 | 195.2% |
| Accident and health insurance | 1,760,110 | 6,682,372 | 6,659,913 | 1,737,651 | 383.3 |
| TOTAL | $11,414,352 | $37,622,555 | $50,299,000 | $24,090,797 | |
| Year Ended December 31, 2003: | | | | | |
| Life insurance in force [1] | $ 2,448,523 | $ 7,022,711 | $ 6,147,583 | $ 1,573,395 | 390.7% |
| Premiums and policy fees: | | | | | |
| Life insurance | $ 7,116,906 | $50,146,129 | $66,002,444 | $22,973,221 | 287.3% |
| Accident and health insurance | 2,513,551 | (2,848,910) | (3,436,934) | 1,925,527 | - |
| TOTAL | $ 9,630,457 | $47,297,219 | $62,565,510 | $24,898,748 | |
| Year Ended December 31, 2002: | | | | | |
| Life insurance in force [1] | $ 1,045,749 | $ 6,646,105 | $ 7,207,124 | $ 1,606,768 | 448.5% |
| Premiums and policy fees: | | | | | |
| Life insurance | $ 6,379,102 | $22,962,666 | $42,221,864 | $25,638,300 | 164.7% |
| Accident and health insurance | 3,131,323 | 771,735 | (438,892) | 1,920,696 | - |
| TOTAL | $ 9,510,425 | $23,734,401 | $41,782,972 | $27,558,996 | |

(1) Dollars in thousands

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None

**Item 9A. Controls and Procedures**

**(a) Disclosure controls and procedures**

Under the direction of our President (Principal Executive Officer) and Chief Financial Officer, we evaluated our disclosure controls and procedures and concluded that our disclosure controls and procedures were effective as of December 31, 2004. It should be noted that any system of controls, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of any control system is based in part upon certain judgments, including the costs and benefits of controls and the likelihood of future events. Because of these and other inherent limitations of control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within the Company have been detected.

**(b) Changes in internal control over financial reporting**

No significant changes in our internal control over financial reporting occurred during the quarter ended December 31, 2004 that have materially affected, or is reasonably likely to materially affect, such internal control over financial reporting. Our internal controls exist within a dynamic environment and the Company continually strives to improve its internal controls and procedures to enhance the quality of its financial reporting.

**Item 9B. Other Information**

None

## PART III

**Item 10. Directors and Executive Officers of the Registrant**

Not required in accordance with General Instruction I(2)(c).

**Item 11. Executive Compensation**

Not required in accordance with General Instruction I(2)(c).

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Share Owner Matters**

Not required in accordance with General Instruction I(2)(c).

**Item 13. Certain Relationships and Related Transactions**

Not required in accordance with General Instruction I(2)(c).

### Item 14. Principal Accountant Fees and Services

The following table shows the aggregate fees billed by PricewaterhouseCoopers LLP for 2004 and 2003 with respect to various services provided to PLC and its subsidiaries.

| | 2004 | 2003 |
|---|---|---|
| Audit | $3.6 Million | $1.8 Million |
| Audit Related | 0.2 Million | 0.1 Million |
| Tax | 0.5 Million | 1.3 Million |
| All Other | 0.0 Million | 0.0 Million |
| Total | $4.3 Million | $3.2 Million |

***Audit*** fees were for professional services rendered for the audits of the consolidated financial statements of PLC, including the attestation report on management's assessment of PLC's internal control over financial reporting, statutory audits of subsidiaries, issuance of comfort letters, consents, and assistance with review of documents filed with the SEC and other regulatory authorities.

***Audit-Related*** fees were for assurance and related services related to employee benefit plan audits, due diligence and accounting consultations in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

***Tax*** fees were for services related to tax compliance (including the preparation of tax returns and claims for refund), tax planning and tax advice, including assistance with tax audits and appeals, advice related to acquisitions, tax services for employee benefit plans, and requests for rulings or technical advice from tax authorities.

***All Other*** fees include fees that are appropriately not included in the Audit, Audit Related, and Tax categories.

The engagement of PricewaterhouseCoopers LLP to render audit and non-audit services for PLC and its subsidiaries for the period ended March 2006 was approved by the Audit Committee of PLC's Board of Directors on March 7, 2005. The Audit Committee's policy is to pre-approve, generally for a twelve-month period, the audit, audit-related, tax and other services provided by the independent accountants. Under the pre-approval process, the Committee reviews and approves specific services and categories of services and the maximum aggregate fee for each service or service category. Performance of any additional services or categories of services, or of services that would result in fees in excess of the established maximum, requires the separate pre-approval of the Committee or a member of the Committee who has been delegated pre-approval authority.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements (Item 8)

2. Financial Statement Schedules (see index annexed)

3. Exhibits:

The exhibits listed in the Exhibit Index on page 34 of this Form 10-K are filed herewith or are incorporated herein by reference. No management contract or compensatory plan or arrangement is required to be filed as an exhibit to this form. The Registrant will furnish a copy of any of the exhibits listed upon the payment of $5.00 per exhibit to cover the cost of the Registrant in furnishing the exhibit.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY

By: /s/ WAYNE E. STUENKEL
President
March 30, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

| | Signature | Title | Date |
|---|---|---|---|
| (i) | Principal Executive Officer<br>/s/ WAYNE E. STUENKEL<br>Wayne E. Stuenkel | President | March 30, 2005 |
| (ii) | Principal Financial Officer<br>/s/ ALLEN W. RITCHIE<br>Allen W. Ritchie | Chief Financial Officer, Executive Vice President and Director | March 30, 2005 |
| (iii) | Principal Accounting Officer<br>/s/ STEVEN G. WALKER<br>Steven G. Walker | Senior Vice President, Controller and Chief Accounting Officer | March 30, 2005 |
| (iv) | Board of Directors:<br>*<br>John D. Johns | Director | March 30, 2005 |
| | *<br>Richard J. Bielen | Director | March 30, 2005 |
| | *<br>R. Stephen Briggs | Director | March 30, 2005 |
| | *<br>Deborah J. Long | Director | March 30, 2005 |
| | /s/ ALLEN W. RITCHIE<br>Allen W. Ritchie | Director | March 30, 2005 |

*By: /s/ STEVEN G. WALKER
Steven G. Walker
*Attorney-in-fact*

## EXHIBIT INDEX

| | Item Number | Document |
|---|---|---|
| * | 3 (a) (1) | 1998 Amended and Restated Articles of Incorporation |
| * | 3 (a) (2) | Articles of Amendment to 1998 Amended and Restated Articles of Incorporation |
| ***** | 3(b) | Amended and Restated Bylaws Effective August 1, 2000 |
| ** | 4(a) | Tax-Sheltered Annuity Endorsement |
| ** | 4(b) | Qualified Retirement Plan Endorsement |
| ** | 4(c) | Individual Retirement Annuity Endorsement |
| *** | 4(d) | Group Modified Guaranteed Annuity Contract |
| *** | 4(e) | Application for Group Modified Guaranteed Annuity Contract |
| *** | 4(f) | Individual Modified Guaranteed Annuity Certificate |
| **** | 10(a) | Guaranty Agreement from Protective Life Insurance Company |
| **** | 10(a) (1) | Amendment to Guaranty Agreement from Protective Life Insurance Company |
| ****** | 10(b) | Indemnity Reinsurance Agreement By and Between Protective Life & Annuity Insurance Company and First Fortis Life Insurance Company dated December 31, 2001 |
| | 24 | Power of Attorney |
| | 31(a) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| | 31(b) | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| | 32(a) | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| | 32(b) | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| | 99 | Safe Harbor for Forward-Looking Statements |

* Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1998.

** Incorporated herein by reference to the Registrant's Form N-4 Registration Statement, Registration No. 333-41577, filed on December 5, 1997.

*** Incorporated herein by reference to the Registrant's Pre-Effective Amendment No. 1 to Form S-1 Registration Statement, Registration No. 333-42425, filed on April 16, 1998.

**** Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.

***** Incorporated herein by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

****** Incorporated herein by reference to the Registrant's Annual Report on form 10-K for the year ended December 31, 2001.

**Exhibit 24**

## DIRECTORS' POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned Directors of Protective Life and Annuity Insurance Company, an Alabama corporation ("Company"), by his execution hereof or upon an identical counterpart hereof, does hereby constitute and appoint John D. Johns, Deborah J. Long, or Steven G. Walker, and each or any of them, his true and lawful attorneys-in-fact and agents, for him and in his name, place and stead, to execute and sign the Annual Report on Form 10-K for the fiscal year ended December 31, 2004, to be filed by the Company with the Securities and Exchange Commission, pursuant to the provisions of the Securities Exchange Act of 1934 and, further, to execute and sign any and all amendments to such Annual Report, and to file same, with all exhibits and schedules thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as the undersigned might or could do in person, hereby ratifying and confirming all the acts of said attorneys-in-fact and agents or any of them which they may lawfully do in the premises or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has hereunto set his hand and seal this 30th day of March, 2005.

/s/ John D. Johns
John D. Johns

/s/ Deborah J. Long
Deborah J. Long

/s/ Allen W. Ritchie
Allen W. Ritchie

/s/ R. Stephen Briggs
R. Stephen Briggs

/s/ Richard J. Bielen
Richard J. Bielen

**WITNESS TO ALL SIGNATURES:**

/s/ Steven G. Walker
Steven G. Walker

**Exhibit 31(a)**

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Wayne E. Stuenkel, certify that:

1. I have reviewed the Annual Report on Form 10-K for the year ended December 31, 2004 of Protective Life and Annuity Insurance Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2005

/s/ Wayne E. Stuenkel
Title: President

**Exhibit 31(b)**

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allen W. Ritchie, certify that:

1. I have reviewed the Annual Report on Form 10-K for the year ended December 31, 2004 of Protective Life and Annuity Insurance Company;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2005

/s/ Allen W. Ritchie
Title: Executive Vice President and
Chief Financial Officer

**EXHIBIT 32(a)**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Protective Life and Annuity Insurance Company (the "Company") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Wayne E. Stuenkel, President of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Wayne E. Stuenkel
Wayne E. Stuenkel
President
(Principal Executive Officer)
March 30, 2005

This certification accompanies the Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

## EXHIBIT 32(b)

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Protective Life and Annuity Insurance Company (the "Company") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Allen W. Ritchie, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Allen W. Ritchie
Allen W. Ritchie
Executive Vice President and
Chief Financial Officer
March 30, 2005

This certification accompanies the Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

Exhibit 99
to
Form 10-K
of
Protective Life and Annuity Insurance Company
for
Fiscal Year
ended December 31, 2004

Safe Harbor for Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) encourages companies to make “forward-looking statements” by creating a safe harbor to protect the companies from securities law liability in connection with forward-looking statements. All statements are based on future expectations rather than on historical facts and forward-looking statements. Forward-looking statements can be identified by use of words such as “expect,” “estimate,” “project,” “budget,” “forecast,” “anticipate,” “plan,” and similar expressions. Protective Life and Annuity Insurance Company (the “Company”) intends to qualify both its written and oral forward-looking statements for protection under the Act.

To qualify oral forward-looking statements for protection under the Act, a readily available written document must identify important factors that could cause actual results to differ materially from those in the forward-looking statements. The Company provides the following information to qualify forward-looking statements for the safe harbor protection of the Act.

The Company is a stock life insurance company founded in 1978. All outstanding shares of the Company’s common stock are owned by Protective Life Insurance Company (Protective), which is the principal operating subsidiary of Protective Life Corporation (PLC), an insurance holding company whose common stock is traded on the New York Stock Exchange under the symbol "PL". All outstanding shares of the Company’s preferred stock are owned by PLC. The Company is authorized to transact insurance business, as an insurance company or reinsurance company, in 49 states, including New York.

PLC, through its subsidiaries, operates several business segments. The Company, since it is licensed in the State of New York, is the entity through which PLC markets, distributes, and services insurance and annuity products in New York. As of December 31, 2004, the Company was involved in the operations of four of PLC’s segments: the Life Marketing segment, the Acquisitions segment, the Asset Protection segment, and the Annuities segment. The Company has an additional business segment referred to as Corporate and Other.

The operating results of companies in the insurance industry have historically been subject to significant fluctuations. The factors which could affect the Company’s future results include, but are not limited to, general economic conditions, and certain known trends and uncertainties which are discussed more fully below.

***The Company is exposed to the risks of natural disasters, malicious and terrorist acts that could adversely affect the Company’s operations.***

While the Company has obtained insurance, implemented risk management and contingency plans, and taken preventive measures and other precautions, no predictions of specific scenarios can be made nor can assurance be given that there are not scenarios that could have an adverse effect on the Company. A natural disaster or an outbreak of an easily communicable disease could adversely affect the mortality or morbidity experience of the Company or its reinsurers.

***The Company operates in a mature, highly competitive industry, which could limit its ability to gain or maintain its position in the industry.***

Life and health insurance is a mature industry. In recent years, the industry has experienced little growth in life insurance sales, though the aging population has increased the demand for retirement savings products. Life and health insurance is a highly competitive industry. The Company encounters significant competition in all lines of business from other insurance companies, many of which have greater financial resources than the Company, as well as competition from other providers of financial services. Competition could result in, among other things, lower sales or higher lapses of existing products.

The insurance industry is consolidating, with larger, potentially more efficient organizations emerging from consolidation. Participants in certain of the Company's independent distribution channels are also consolidating into larger organizations. Some mutual insurance companies are converting to stock ownership, which will give them greater access to capital markets. Additionally, commercial banks, insurance companies, and investment banks may now combine, provided certain requirements are satisfied. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of the Company's products by substantially increasing the number and financial strength of potential competitors.

The Company's ability to compete is dependent upon, among other things, its ability to attract and retain distribution channels to market its insurance and investment products, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of strong ratings from rating agencies.

***A ratings downgrade could adversely affect the Company's ability to compete.***

Rating organizations periodically review the financial performance and condition of insurers, including the Company and its insurance affiliates. In recent years, downgrades of insurance companies have occurred with increasing frequency. A downgrade in the rating of the Company or its insurance affiliates could adversely affect the Company's ability to sell its products, retain existing business, and compete for attractive acquisition opportunities. Specifically, a ratings downgrade would materially harm the Company's ability to sell certain products, including guaranteed investment products and funding agreements.

Rating organizations assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating organization, general economic conditions and circumstances outside the rated company's control. In addition, rating organizations use various models and formulas to assess the strength of a rated company, and from time to time rating organizations have, in their discretion, altered the models. Changes to the models could impact the rating organizations' judgment of the rating to be assigned to the rated company. The Company cannot predict what actions the rating organizations may take, or what actions the Company may be required to take in response to the actions of the rating organizations, which could adversely affect the Company.

***The Company's policy claims fluctuate from period to period, and actual results could differ from its expectations.***

The Company's results may fluctuate from period to period due to fluctuations in policy claims received by the Company. Certain of the Company's businesses may experience higher claims if the economy is growing slowly or in recession, or equity markets decline.

Mortality, morbidity, and casualty expectations incorporate assumptions about many factors, including for example, how a product is distributed, persistency and lapses, and future progress in the fields of health and medicine. Actual mortality, morbidity, and casualty claims could differ from expectations if actual results differ from those assumptions. In addition, continued activity in the life settlement industry could have an adverse impact on the Company's level of persistency and lapses.

***The Company's results may be negatively affected should actual experience differ from management's assumptions and estimates.***

In the conduct of business, the Company makes certain assumptions regarding the mortality, persistency, expenses and interest rates, or other factors appropriate to the type of business it expects to experience in future periods. These assumptions are also used to estimate the amounts of deferred policy acquisition costs, policy liabilities and accruals, future earnings, and various components of the Company's balance sheet. The Company's actual experience, as well as changes in estimates, are used to prepare the Company's statements of income.

The calculations the Company uses to estimate various components of its balance sheet and statements of income are necessarily complex and involve analyzing and interpreting large quantities of data. The Company currently employs various techniques for such calculations and it from time to time will develop and implement more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates.

Assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revision over time. Accordingly, the Company's results may be affected, positively or negatively, from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

***The use of reinsurance introduces variability in the Company's statements of income.***

The timing of premium payments to, and receipt of expense allowances from, reinsurers may differ from the Company's receipt of customer premium payments and incurrence of expenses. These timing differences introduce variability in certain components of the Company's statements of income, and may also introduce variability in the Company's quarterly results.

***The Company could be forced to sell investments at a loss to cover policyholder withdrawals.***

Many of the products offered by the Company and its insurance affiliates allow policyholders and contract holders to withdraw their funds under defined circumstances. The Company and its insurance affiliates manage their liabilities and configure their investment portfolios so as to provide and maintain sufficient liquidity to support anticipated withdrawal demands and contract benefits and maturities. While the Company and its insurance affiliates own a significant amount of liquid assets, a certain portion of their assets are relatively illiquid. If the Company and its insurance affiliates experience unanticipated withdrawal or surrender activity, the Company could exhaust their liquid assets and be forced to liquidate other assets, perhaps on unfavorable terms. If the Company and its insurance affiliates are forced to dispose of assets on unfavorable terms, it could have an adverse effect on the Company's financial condition.

***Interest-rate fluctuations could negatively affect the Company's spread income or otherwise impact its business.***

Significant changes in interest rates expose insurance companies to the risk of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect the Company's spread income. While the Company develops and maintains asset/liability management programs and procedures designed to preserve spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not affect such spreads.

From time to time, the Company has participated in securities repurchase transactions that have contributed to the Company's investment income. Such transactions involve some degree of risk that the counterparty may fail to perform its obligations to pay amounts owed and the collateral has insufficient value to satisfy the obligation. No assurance can be given that such transactions will continue to be entered into and contribute to the Company's investment income in the future.

Changes in interest rates may also impact its business in other ways. Lower interest rates may result in lower sales of certain of the Company's insurance and investment products. In addition, certain of the Company's insurance and investment products guarantee a minimum credited interest rate, and the Company could become unable to earn its spread income should interest rates decrease significantly.

Higher interest rates may create a less favorable environment for the origination of mortgage loans and decrease the investment income the Company receives in the form of prepayment fees, make-whole payments, and mortgage participation income. Higher interest rates may also increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of variable products.

Additionally, the Company's asset/liability management programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates (i.e., the slope of the yield curve) and relationships between risk-adjusted and risk-free interest rates, market liquidity, and other factors. The effectiveness of the Company's asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

In general terms, the Company's results are improved when the yield curve is positively sloped (i.e., when long-term interest rates are higher than short-term interest rates), and will be adversely affected by a flat or negatively sloped curve.

***Equity market volatility could negatively impact the Company's business.***

The amount of policy fees received from variable products is affected by the performance of the equity markets, increasing or decreasing as markets rise or fall. Equity market volatility can also affect the profitability of variable products in other ways.

The amortization of deferred policy acquisition costs relating to variable products and the estimated cost of providing guaranteed minimum death benefits incorporate various assumptions about the overall performance of equity markets over certain time periods. The rate of amortization of deferred policy acquisition costs and the estimated cost of providing guaranteed minimum death benefits could increase if equity market performance is worse than assumed.

***A deficiency in the Company's systems could result in over or underpayments of amounts owed to or by the Company and/or errors in the Company's critical assumptions or reported financial results.***

The business of insurance necessarily involves the collection and dissemination of large amounts of data using systems operated by the Company. Examples of data collected and analyzed include policy information, policy rates, expenses, mortality and morbidity experience. To the extent that data input errors, systems errors, or systems failures are not identified and corrected by the Company's internal controls, the information generated by the systems and used by the Company and/or supplied to business partners, policyholders, and others may be incorrect and may result in an overpayment or underpayment of amounts owed to or by the Company and/or the Company using incorrect assumptions in its business decisions or financial reporting.

***Insurance companies are highly regulated and subject to numerous legal restrictions and regulations.***

The Company and its insurance affiliates are subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative power dealing with many aspects of the Company's business, which may include premium rates, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirement; and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than share owners. At any given time, a number of financial and/or market conduct examinations of the Company or its insurance affiliates is ongoing. The Company is required to obtain state regulatory approval for rate increases for certain health insurance products, and the Company's profits may be adversely affected if the requested rate increases are not approved in full by regulators in a timely fashion. From time to time, regulators raise issues during examinations or audits of the Company and its insurance affiliates that could, if determined adversely, have a material impact on the Company. The Company cannot predict whether or when regulatory actions may be taken that could adversely affect the Company or its operations. In addition, the interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact, particularly in areas such as health insurance and accounting or reserve requirements. For example, the NAIC has been debating whether changes should be made to Actuarial Guideline 38, which sets forth the reserve requirements for universal life insurance with secondary guarantees, and, if any such changes should be made retroactively.

The Company and its insurance affiliates may be subject to regulation by the United States Department of Labor when providing a variety of products and services to employee benefit plans governed by the Employee Retirement Income Security Act (ERISA). Severe penalties are imposed for breach of duties under ERISA.

Certain policies, contracts, and annuities offered by the Company and its insurance affiliates are subject to regulation under the federal securities laws administered by the Securities and Exchange Commission. The federal securities laws contain regulatory restrictions and criminal, administrative, and private remedial provisions.

Other types of regulation that could affect the Company and its insurance affiliates include insurance company investment laws and regulations, state statutory accounting practices, state anti-trust laws, minimum solvency requirements, state securities laws, federal privacy laws, federal money laundering and anti-terrorism laws. The Company cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on the Company if enacted into law.

***The Company is exposed to potential risks from recent legislation requiring companies to evaluate their internal control over financial reporting.***

Under Section 404 of the Sarbanes Oxley Act of 2002, effective at year-end 2004, management is required to assess the effectiveness of PLC's internal control over financial reporting. PLC's auditors are required to attest to and report on management's assessment. Section 404 of the Sarbanes Oxley Act of 2002 will be effective for the Company at year-end 2006. Implementation guidance has been issued by the Public Company Accounting Oversight Board (PCAOB) and the SEC. The Company has no prior experience with this process. The Company believes that its control environment is effective; however, it is possible that adverse attestations with respect to the Company, other companies in the industry, or in business in general could result in a loss of investor confidence and/or impact the Company or the environment in which it operates.

***Changes to tax law or interpretations of existing tax law could adversely affect the Company and its ability to compete with non-insurance products or reduce the demand for certain insurance products.***

Under the Internal Revenue Code of 1986, as amended (the "Code"), income tax payable by policyholders on investment earnings is deferred during the accumulation period of certain life insurance and annuity products. This favorable tax treatment may give certain of the Company's products a competitive advantage over other non-insurance products. To the extent that the Code is revised to reduce the tax-deferred status of life insurance and annuity products, or to increase the tax-deferred status of competing products, all life insurance companies, including the Company and its insurance affiliates, would be adversely affected with respect to their ability to sell such products, and, depending upon grandfathering provisions, would be affected by the surrenders of existing annuity contracts and life insurance policies. For example, changes in laws or regulations could restrict or eliminate the advantages of certain corporate or bank-owned life insurance products. Recent changes in tax law, which have reduced the federal income tax rates on corporate dividends in certain circumstances, could make the tax advantages of investing in certain life insurance or annuity products less attractive. Additionally, changes in tax law based on proposals to establish new tax advantaged retirement and life savings plans, if enacted, could reduce the tax advantage of investing in certain life insurance or annuity products. In addition, life insurance products are often used to fund estate tax obligations. Legislation has been enacted that would, over time, reduce and eventually eliminate the estate tax. If the estate tax is significantly reduced or eliminated, the demand for certain life insurance products could be adversely affected. Additionally, the Company is subject to the federal corporation income tax. The Company cannot predict what changes to tax law or interpretations of existing tax law could adversely affect the Company.

***Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.***

A number of civil jury verdicts have been returned against insurers, broker-dealers, and other providers of financial services involving sales practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, and other matters. Increasingly these lawsuits have resulted in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, companies have made material settlement payments.

The Company, like other financial services companies, in the ordinary course of business is involved in such litigation and arbitration. Although the Company cannot predict the outcome of any such litigation or arbitration, the Company does not believe that any such outcome will have a material impact on the financial condition or results of operations of the Company.

***The financial services and insurance industry is sometimes the target of law enforcement investigations.***

The financial services and insurance industry is sometimes the target of law enforcement investigations relating to the numerous laws that govern the financial services and insurance business. The Company cannot predict the impact of any such investigations on the Company or the industry.

***The Company's ability to maintain low unit costs is dependent upon the level of new sales and persistency of existing business.***

The Company's ability to maintain low unit costs is dependent upon the level of new sales and persistency (continuation or renewal) of existing business. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher unit costs.

Additionally, a decrease in persistency may result in higher or more rapid amortization of deferred policy acquisition costs and thus higher unit costs, and lower reported earnings. Although many of the Company's products contain surrender charges, the charges decrease over time and may not be sufficient to cover the unamortized deferred policy acquisition costs with respect to the insurance policy or annuity contract being surrendered. Some of the Company's products do not contain surrender charge features and such products can be surrendered or exchanged without penalty. A decrease in persistency may also result in higher claims.

***The Company's investments are subject to market and credit risks.***

The Company's invested assets and derivative financial instruments are subject to customary risks of credit defaults and changes in market values. The value of the Company's commercial mortgage loan portfolio depends in part on the financial condition of the tenants occupying the properties which the Company has financed. Factors that may affect the overall default rate on, and market value of, the Company's invested assets, derivative financial instruments, and mortgage loans include interest rate levels, financial market performance, and general economic conditions as well as particular circumstances affecting the businesses of individual borrowers and tenants.

***The Company may not realize its anticipated financial results from its acquisitions strategy.***

The Company's acquisitions have increased its earnings in part by allowing the Company to enter new markets and to position itself to realize certain operating efficiencies. There can be no assurance, however, that suitable acquisitions, presenting opportunities for continued growth and operating efficiencies, or capital to fund acquisitions will continue to be available to the Company, or that the Company will realize the anticipated financial results from its acquisitions.

Additionally, in connection with its acquisitions, the Company assumes or otherwise becomes responsible for the obligations of policies and other liabilities of other insurers. Any regulatory, legal, financial, or other adverse development affecting the other insurer could also have an adverse effect on the Company.

***The Company is dependent on the performance of others.***

The Company's results may be affected by the performance of others because the Company has entered into various arrangements involving other parties. For example, most of the Company's products are sold through independent distribution channels, and variable annuity deposits are invested in funds managed by third parties. Additionally, the Company's operations are dependent on various technologies, some of which are provided and/or maintained by other parties.

Certain of these other parties may act on behalf of the Company or represent the Company in various capacities. Consequently, the Company may be held responsible for obligations that arise from the acts or omissions of these other parties.

As with all financial services companies, its ability to conduct business is dependent upon consumer confidence in the industry and its products. Actions of competitors and financial difficulties of other companies in the industry could undermine consumer confidence and adversely affect retention of existing business and future sales of the Company's insurance and investment products.

***The Company's reinsurers could fail to meet assumed obligations, increase rates or be subject to adverse developments that could affect the Company.***

The Company and its insurance affiliates cede material amounts of insurance and transfer related assets to other insurance companies through reinsurance. The Company may enter into third-party reinsurance arrangements under which the Company will rely on the third party to collect premiums, pay claims, and/or perform customer service functions. However, notwithstanding the transfer of related assets or other issues, the Company remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed by it.

The Company's ability to compete is dependent on the availability of reinsurance. Premium rates charged by the Company are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges the Company for the reinsurance. Therefore, if the cost of reinsurance were to increase or if reinsurance were to become unavailable, or if a reinsurer should fail to meet its obligations, the Company could be adversely affected.

Recently, access to reinsurance has become more costly for the Company as well as the insurance industry in general. This could have a negative effect on the Company's ability to compete. In recent years, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market results in increased concentration risk for insurers, including the Company. In addition, going forward reinsurers are unwilling to continue to reinsure new sales of long-term guarantee products. If the reinsurance market further contracts, the Company's ability to continue to offer its products on terms as favorable to the Company would be adversely impacted.

***Computer viruses or network security breaches could affect the data processing systems of the Company or its business partners.***

A computer virus could affect the data processing systems of the Company or its business partners, destroying valuable data or making it difficult to conduct business. In addition, despite our implementation of network security measures, our servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems.

***The Company's ability to grow depends in large part upon the continued availability of capital.***

The Company has recently deployed significant amounts of capital to support its sales and acquisitions efforts. Capital has also been consumed as the Company increased its reserves on the residual value product. Although positive performance in the equity markets has recently allowed the Company to decrease its GMDB related policy liabilities and accruals, deterioration in these markets could lead to further capital consumption. Although the Company believes it has sufficient capital to fund its immediate growth and capital needs, the amount of capital available can vary significantly from period to period due to a variety of circumstances, some of which are neither predictable nor foreseeable, nor within the Company's control. A lack of sufficient capital could impair the Company's ability to grow.

***New accounting rules or changes to existing accounting rules could negatively impact the Company.***

The Company is required to comply with accounting principles generally accepted in the United States of America (GAAP). A number of organizations are instrumental in the development of GAAP such as the Securities and Exchange Commission (SEC), the Financial Accounting Standards Board (FASB), and the American Institute of Certified Public Accountants (AICPA). GAAP is subject to constant review by these organizations and others in an effort to address emerging issues and otherwise improve financial reporting. In this regard, these organizations adopt new accounting rules and issue interpretive accounting guidance on a continual basis. PLC and the Company can give no assurance that future changes to GAAP will not have a negative impact on the Company's reported financial results.

In addition, the Company is required to comply with statutory accounting principles (SAP). SAP is subject to constant review by the NAIC and its committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. The Company can give no assurance that future changes to SAP will not have a negative impact on the Company.

**Forward-looking statements express expectations of future events and/or results. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, investors are urged not to place undue reliance on forward-looking statements. In addition, the Company undertakes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to projections over time.**