

**REPORT OF
ASSOCIATION EXAMINATION**

OF

**PROTECTIVE LIFE AND ANNUITY INSURANCE COMPANY
BIRMINGHAM, ALABAMA**

**AS OF
DECEMBER 31, 2009**

PARTICIPATION:

**SOUTHEASTERN ZONE
ALABAMA**

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EXAMINER'S AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF JEFFERSON**

Mary B. Packard, CPA, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Protective Life and Annuity Insurance Company.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Protective Life and Annuity Insurance Company was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Mary B. Packard
Examiner-in-Charge

Subscribed and sworn before me by Mary B. Packard on this
29th day of April, 2011.

(SEAL)

Jo Anne Kelley
(Signature of Notary Public)

My commission expires MY COMMISSION EXPIRES JUNE 23, 2012.



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.gov

DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)

CHIEF OF STAFF
RAGAN INGRAM

CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

April 29, 2011

Mary Taylor, Chair, Examination Oversight (E) Task Force

Director of Insurance
Ohio Department of Insurance
50 West Town Street, Suite 300
Columbus, Ohio 43215

Monica J. Lindeen, Secretary, Western Zone
Commissioner of Securities & Insurance
Montana State Auditor's Office
840 Helena Avenue
Helena, Montana 59601

Mila Kofman, Secretary, Northeastern Zone
Superintendent of Insurance
Department of Professional & Financial Regulations
Maine Bureau of Insurance
34 State House Station
Augusta, Maine 04333-0034

Sharon P. Clark, Secretary, Southeastern Zone
Commissioner of Insurance
Kentucky Department of Insurance
P.O. Box 517
Frankfort, Kentucky 40602-0517

Stephen W. Robertson, Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Jim L. Ridling, Commissioner
Alabama Department of Insurance
P.O. Box 303351
Montgomery, Alabama 36130-3351

Dear Director, Superintendent and Commissioners:

Pursuant to your authorizations and in compliance with statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

Protective Life and Annuity Insurance Company
Birmingham, Alabama

at its home office located at 2801 Highway 280 South, Birmingham, Alabama 35223, as of December 31, 2009. The report of examination is submitted herewith. Where the description "Company" or "PLAIC" appears herein without qualification, it will be understood to indicate Protective Life and Annuity Insurance Company.

SCOPE OF EXAMINATION

The Company was last examined for a five-year period ended December 31, 2008, by examiners from Alabama, representing the Southeastern Zone, NAIC. In an effort to have a coordinated examination of Protective Life Insurance Company (PLICO) (parent), West Coast Life Insurance Company (WCL) (affiliate), and PLAIC (subsidiary of PLICO), it was decided that the Alabama examiners would conduct a one-year examination that covered the intervening period from the date of the last examination through December 31, 2009, and the Nebraska examiners would conduct a two-year examination of WCL that covered the intervening period from the date of WCL's last examination through December 31, 2009. These examinations were coordinated with the five-year examination of PLICO, with Tennessee being the lead state. During planning, the examiners from the three states reviewed all accounts and balances and determined the activities and accounts were key for all three companies, and which would be examined in the PLICO examination. The key activities and material accounts within them included Premiums, Claims Handling, Reinsurance Ceded and Assumed, Reserves, Investments, Taxes and Related Parties. In addition, the PLAIC examination will cover the Company's compliance with the recommendations made in the 2008 Report of Examination, and those issues identified during the planning as immaterial to coordinated examination but were material to the PLAIC examination. Where deemed appropriate, transactions, activities and similar items subsequent to 2009 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The three companies were examined as a consolidated group, and the examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the companies as of December 31, 2009, and to identify prospective risks by obtaining information about the companies, including the corporate governance of holding company, Protective Life Corporation (PLC), by identifying and assessing inherent risks within the companies and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

The Company's 2009 annual statement was compared with or reconciled to the corresponding general ledger account balances.

An examination of the PLC's information systems (IS) was conducted concurrently with the financial examinations by the Nebraska IS examiner. All the companies use the same systems. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls. See "**ACCOUNTS AND RECORDS**" on page 22 for further discussion of the IS examination.

Tennessee and Alabama performed a separate market conduct examination concurrently with the financial examination. The examinations included reviews of the companies' territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, policyholder services, producer licensing, underwriting and rating, and privacy standards. See "**MARKET CONDUCT ACTIVITIES**" on page 19 for further discussion of the PLAIC market conduct examination.

PLC maintains an Internal Audit (IA) Department, which is charged with performing the internal audit function for all companies within the holding company system. The IA Department is subject to oversight by PLC's Audit Committee which is comprised of all outside directors. Reports generated by the IA Department were made available to the examiners and were used in the examination as deemed appropriate. In addition, the IA Department is responsible for the testing and documentation of all processes, the risks for each, and all mitigating controls over those risks as required by Sarbanes-Oxley (SOX) 404. The examiners reviewed the processes tested and requested the workpapers for specific ones which had been identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized where deemed appropriate.

PricewaterhouseCoopers, LLP was the certified public accountants (CPAs) for all three companies for all years under examination. The examiners reviewed the CPAs' workpapers for all years, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation for PLAIC was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2009.

ORGANIZATION AND HISTORY

The Company (DBA Pioneer Western) was licensed by Arkansas on July 12, 1955, and commenced business September 1, 1955. On December 31, 1960, American Foundation Life Insurance Company of Arkansas was merged into Pioneer Western,

at which time the name was changed to American Foundation/Pioneer Western Life Insurance Company. The name American Foundation Life Insurance Company was adopted July 1, 1963.

The Company was incorporated as Alabama Foundation Life Insurance Company under the laws of the State of Alabama on November 20, 1978, in order to redomesticate the Arkansas insurer, American Foundation Life Insurance Company, to Alabama. Under the terms of a merger agreement dated November 22, 1978, redomestication to Alabama was accomplished. The Company then assumed the name American Foundation Life Insurance Company.

The capital of the Company was \$1,000,000 with 100,000 shares of \$10 par value common stock authorized, issued and outstanding. Capital was increased on September 30, 1980, to \$1,200,000 as the result of a \$200,000 (20,000 shares of \$10 par value common stock) stock dividend. Also during 1980, the Company received a surplus contribution of \$2,285,419.

The Company merged with American Sentinel Life Insurance Company, a South Carolina corporation effective January 1, 1981. The name of the surviving Company remained American Foundation Life Insurance Company.

On September 19, 1983, the ALDOI approved the acquisition of the Company by Protective Life Corporation (PLC), then known as Protective Corporation, and its subsidiary Protective Life Insurance Company (PLICO). Immediately prior to this acquisition, the Company's capital was increased by the issuance of a new class of \$1 par value redeemable participating preferred stock, of which 2,000 shares were authorized and issued as a stock dividend. The transaction was recorded by crediting paid-in capital with \$2,000 and paid-in surplus with \$1,998,000.

As provided for in the stock purchase agreement dated August 29, 1983, PLC purchased the participating preferred stock, and PLICO purchased the common stock. The participating preferred stock had a mandatory redemption provision requiring redemption on September 30, 1991 for \$2,000,000. This redemption period was extended on September 25, 1991 for an additional five-year period or until September 30, 1996. The Company amended the preferred stock to remove the maturity date and changed the language in the stock issue to reflect that the stock was redeemable at the discretion of the Company.

Pursuant to the stockholders' resolution dated December 30, 1983, the Company's authorized capital was increased to \$2,002,000, consisting of 2,000 shares of \$1 par value preferred stock and 200,000 shares of \$10 par value common stock. PLICO was granted the additional authorized 80,000 shares of common stock "...in consideration of \$800,000 of \$1,489,566 contributed to the surplus...as authorized on November 2, 1983..." Due to a partial liquidation distribution to the previous owner

of the Company and a surplus contribution in 1983, the Company's paid-in and contributed surplus was reduced to \$6,200,000.

The Company's authorized, issued and outstanding capital stock remained constant since that time at 2,000 shares of \$1 par value participating preferred stock, and 200,000 shares of \$10 par value common stock until July 15, 1998, when the Company's Board of Directors increased the number of authorized shares of common stock from 200,000 shares to 500,000 shares. On August 18, 1998, the Company's Board of Directors declared a 25% stock dividend thereby increasing the total issued shares of common stock to 250,000 shares, or \$2,500,000 par value.

On October 20, 1998, the Company's Board of Directors changed the name of the Company from American Foundation Life Insurance Company to Protective Life and Annuity Insurance Company effective March 1, 1999.

The Company received a \$100,525,865 capital contribution resulting in a year-end 1999 balance of \$106,725,865. The Company received a capital contribution of \$70,000,000 during 2002, and the balance at year-end 2003 was \$176,725,865. The Company reported in its 2003 Annual Statement Unassigned funds of (\$70,496,363) and special surplus funds of \$6,815. The Company's total reported surplus as of December 31, 2003 was \$106,236,317.

In 2006, the Company paid PLICO, an extraordinary dividend of \$78,500,000 that decreased Gross paid in and contributed surplus to \$98,225,865. In 2007, another extraordinary dividend was paid to PLICO in the amount of \$12,800,000, further reducing Gross paid in and contributed surplus to \$85,425,865. In 2009, PLICO paid in \$25,000,000 into the Company's surplus, increasing the Gross paid in and contributed surplus to \$110,425,865. The Company reported in its 2009 Annual Statement unassigned funds of (\$34,689,011), guarantee fund assessments of \$2,030 and special surplus funds for additional admitted deferred tax asset totaling \$422,896. The Company's total reported surplus as of December 31, 2009, was \$76,161,781.

The purposes and objectives of the Company, as stated in the Articles of Incorporation, as amended, shall be to:

“...engage in any lawful business...and to transact the business of life, disability, health and accident insurance and to issue annuities and endowments and every other kind of insurance in such places as may be approved by the Board of Directors, subject to applicable regulatory approvals... .”

MANAGEMENT AND CONTROL

Stockholders

The Company is a wholly-owned subsidiary of Protective Life Insurance Company (PLICO), a Tennessee stock corporation. PLICO is 100 percent owned by Protective Life Corporation (PLC), a Delaware stock corporation and the ultimate parent company.

The 2005 Amended and Restated Bylaws provide for the annual meeting of the shareholders for the purpose of electing directors and for the transactions of such other business as may come before the meeting. The meeting shall be held at such date and time during the calendar year as shall be specified by resolution of the Board of Directors. Special meetings may be called for any purpose by the Board of Directors, Executive Committee or the Chief Executive Officer.

Board of Directors

On June 8, 2009, the sole shareholder elected the Company's Board of Directors. The members serving as of December 31, 2009 were as follows:

Directors/Residence

John Dixon Johns
Birmingham, Alabama

Richard Joseph Bielen
Birmingham, Alabama

Wayne Edmund Stuenkel
Birmingham, Alabama

Principal Occupation

President, Chairman of the Board
and Chief Executive Officer
Protective Life Corporation

Executive Vice President, Vice Chairman
and Chief Financial Officer
Protective Life Corporation

Senior Vice President and Chief Actuary
Protective Life Corporation

Officers

On June 8, 2009, the sole shareholder elected the Company's Officers. The officers serving as of December 31, 2009 were as follows:

<u>Name</u>	<u>Title</u>
Wayne Edmund Stuenkel	President, Chief Actuary
Richard Joseph Bielen	Vice Chairman and Chief Financial Officer
Carolyn MacBurney Johnson	Executive Vice President and Chief Operating Officer
Deborah Joyce Long	Executive Vice President, Secretary and General Counsel
Carl Sitter Thigpen	Executive Vice President and Chief Investment Officer
Lance Pierson Black	Senior Vice President and Treasurer
Mark Cyphert	Senior Vice President, Chief Information Officer - Information Technology
John Brian Deremo	Senior Vice President and Chief Distribution Officer
Brent Edwin Griggs	Senior Vice President, Asset Protection
Kevin John Howard	Senior Vice President and Chief Product Actuary, LAD
Carolyn King	Senior Vice President, Acquisitions and Corporate Development
Philip Edward Passafiume	Senior Vice President and Director of Fixed Income
Charles Michael Prior	Senior Vice President, Mortgage Loans
Steven Glen Walker	Senior Vice President, Controller and Chief Accounting Officer

Committees

The Bylaws state, “The Board of Directors may, by resolution(s), adopted by a majority of the full Board of Directors, designate one or more committees, each committee to consist of one or more of the Directors of the Company...shall have and may during intervals between the meetings of the Board exercise the powers of the Board of Directors in the management of the business and affairs of the Company....”

On June 8, 2009, the Board of Directors appointed the following members to serve as the Executive Committee.

John Dixon Johns
Richard Joseph Bielen

Conflict of Interest

Protective Life Corporation (PLC) and all its subsidiaries have adopted a Business Ethics and Conflict of Interest Policy that requires all companies to be in compliance with all laws and regulations that are applicable to its business at all governmental levels. The policy requires that all directors and employees should conduct business of the Company on the highest ethical level and be free from conflicting interests and relationships, and it requires that all directors and management employees report once each year all information required to be reported herein and such other information as may be relevant to determine the existence or likely development of a significant conflict of interest. All employees are to report immediately any changed circumstances which would cause the information in the most recent periodic report to become misleading, incomplete or outdated. All reports and certifications by employees shall be submitted to PLC's Chief Executive Officer (CEO), and the CEO's report and those of directors shall be submitted to the Audit Committee Chairman. The Audit Committee Chairman and the CEO shall report to the Board of Directors all disclosed conflicts of interest at the meeting immediately following such disclosures.

The conflict of interest statements filed by PLAIC's directors, officers and responsible employees in 2009 were reviewed. No conflicts were noted.

CORPORATE RECORD

The Articles of Incorporation (Articles) and Bylaws, as amended, were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. Neither document was amended during 2009.

The minutes of meetings of the Stockholders, Board of Directors and Executive Committee were reviewed for the period under examination. The minutes reflected the approval of the investment transactions occurring during the examination period, approval by the Board of Directors of the Executive Committee actions, and a review of the Audit Committee minutes. In addition, the minutes reflected the review of the Policy on Conflict of Interest and Code of Business Conduct on January 12, 2009, the approval of the Identify Theft Prevention Program on May 1, 2009, and the approval of the Investment Guidelines on November 23, 2009. The minutes appeared to be

complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975), as amended. Appropriate filings required under the Holding Company Act are made from time to time on behalf of the Company by Protective Life Corporation. A review of the filings during the period under review indicated that appropriate disclosures were included regarding the Company.

Dividends to Shareholders

No dividends were paid to the Company's parent, Protective Life Insurance Company (PLICO), during the current examination period.

Management and Service Agreements

The Company had various management and service agreements in effect with affiliated companies at December 31, 2009. The following agreements were approved by the Alabama Department of Insurance and in effect at year-end 2009:

Administrative Services Agreement – West Coast Life Insurance Company

The Company entered into an administrative services agreement with West Coast Life Insurance Company (WCL) on October 3, 2003.

WCL agrees to provide administrative services for certain term and universal life insurance business of the Company. These services include: marketing, compliance, policyholder services, policy issuance, accounting and financial reporting, licensing and commission payment, underwriting, and other services the Company may reasonably request with respect to the business. The Company agrees to reimburse WCL at cost for services and facilities provided by WCL. The charge to the Company for such services shall include all direct and indirect allocable expenses. WCL shall be responsible for maintaining full and accurate accounts and records of all services rendered. The agreement can be terminated by either party by giving sixty days prior written notice to the other party, unless both parties agree in writing to a shorter advance notice period.

Administrative Services Agreement – Protective Life Insurance Company

This agreement was entered into on November 3, 2005, between Protective Life Insurance Company (PLICO) and the Company.

PLICO agrees to provide administrative services for certain term and other insurance business of the Company. These services include: marketing, compliance, policy administration, policy issuance, accounting and financial reporting, licensing and commission payment, underwriting, and other services the Company may reasonably request with respect to the business.

The Company agrees to reimburse PLICO at cost for services and facilities provided by PLICO. The charge to the Company for such services shall include all direct and indirect allocable expenses. PLICO shall be responsible for maintaining full and accurate accounts and records of all services rendered. The agreement can be terminated by either party by giving sixty days prior written notice to the other party, unless both parties agree in writing to a shorter advance notice period.

Agreement for Data Processing Programming Services – Protective Life Corporation

This agreement was entered into on November 1, 1987, between Protective Life Corporation (PLC) and the Company.

The term of the agreement was initially for twelve months, beginning on November 1, 1987, automatically renewable on each anniversary. Either party shall give the other party written prior notice of at least sixty days prior to the end of any term of its intent not to renew this agreement for another term.

Appropriate cost of data processing programming services provided by PLC shall be billed by PLC, and the Company agrees to pay at such time and such cost as set out by PLC on statements it will furnish to the Company. Such cost shall be determined by allocating the expenses incurred by PLC for providing the data processing programming services based upon a percentage of the amount of time spent in performing said services for the Company by PLC's personnel multiplied by rates for such services in effect. These rates may be adjusted at anytime by PLC, provided the Company receives a copy of the adjusted rate schedule within thirty days of any such change. Such cost shall be accumulated and settled monthly.

Agreement for Investment Services – Protective Life Corporation

This agreement was entered into on October 3, 1983, between Protective Life Corporation (PLC) and the Company.

The term of this agreement was for an initial term of twelve months, automatically renewable on each anniversary. Either party will give the other written notice, at least sixty days prior to the end of any term, of its intent not to renew this agreement for another term. The Investment Department of PLC agrees to research and analyze

investment opportunities with respect to funds of the Company which require investment or reinvestment and to execute the purchases or sales of said investments. All transactions shall be reported to and are subject to ratification by the Company's Board of Directors. PLC's Investment Department shall be authorized to collect and transmit to the Company any and all amounts paid on such investments, and to manage such investments and reinvestments for the benefit of the Company.

The Investment Department of PLC further agrees to provide and maintain documentation necessary for the preparation of accounting records and any required reports needed monthly, quarterly, or as part of statutory annual filings. Charges for all investments services shall be computed and settled monthly as follows:

Bonds	5½% of interest income collected
Mortgages	5½% of all income collected on the mortgage loans serviced and an additional fee of 1½% of the initial asset value of each new mortgage loan added to the mortgage portfolio of the Company
Preferred Stock	5½% of dividends collected
Common Stocks	Quarterly fee of .125% of the market value of the Company's common stock portfolio at the end of the preceding quarter
Real Estate	5½% of income received on real estate serviced
Other Invested Income	5½% of income received

The above stated fees do not include third party fees for activities or services rendered on investments other than the contractual service fees to mortgage loan service agents and equity advisors of PLC. On January 4, 1984, the agreement was amended to include the following provision: "The above stated fees do not include third party fees for activities or services rendered on investments such as the contractual service fees to mortgage loan service agents."

Agreement for Legal Services – Protective Life Corporation

This agreement, effective January 1, 2004, is between the Company and Protective Life Corporation (PLC).

PLC agrees to provide legal services for the Company including, but not limited to, general corporate legal work, insurance related legal work, regulatory work, litigation supervision and contracts. PLC agrees to maintain sufficient facilities and trained personnel of the kind necessary to perform services under this agreement. PLC shall be responsible for maintaining full and accurate accounts and records of all services

rendered. The Company agrees to reimburse PLC at cost for services provided. Charges for such services shall include all direct and indirectly allocable expenses. Any and all actions taken or advice or services provided by PLC are subject to the continuous supervision and approval of the Board of Directors and officers of the Company. Either party may terminate this agreement by providing written notice sixty days in advance, unless both parties agree in writing to a shorter advance notice period.

Amendment and Clarification of the Tax Allocation Agreement

The Tax Allocation Agreement dated January 1, 1988 by Protective Life Corporation (PLC) and each of its subsidiaries was amended, effective December 31, 1988, in its entirety for the purpose of clarification to include the following provisions.

The parent and the subsidiaries will file a consolidated federal income tax return so long as they are eligible to file such returns. For any taxable year for which a consolidated federal income tax return is filed, the parent agrees to prepare and file such returns and other appropriate documents as deemed necessary. For each taxable year for which the group files a life/non-life consolidated return, the group will be comprised of two sub-groups, non-life and life. Each subsidiary will calculate its tax liability as if it had filed its federal income tax return on an individual basis. If a subsidiary incurs a tax loss, or generates a tax credit that can't be used to offset the current year tax liability, the subsidiary shall only be entitled to a current benefit for such loss or credit to the extent the loss or credit can be carried back and used in determining the prior year's tax liability for said Company. If the subsidiary's tax loss or credit can't be carried back and used to determine the prior year's tax liability, then the amount will be carried forward on a separate Company basis. Any carryforwards shall not expire unless the amount is not utilized in the consolidated return.

The agreement applied to all taxable years ending on or after December 31, 1988. This agreement shall apply to any corporation which becomes a member of the group.

Guaranty Agreement – Protective Life Insurance Company

Effective October 27, 1993, Protective Life Insurance Company (PLICO) guaranteed that Protective Life and Annuity Insurance Company (PLAIC or Company) will pay all insurance policy claims made by the holders or beneficiaries of the Company's insurance policies in accordance with the terms and conditions of the policies. PLICO unconditionally guaranteed the due and punctual payment to the policyholders according to the following:

“All obligations of American [the Company] to the Policyholders arising under the terms and conditions of any insurance policies issued by American [the Company] from the date hereof until the date this guaranty is terminated pursuant to the provisions hereof (the

“policies”). It is specifically agreed and understood that this guaranty shall in no way expand the Policyholders’ rights, but shall merely guarantee the payment of all amounts otherwise due them pursuant to the terms of the insurance policy they are claiming under.”

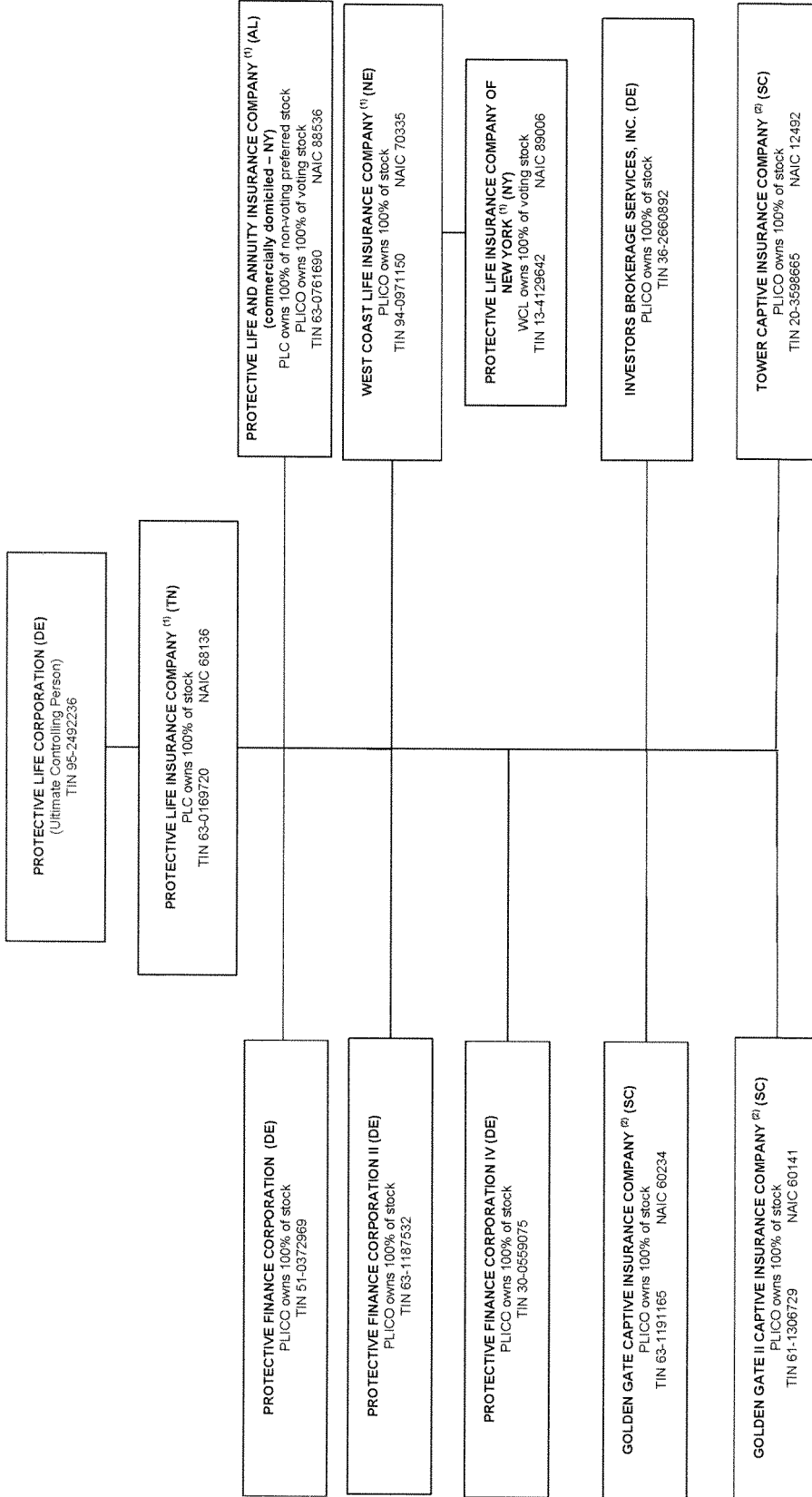
This agreement shall remain in full force and effect until the earlier of (a) when the Company achieves a claims paying rate equal to or better than the Guarantor or (b) ninety days after it is revoked or terminated by a written instrument, signed by the Guarantor. Even after any revocation or termination by such notice, this guaranty shall be and remain effective as to any policies then outstanding. The agreement was amended on April 4, 1998, to include the following:

“This guaranty may be enforced only if American [the Company] is unable to pay its obligations when as they become due, or if American [the Company] in [sic] placed in rehabilitation, receivership, liquidation or similar proceeding. This guaranty may be enforced only by American [the Company] or its successor (including without limitation its rehabilitator, receiver or liquidator).”

Organizational Chart

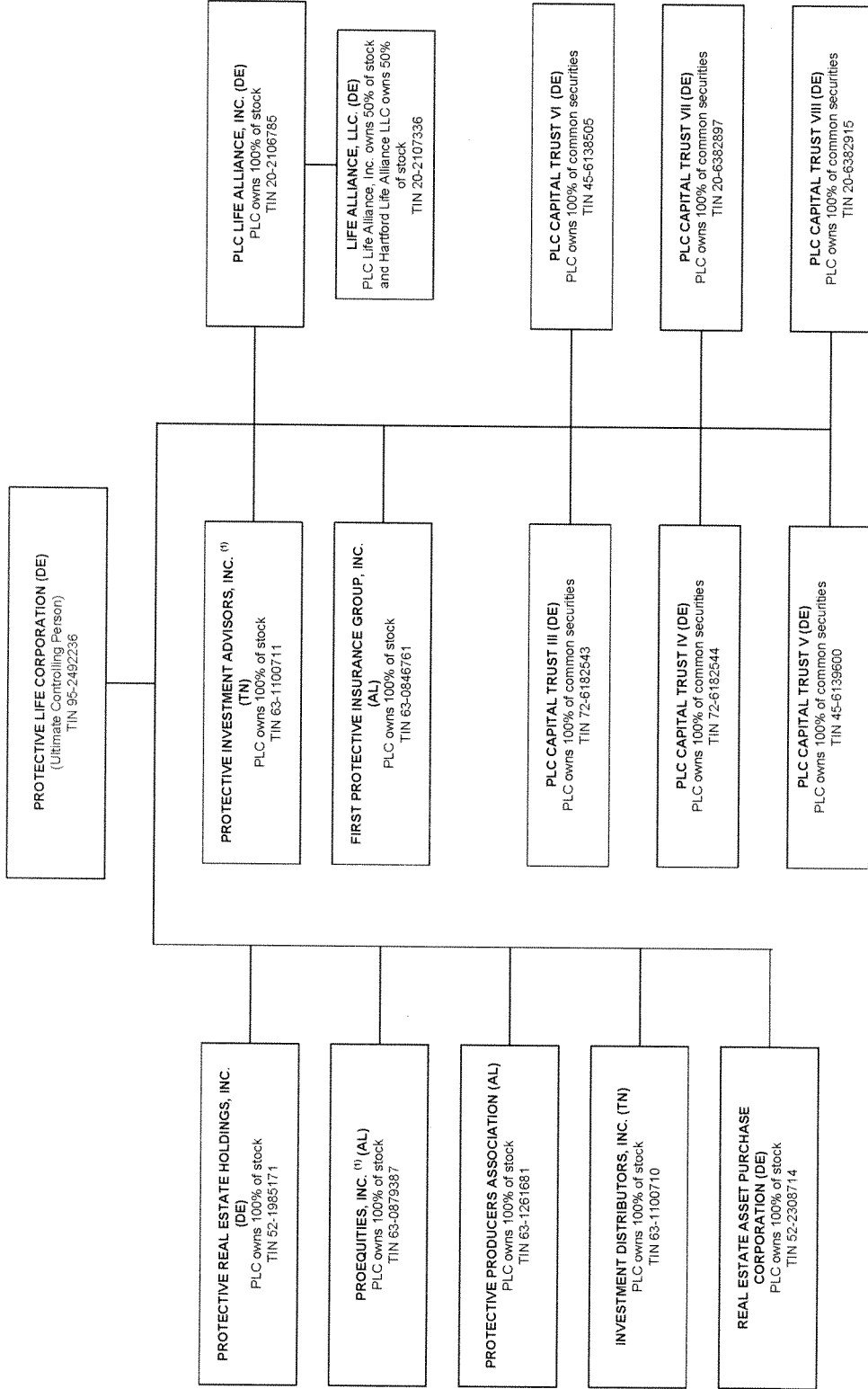
The following presents the identities of and the interrelationships among all affiliated persons within the Insurance Holding Company system at December 31, 2009.

Protective Life Corporation (PLC) Organizational Chart
AS OF DECEMBER 31, 2009*
Protective Life Insurance Company (PLICO) Subsidiaries (Asset Protection Division found on pages 3 and 4)



(1) an insurance company
 (2) a special purpose financial captive insurance company
 *Chart does not reflect less than 50% ownership interests.

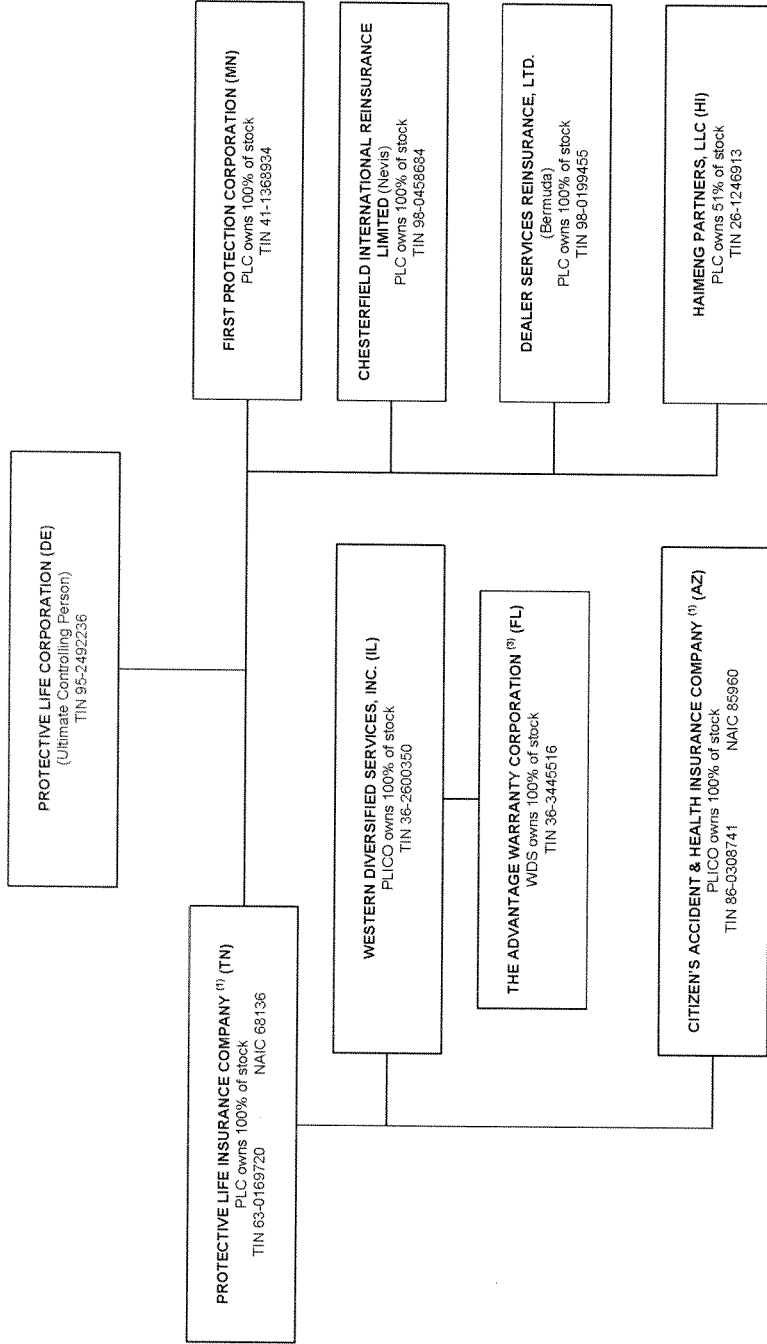
Protective Life Corporation Organizational Chart
AS OF DECEMBER 31, 2009*
PLC Non-Insurance Companies (excluding Asset Protection Division)



(1) a registered investment adviser

*Chart does not reflect less than 50% ownership interests.

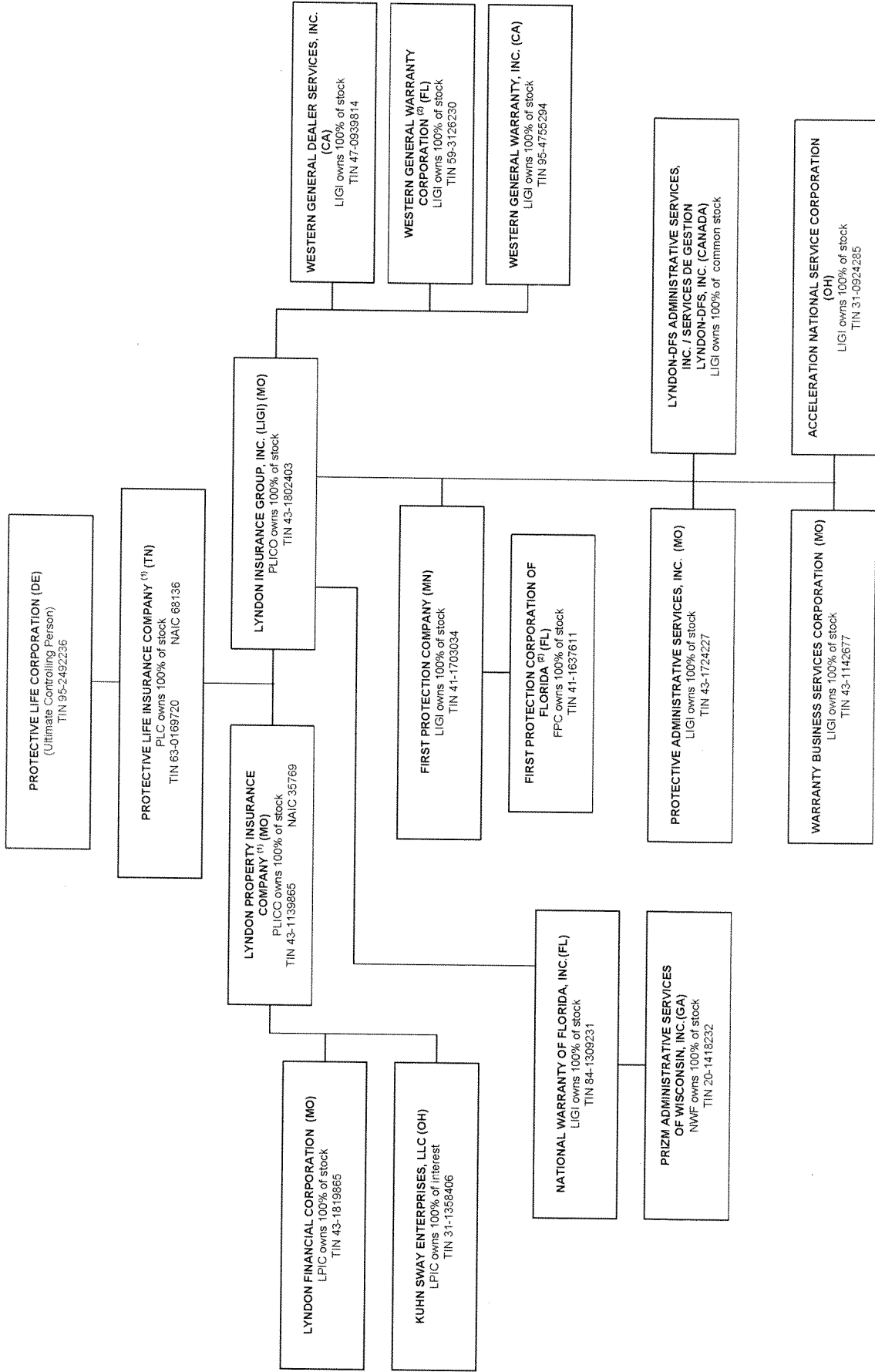
Protective Life Corporation Organizational Chart
AS OF DECEMBER 31, 2009*
Asset Protection Division – Page 1 of 2



(1) an insurance company
(2) a producer affiliated reinsurance company
(3) a specialty insurer

*Chart does not reflect less than 50% ownership interests.

Protective Life Corporation Organizational Chart
AS OF DECEMBER 31, 2009*
Asset Protection Division – Page 2 of 2 (Lyndon Insurance Group, Inc. affiliates)



(1) an insurance company
(2) a specialty insurer

*Chart does not reflect less than 50% ownership interests.

DIVIDENDS TO POLICYHOLDERS

The Company paid policyholder dividends in the following amounts during the period under examination.

<u>YEAR</u>	<u>DIVIDENDS PAID</u>
2008	\$ 91,678
2009	\$ 87,748

FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2009, Protective Life Corporation and its subsidiaries were insured under a policy providing employee dishonesty and crime coverage issued by Chubb Group of Insurance Companies as the primary layer of coverage, Travelers Insurance Company with the first layer of coverage, the second layer of coverage was with Hartford Fire Insurance Company, and the third layer of coverage was with CNA Insurance Company. The amount of fidelity coverage provided by the Company exceeded the minimum amount of coverage suggested by the NAIC.

In addition to the above coverage, the Company was insured by the following types of coverage:

Property	General Liability
Auto Collision	Foreign
Difference in Conditions	Umbrella
Electronic Data Processing	Errors & Omissions
Directors & Officers Liability	Mortgage Errors and Omissions
Employee Practices Liability	Financial Bond
Workers Compensation	Aviation Coverage

The types of coverages and limits appear to have adequately covered the Company from material exposures.

EMPLOYEE AND AGENT WELFARE

The Company did not have any employees at December 31, 2009; therefore, it had no employee benefit plans. All functions of the Company were performed by employees of Protective Life Corporation, Protective Life Insurance Company and West Coast Life Insurance Company via administrative services agreements. Further comment on these contracts is included in this report under the caption “Management and Service Agreements” on Page 9.

SPECIAL DEPOSITS

At December 31, 2009, as required or permitted by law, the Company maintained the following deposits with the respective statutory authorities.

<u>States and Territories</u>	<u>Book Value</u>	<u>Fair Value</u>
Alabama	\$1,516,573	\$1,538,860
Arkansas	4,195,650	4,200,000
Georgia	102,917	106,477
Massachusetts	99,896	100,000
New Mexico	252,762	256,477
North Carolina	405,469	407,529
TOTAL	<u>\$6,573,267</u>	<u>\$6,609,343</u>

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>
2009*	\$ 927,370,166	\$ 848,706,386	\$ 78,663,781	\$ 185,721,349
2008*	\$ 754,486,516	\$ 710,253,889	\$ 44,232,627	\$ 163,370,600

*Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operations

The Company's lines of business include credit life, credit disability, universal life (single life and survivor), individual term life, single premium whole life, variable annuities, market value adjusted annuities, single premium individual annuities and acquisition of block of business. The Company marketed and sold variable annuities in the state of New York through licensed broker/dealers and financial institutions. The variable annuity product offered a choice of 68 sub accounts, of which 59 are available to new contracts, managed by eleven investment managers including: Goldman Sachs Asset Management; Lord, Abbett & Company; MFS Investment Management; Oppenheim Funds, Inc.; Fidelity Management; Van Kampen Asset Management, Inc.; Franklin/Templeton; Legg Mason; PIMCO; Royce Capital; and Universal Institutional Funds. The Company's variable annuities are designed for

investors who desired to accumulate capital on a tax deferred basis for retirement or other long-term investment purposes. The Company marketed and sold market value adjusted annuities and single premium annuity contracts in the state of New York through licensed broker/dealer, financial institutions and individual producers. The fixed annuities were marketed at a guaranteed rate of interest and did not have any guarantees other than a guaranteed minimum death benefit. The market value adjusted annuity product offered market adjusted rates of interest for guaranteed periods ranging from three to ten year. The single premium immediate annuity product offered guaranteed immediate income payments with several payout options. The Company's immediate annuities were for customers who wanted regular income payments beginning immediately or in the future. Immediate annuities provided a stream of income payments from the insurance company to the owner beginning within twelve months of the purchase of the contract. These payments were guaranteed for life or for a specified period of time.

The Company marketed its products through two divisions: Life and Annuity Division (LAD) and Asset Protection Division (APD). Each division marketed and sold its products in the state of New York. LAD included distribution through licensed broker/dealers, financial institutions, individual agents and brokerage general agents (BGAs) of West Coast Life Insurance Company (WCL) and Protective Life Insurance Company (PLICO). The BGAs primarily marketed term and universal life products, and WCL BGAs also marketed non-registered annuity products. APD marketed group credit products through automobile dealerships to retail customers who were purchasing new or used motor vehicles. The relationship with the automobile dealer was managed by either general agents or by direct sales employees. The credit disability coverage was sold at prima facie rates and was provided as either 14-day or 30 day retroactive coverage.

Territory

At the examination date, the Company was licensed to transact business in the following states: Alabama, Arizona, Arkansas, California, Colorado, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, and Washington.

The Certificates of Authority were inspected for the one-year period under review, and no exceptions were noted.

Underwriting and Rating

In July 2004, the Company made the business decision to cease writing business in Alabama opting to only sell and market its products in the state of New York. As such, there were no recently filed policy forms or underwriting guidelines to review relating to Alabama.

Marketing and Advertisement

In 2004, the Company made the business decision to cease selling its products in Alabama, and to solely advertise, market and sell its products in the state of New York. As such, there were no advertising or marketing materials disseminated in Alabama, nor was a certificate of compliance filed with the ALDOI during the examination period.

Claims Handling

The examiners reviewed the Alabama paid and closed, denied, litigated, and resisted claims during the examination period. It was determined that the Company did not have any Alabama resisted claims reported on its Schedule F during the examination period; therefore, no resisted claims were reviewed. It was also determined that the Company did not have any Alabama denied or litigated claims during the same period.

The examination indicated that the Company had six Alabama paid and closed claims during the examination period. The examiner reviewed all six Alabama claims for complete documentation and timeliness of payment in accordance with ALA. ADMIN. CODE 482-1-124 (2003), which stipulates the requirements for payment of life and accident and health claims. There were no exceptions noted.

Producer Licensing

There were no licensed and appointed agents in the state of Alabama at December 31, 2009, as the Company made a business decision on July 29, 2004, to terminate all of its Alabama agent's and only write business in the state of New York.

Policyholder Complaints

The Company documented sixteen complaints in its complaint register for the examination period. None of the complaints were filed by Alabama policyholders. The complaints listed on the register were filed in the following states: Arkansas, California, Georgia, Iowa, Louisiana, New York, Oregon, Texas and Vermont.

Compliance with Privacy Policies and Practices

The Company does not disclose any nonpublic personal financial or health information to nonaffiliated third parties. The Company's privacy notice indicated that, "We do not sell information about our customers. We maintain physical, electronic and procedural safeguards to protect it. Access to customer information is limited to people who need access to do their jobs." The Company has appropriate policies and procedures in place for the protection against the disclosure of member nonpublic personal medical information.

The Company does not share customer and/or consumer personal information with any nonaffiliated third parties except those permitted under Ala. Admin. Code 482-1-122-.14 through .16 (2002). The Company had adequate controls in place for employees and producers that handled personal information.

REINSURANCE

The Company assumed and ceded reinsurance under a number of agreements at December 31, 2009. The examination of various contracts was limited to those contracts that were executed in 2009. The contracts were examined with regard to type of contract, reinsurance credits, and pertinent safeguards.

Reinsurance Assumed

The Company did not assume any new business during 2009. It assumed life and accident and health business from seven insurance companies at December 31, 2009. As reflected in Schedule S of the 2009 Annual Statement, the Company assumed:

- Life reserves of \$408,407,752 and paid and unpaid losses of \$3,780,374 relating to life contracts; and
- Unearned premiums of \$111,214, additional reserves of \$790,371, and paid and unpaid losses of \$20,175 relating to the accident and health contracts.

Reinsurance Ceded

The Company ceded life and accident and health business to 23 insurance companies at December 31, 2009. As reflected in Schedule S of the 2009 Annual Statement, the Company ceded:

- Reserve Credit Taken - Current Year of \$92,008,063, Modified Coinsurance Reserve of \$152,482 and Funds Withheld Under Coinsurance of \$1,782,684 relating to life contracts; and

- Unearned premiums of \$119,274, Reserve Credit Taken Other than for Unearned Premiums of \$648,623, and Fund Withheld Under Coinsurance of \$201,272 relating to the accident and health contracts.

The treaties executed during the examination period were selected for review. This resulted in a review of nine treaties which reinsured two different products, one of which was reinsured based on plan codes. The treaties were reviewed with regard to type, limits, and pertinent safeguards.

*Yearly Renewable Term – Munich American Reassurance Company (Munich Re) and
Yearly Renewable Term – Swiss Re Life & Health America, Inc. (Swiss Re)*

The Company entered into an automatic and facultative Yearly Renewal Term contracts with the above companies, effective February 18, 2008, to reinsure its Heritage Guard Single Premium Whole Life (SPWL) policies with a long-term care (LTC) rider. The plan codes covered under these contracts were VPA 79 for SPWL and 0P067 for the LTC rider. Each company has a retention limit of 50% for a total of 100% retention.

The reinsurance premiums are guaranteed for one year, and upon a ninety day prior written notice to the Company, the reinsurers may increase the reinsurance premium rates provided the rates are not above one twelfth multiplied by the statutory net yearly renewable term premium rates. The contract may be terminated by either party with or without cause provided written notice is given. The Company is responsible for maintaining adequate records and for administering all claims.

An amendment to the Swiss Re contract terminated new business effective November 1, 2009, and an amendment, also terminating new business, was effective December 31, 2009 for the Munich Re contract.

At December 31, 2009, there was no reported activity on either contract to be reported on the 2009 Schedule S – Part 3.

*Monthly Renewable Term – Munich American Reassurance Company (Munich Re) and
Monthly Renewable Term – Swiss Re Life & Health America, Inc. (Swiss Re)*

The Company entered into an automatic and facultative Monthly Renewal Term contracts with the above companies, effective November 3, 2008, to reinsure its Heritage Guard Single Premium Whole Life (SPWL) policies with a long-term care (LTC) rider. The plan codes covered under these contracts were VPA 80 for SPWL and 0P068 for the LTC rider. Each company has a retention limit of 50% for a total of 100% retention.

The reinsurance premiums are guaranteed for one year, and upon a ninety day prior written notice to the Company, the reinsurers may increase the reinsurance premium rates provided the rates are not above one twelfth multiplied by the statutory net yearly renewable term premium rates. The contract may be terminated by either party with or without cause provided written notice is given. The Company is responsible for maintaining adequate records and for administering all claims.

An amendment to the Swiss Re contract, effective November 23, 2009, revised Article II, Section 2 concerning Foreign Nationals eligible for auto reinsurance on or after the effective date. A second amendment to the Swiss Re contract, effective June 1, 2010, changed the reinsurance pool jumbo limit to \$65,000,000 for issue ages 0-80 and \$35,000,000 for issue ages 81-85 and revised Section 2.1(e) concerning the total amount of insurance on an insurance policy. The Munich Re contract did not have any amendments as it was signed by both companies in July 2010, and the changes were included in the original contract with the exception of the increase to the reinsurance pool jumbo limit, which was defined as \$35,000,000.

As of December 31, 2009, the ceded premiums for the Munich Re contract totaled \$1,833 and the reserve credit taken was \$665, and for Swiss Re, the ceded premiums totaled \$3,101 and the reserve credit taken was \$665.

Monthly Renewable Term – The Canada Life Assurance Company (Canada);
Monthly Renewable Term – Generali USA Life Reassurance Company (Generali);
Monthly Renewable Term – Munich American Reassurance Company (Munich Re)
Monthly Renewable Term – RGA Reinsurance Company (RGA); and
Monthly Renewable Term – Swiss Re Life & Health America, Inc. (Swiss Re)

The Company entered into an automatic and facultative Monthly Renewable Term contracts with the above companies effective January 16, 2009 to reinsure its ProClassic New York Universal Life plans. The retention limits for the reinsurers are as follows: Canada – 15%, Generali – 25%, Munich Re – 30%, RGA – 20% and Swiss Re – 10% for a total of 100% retention.

The reinsurance premiums are guaranteed for one year, and upon a ninety day prior written notice to the Company, the reinsurers may increase the reinsurance premium rates provided the rates are not above one twelfth multiplied by the statutory net yearly renewable term premium rates. The contract may be terminated by either party with or without cause provided written notice is given. The Company is responsible for maintaining adequate records and for administering all claims.

All contracts, except Munich Re's, had an amendment effective November 23, 2009 which revised Article II, Section 2 concerning Foreign Nationals eligible for auto

reinsurance on or after the effective date. The Munich Re contract was signed in July 2010 by both companies and had the amended information in the original contract.

At December 31, 2009, the ceded premiums for the five contracts totaled \$4,011 and the reserve credit taken was \$1,051.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained by computer. Management and record-keeping functions were performed by personnel and facilities of the Protective Life Corporation (PLC), Protective Life Insurance Company (PLICO) and West Coast Life Insurance Company (WCL) under various management and service agreements. Further discussion of the aforesaid agreements is included under the caption "**Management and Service Agreements**" on page 9.

FINANCIAL STATEMENTS

The financial statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2009. Amounts shown in the comparative statements for the year 2008 were compiled from Company copies of filed Annual Statements. The statements were presented in the following order:

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Statement of Assets.....	27
Statement of Liabilities, Surplus and Other Funds	28
Summary of Operations	29
Capital and Surplus Account.....	30

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Statement of Assets
For the Year Ended December 31, 2009

<u>Line Item</u>	<u>Assets</u>	<u>Nonadmitted</u>	<u>Net Admitted</u>
Bonds	\$ 768,569,564		\$ 768,569,564
Preferred stock	5,000,000		5,000,000
Mortgage loans on real estate - first liens	43,868,366		43,868,366
Cash, cash equivalents and short-term investment	16,052,764		16,052,764
Contract loans	47,879,037	10,848	47,868,189
Receivables for securitites	297	-	297
Subtotals, cash and invested assets	\$ 881,370,028	\$ 10,848	\$ 881,359,180
Investment income due and accrued	12,991,556		12,991,556
Uncollected premiums and agents' balances in the course of collection	(3,078,350)	6,327	(3,084,677)
Deferred premiums and agents' balances and installments booked but deferred and not yet due	1,192,659		1,192,659
Amounts recoverable from reinsurers	1,052,655		1,052,655
Other amounts receivable under reinsurance contracts	178,046		178,046
Net deferred tax asset	2,260,990	1,285,561	975,429
Guaranty funds receivable or on deposit	2,030		2,030
Receivables from parents, subsidiaries and affiliates	0		0
Health care and other amounts receivable	167,928	167,928	0
Aggregate write-ins for other than invested assets	270,595	262,506	8,089
From Separate Accounts	32,695,199	-	32,695,199
TOTAL	\$ 929,103,336	\$ 1,733,170	\$ 927,370,166

Immaterial variances may exist due to rounding.

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Statement of Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2009

<u>Line Item</u>	<u>Current Year</u>
Aggregate reserve for life contract	\$ 779,637,568
Aggregate reserve for accident and health contracts	4,937,798
Liability for deposit-type contracts	5,056,991
Contract claims: Life	1,731,529
Contract claims: Accident and health	87,184
Policyholders' dividends	55
Provision for policyholders' dividends apportioned for payment	89,908
Premiums and annuity considerations received in advance	95,526
Provision for experience rating refunds	322,695
Other amounts payable on reinsurance	73,724
Interest maintenance reserve	4,339,614
Commissions to agents due or accrued	284,528
Commissions and expense allowances payable on reinsurance assumed	2,139
General expenses due or accrued	3,403
Transfer to Separate Accounts due or accrued	3,504,587
Taxes, licenses and fees due or accrued	132,468
Current federal and foreign income taxes	283,020
Unearned investment income	1,500,142
Amounts withheld or retained by company as agent or trustee	88,864
Remittances and items not allocated	1,661,592
Asset valuation reserve	6,465,866
Reinsurance in unauthorized companies	289
Funds held under reinsurance treaties with unauthorized reinsurers	40,657
Payable to parent, subsidiaries and affiliates	3,687,084
Funds held under coinsurance	1,983,957
From Separate Accounts Statement	32,695,199
Total Liabilities	\$ 848,706,387
Common capital stock	\$ 2,500,000
Preferred capital stock	2,000
Aggregate write-ins for other than special surplus funds	2,030
Gross paid in and contributed surplus	110,425,865
Aggregate write-ins for special surplus funds	422,896
Unassigned Funds (surplus) Note 1	(34,689,011)
Total Capital & Surplus	\$ 78,663,780
Total Liabilities and Capital & Surplus	\$ 927,370,167

Immaterial variances may exist due to rounding.

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Summary of Operations
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2009</u>
Premiums and annuity considerations for life and A&H contracts	\$ 163,370,600	\$ 185,721,349
Consideration for supplementary contracts with life contingencies		
Net investment income	37,240,512	47,800,076
Amortization of interest maintenance reserve	313,014	422,416
Separate Accounts net gain from operations excluding unrealized gains or losses	(5,044,427)	3,717,808
Commissions and expense allowances on reinsurance ceded	2,431,188	1,919,054
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	75,683	62,583
Aggregate write-ins for miscellaneous income	16,661	13,907
Totals	\$ 198,403,231	\$ 239,657,193
Death Benefits	\$ 9,012,647	\$ 7,784,440
Matured endowments	59,336	27,756
Annuity benefits	1,390,934	3,911,329
Disability benefits and benefits under A&H contracts	1,264,532	1,092,443
Coupons guaranteed annual pure endowments and similar benefits	8,247	7,864
Surrender benefits and withdrawals for life contracts	33,227,582	48,143,281
Interest and adjustments on contract or deposit-type contract funds	232,085	253,648
Payments on supplementary contracts with life contingencies	1,598	1,598
Increase in aggregate reserves for life and A&H contracts	134,157,743	144,056,139
Totals	\$ 179,354,704	\$ 205,278,498
Commissions on premiums, annuity considerations and deposit-type contract funds	\$ 10,113,973	\$ 10,618,789
Commissions and expense allowances on reinsurance assumed	351,442	12,631
General insurance expenses	7,763,459	8,283,294
Insurances taxes, licenses and fees	1,267,074	1,424,706
Increase in loading on deferred and uncollected premiums	(15,231)	(12,899)
Net transfers to or (from) Separate Accounts net of reinsurance	(8,895,088)	(7,993,140)
Aggregate write-ins for deductions	98,764	196,128
Totals	\$ 190,039,097	\$ 217,808,007
Net gain from operations before dividends to policyholders and federal income taxes	8,364,134	21,849,186
Dividends to policyholders	91,678	87,748
Net gain from operations after dividends to policyholders and before federal income taxes	8,272,456	21,761,438
Federal and foreign income taxes incurred	2,570,559	8,158,820
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	5,701,897	13,602,618
Net realized capital gains or (losses)	-	(185,965)
Net income	\$ 5,701,897	\$ 13,416,653

Immaterial variances may exist due to rounding.

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

Protective Life and Annuity Insurance Company
Capital and Surplus
For the Years Ended December 31, 2008 and 2009

	<u>2008</u>	<u>2009</u>
Capital and surplus, December 31, prior year	\$ 37,997,610	\$ 44,232,627
Net income	5,701,896	13,416,650
Change in net unrealized capital gains (losses)		(994,360)
Change in net deferred income tax	(317,030)	833,636
Change in nonadmitted assets	(603,451)	(219,007)
Change in liability for reinsurance in unauthorized companies	6,892	(289)
Change in reserve on account of change in valuation basis	-	
Change in asset valuation reserve	1,446,712	(3,605,476)
Surplus (contributed to) withdrawn from Separate Accounts during period	(5,044,427)	3,717,808
Other changes in surplus in Separate Accounts Statements	5,044,427	(3,717,808)
Surplus adjustment: Paid in		25,000,000
Net change in capital and surplus for the year	<u>6,235,019</u>	<u>34,431,154</u>
Capital and surplus, December 31, current year	<u>\$ 44,232,629</u>	<u>\$ 78,663,781</u>

Immaterial variances may exist due to rounding.

THE NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Unassigned Funds

(\$34,689,011)

Unassigned funds (surplus), as determined by this examination, were the same as reported by the Company in its 2009 Annual Statement.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included an inspection of the representations made by management and its general counsel; and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was made to determine if the Company had complied with the recommendations made in the last Report of Examination. This review disclosed that the Company complied with the recommendations contained in the aforesaid report.

SUBSEQUENT EVENTS

The examiners reviewed general ledger and cash transactions occurring subsequent to the balance sheet date. In addition, the examiners inquired of management regarding any significant subsequent events.

The Company paid a cash dividend of \$13,000,000 to its parent, Protective Life Insurance Company, in the fourth quarter of 2010. The dividend was accounted for as a return of capital distribution.

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations to report.

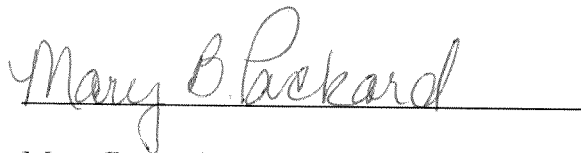
CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by the officers of Protective Life and Annuity Insurance Company and the employees of Protective Life Corporation and Protective Life Insurance Company during the course of this examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent deemed appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Toni Bean, CFE and Charles Turner, CISA, examiners for the State of Alabama Department of Insurance participated in this examination of Protective Life and Annuity Insurance Company.

Respectfully submitted,

A handwritten signature in cursive script that reads "Mary B. Packard". The signature is written in dark ink and is positioned above a solid horizontal line.

Mary B. Packard, CPA, CFE
Examiner-in-Charge
State of Alabama
Department of Insurance