

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

PENNCORP FINANCIAL GROUP INC /DE/

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SIC: **6311** Life insurance

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 1996

Commission file number 1-11422

PENNCORP FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

13-3543540

(State or other jurisdiction of
incorporation or organization)

(I.R.S. employer identification no.)

745 Fifth Avenue, Suite 500, NY, NY

10151

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code: (212) 832-0700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$.01 par value	New York Stock Exchange
\$3.375 Convertible Preferred Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

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 X 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 in 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 amendments to this Form 10-K. []

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 14, 1997: \$1,038,930,511.50.

The number of Common Stock shares outstanding as of March 14, 1997 was 28,462,502.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders scheduled for May 22, 1997 is incorporated by reference into Part III hereof.

PENNCORP FINANCIAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1996

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page

<S> <C>	<C>
PART I	
Item 1. Business	3
Item 2. Properties.	23
Item 3. Legal Proceedings	23
Item 4. Submission of Matters to a Vote of Security Holders	24
PART II	
Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters	25
Item 6. Selected Financial Data	26
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	27
Item 8. Financial Statements and Supplementary Data	35
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	61
PART III	
Item 10. Directors and Executive Officers of the Company	61
Item 11. Executive Compensation	61
Item 12. Security Ownership of Certain Beneficial Owners and Management	61
Item 13. Certain Relationships and Related Transactions.	61
PART IV	
Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	61

</TABLE>

PART I

ITEM 1. BUSINESS

GENERAL DESCRIPTION AND HISTORY

PennCorp Financial Group, Inc. ("PennCorp" or the "Company"), incorporated in Delaware in 1989, is a holding company the principal subsidiaries of which are insurance companies with operations in Raleigh, North Carolina, Baton Rouge, Louisiana, Jacksonville, Florida, Waco, Texas and Toronto, Canada. The Company's insurance subsidiaries market and underwrite fixed benefit accident and sickness insurance, life insurance and accumulation products to lower- and middle-income markets throughout the United States, Canada, Puerto Rico and the Caribbean Basin. The Company's insurance products are sold through several distribution channels including exclusive agents, general agents, payroll deduction programs and through financial institutions. PennCorp's only significant industry segment is insurance. Information relating to the Company's U.S. and Canadian operations appears in Note 4 of "Notes to Consolidated Financial Statements" on Page 43 hereof. For more information regarding the Company's markets, see "Insurance" and "Marketing and Distribution" included herein.

The following is a description of PennCorp's principal operating units:

AA Life - Collectively, Pioneer Security Life Insurance Company ("Pioneer Security") and its subsidiaries, American-Amicable Life Insurance Company of Texas ("American-Amicable") and Pioneer American Insurance Company ("Pioneer American"), markets and underwrites customized life insurance and accumulation products to U.S. military personnel and federal employees through a general agency force.

Penn Life - Collectively, Pennsylvania Life Insurance Company ("PLIC") and PennCorp Life Insurance Company, markets and underwrites fixed benefit accident and sickness products and, to a lesser extent, life products through a sales force exclusive to the Company throughout the United States and Canada.

Professional - Professional Insurance Corporation provides individual fixed benefit products utilizing a network of independent agents primarily in the southeastern United States through employer-sponsored payroll deduction programs.

Integon Life - Collectively, Salem Life Insurance Corporation, Integon Life Insurance Corporation, Georgia International Life Insurance Company and Occidental Life Insurance Company of North Carolina ("OLIC") which markets life insurance, individual life and fixed benefit products and, to a lesser extent, annuity products through independent general agents and marketing organizations who sell directly to individuals throughout the United States and in several foreign countries, principally Panama.

UC Life - United Companies Life Insurance Company principally markets deferred annuities and variable annuities through financial institutions and independent general agents, primarily in the southern and western United States.

The Company's growth strategy emphasizes the acquisition of complementary insurance operations and the utilization of the Company's several distribution channels to further penetrate its target markets. In making acquisitions, the Company seeks to broaden its distribution channels, increase its product offerings and expand its geographical presence. The Company also seeks benefits from expense reduction through the consolidation of facilities and staff and the creation of common administrative systems. Since 1990, the Company has acquired OLIC, Professional, AA Life, Integon Life and UC Life and a majority economic interest in Southwestern Financial Corporation ("SW Financial"). The merger of Washington National Corporation ("Washington National") into the Company is pending shareholder and regulatory approvals and is anticipated to close in late April, 1997.

4 PAGE 4

THE SOUTHWESTERN LIFE INVESTMENT

On December 14, 1995, SW Financial, a newly organized corporation formed by PennCorp and Knightsbridge Fund Capital Fund I, L.P. ("Knightsbridge Fund"), purchased Southwestern Life Insurance Company ("Southwestern Life") and Union Bankers Insurance Company ("Union Bankers") and certain related assets from I.C.H. Corporation and certain of its subsidiaries (collectively, "ICH") (the "Southwestern Life Investment") for \$260.0 million.

Through its direct investment of \$120.0 million in SW Financial, the Company beneficially owns 67.2% of SW Financial's outstanding common stock, including 100.0% of SW Financial's non-voting common stock and 15.1% of SW Financial's voting common stock. The Company also owns preferred stock of SW Financial and its subsidiary. In addition, PennCorp is a 16.3% limited partner in Knightsbridge Fund. The Company believes that the Southwestern Life Investment represents an opportunity to benefit both financially and strategically from an ownership interest in an insurance company with a well-established franchise. Southwestern Life and Union Bankers market insurance products which are complementary to those of the Company and which are sold through similar distribution channels, although historically the target markets of the Company and Southwestern Life and Union Bankers have been different. Because of their parallel products, distribution systems and administrative systems, the Company and SW Financial are evaluating a number of possible ways in which they may mutually benefit from their relationship. Among others, potential opportunities include expanded product offerings through cross-licensing arrangements and increased operating efficiencies through shared administrative functions. In 1996, the Company was successful in a cross-marketing effort whereby Penn Life agents sell Union Bankers' products. Total new annualized sales during 1996 by the Penn Life agents of Union Bankers products was \$1.2 million.

THE KNIGHTSBRIDGE RESTRUCTURING PLAN

In February 1996, Messrs. Stone and Fickes began discussions with PennCorp's Board of Directors on a means of consolidating their outside business interests, including the Knightsbridge Fund, under PennCorp. Subsequently, Messrs. Stone and Fickes and the members of the Knightsbridge and Compensation Committees of the PennCorp Board developed a plan to enable PennCorp to manage the Knightsbridge Fund and to provide Messrs. Stone and Fickes with a compensation program that offers them compensation opportunities

with economic interests aligned with stockholders generally and that provides incentives for each to make a long-term, full-time commitment to PennCorp.

The components of the Knightsbridge restructuring plan are as follows:

- o The adoption of compensation arrangements pursuant to which Messrs. Stone and Fickes have entered into five-year employment agreements with PennCorp. These compensation arrangements are described in detail under the captions "Executive Compensation - Employment Agreements - Fickes and Stone Employment Agreements" in PennCorp's proxy statement for its July 11, 1996 annual meeting of stockholders.
- o The acquisition by PennCorp of the interests of Messrs. Stone and Fickes in Knightsbridge Management, L.L.C. ("Knightsbridge Management"), Knightsbridge Capital L.L.C. and Knightsbridge Consultants L.L.C. (collectively, "The Fickes and Stone Knightsbridge Interests").
- o The acquisition by PennCorp from the Knightsbridge Fund and Messrs. Stone and Fickes of their respective holdings of common stock and common stock warrants of SW Financial (collectively, "The Southwestern Financial Controlling Interest") provided that if the Proposed Settlement (as defined in "Item 3 - Legal Proceedings" below) is approved by the Delaware Chancery Court after notice to PennCorp stockholders, Messrs. Stone and Fickes will cancel their SW Financial common stock warrants for no additional consideration). See Item 3 - Legal Proceedings on page 23 hereof.

The acquisition of The Fickes and Stone Knightsbridge Interests and the acquisition of the Southwestern Financial Controlling Interest are being submitted to a vote of the stockholders of PennCorp at a Special Meeting of Stockholders anticipated to be held in late April, 1997.

5

PAGE 5

Further information regarding the Southwestern Life Investment appears in Note 6 of "Notes to Consolidated Financial Statements" on page 48 hereof. Information relating to the relationship between PennCorp and the Knightsbridge Fund, the acquisition of The Fickes and Stone Knightsbridge Interests and the Southwestern Financial Controlling Interest appear in Notes 15 and 16 of "Notes to Consolidated Financial Statements" on pages 56 and 57, respectively, hereof.

THE WASHINGTON NATIONAL TRANSACTION

On November 14, 1996, the Company and Washington National entered into an agreement whereby Washington National will be merged with the Company (the "Merger"), and the Company will continue as the surviving corporation after the Merger.

Each share of Washington National common stock, par value \$5.00 per share (the "Washington National Common Stock") (other than treasury shares held by Washington National or shares with respect to which appraisal rights are perfected under the Delaware General Corporation Law ("Dissenting Shares")), outstanding at the effective time of the Merger will be converted into the right to receive (i) \$29.50 (the "Cash Price") in cash, without interest, subject to the cash limitation referred to below and determined as described herein, (ii) a fraction (rounded to the nearest ten- thousandth) of a share of PennCorp common stock, par value \$0.01 per share (the "PennCorp Common Stock"), determined as described herein, or (iii) a combination of cash and shares of PennCorp Common Stock.

Washington National stockholders will be entitled to elect (the "Cash Election") to receive solely cash, based on the Cash Price, in exchange for all or any part of their shares of Washington National Common Stock. However, the number of shares of Washington National Common Stock that may be converted into the right to receive cash in the Merger (the "Cash Election Number") is limited. Based on information available to PennCorp and Washington National as of March 9, 1997, PennCorp and Washington National estimate that the amount of cash available for Cash Elections will be approximately \$73,000,000 and the maximum number of shares of Washington National Common Stock that could be converted into the right to receive cash in the Merger will be approximately 2,474,576 shares.

Each holder of an outstanding share of Washington National Common Stock (other than treasury shares and Dissenting Shares) not subject to a valid Cash Election will be entitled to receive PennCorp Common Stock. The amount of

PennCorp Common Stock received per share of Washington National Common Stock will depend on the average closing price (the "Trading Average") of the PennCorp Common Stock on the New York Stock Exchange (the "NYSE") during the 20 trading days ending on the third trading day prior to the effective time of the Merger. If the Trading Average is equal to or greater than \$31.658 but not greater than \$38.693 per share, the number of shares of PennCorp Common Stock received will be adjusted so that each share of Washington National Common Stock will be exchanged for PennCorp Common Stock with a value of \$29.50 (based on the Trading Average). If the Trading Average is equal to or greater than \$28.14 but not greater than \$31.658, each share of Washington National Common Stock will be exchanged for 0.9318 shares of PennCorp Common Stock and the value of the PennCorp Common Stock received will be between \$26.22 and \$29.50 (based on the Trading Average). If the Trading Average is below \$28.14, the transaction may be terminated by Washington National unless PennCorp agrees to increase the number of shares of PennCorp Common Stock to be received by Washington National stockholders so that each share of Washington National Common Stock will be exchanged for PennCorp Common Stock with a value of \$26.22 (based on the Trading Average). If the Trading Average is equal to or greater than \$38.693 but not greater than \$42.21 per share, each share of Washington National Common Stock will be exchanged for 0.7624 shares of PennCorp Common Stock and the value of the PennCorp Common Stock received will be between \$29.50 and \$32.18 (based on the Trading Average). If the Trading Average is greater than \$42.21, the transaction may be terminated by PennCorp unless Washington National agrees to decrease the number of shares of PennCorp Common Stock to be received by Washington National stockholders so that each share of Washington National Common Stock will be exchanged for PennCorp Common Stock with a value of \$32.18 (based on the Trading Average). As of the date hereof, neither the PennCorp Board nor the Washington National Board has determined what action it will take if the Trading Average is below \$28.14 or above \$42.21, as the case may be. However, each such action would be undertaken in accordance with the fiduciary duty of each Board to act in the best interests of its respective stockholders. The actual market value of the PennCorp Common Stock received in the Merger will depend on market conditions at the time it is received by Washington National stockholders and, therefore, may be more or less than the values referred to above.

Washington National is an insurance holding company with two principal subsidiaries: Washington National Insurance Company, which provides employee-paid disability insurance and other specialty insurance products to school employees, including teachers, administrative and custodial personnel via payroll deduction programs, and

6

PAGE 6

United Presidential Life Insurance Company, which primarily markets and sells universal life and certain interest-sensitive life insurance and annuity products to individuals and small businesses.

The PennCorp Board reviewed the terms and conditions of the Merger and determined that the Merger is fair to and in the best interests of PennCorp and its stockholders. This recommendation is based on a number of considerations, principally including the following: (i) current industry, economic and market conditions; (ii) the additional distribution channels to PennCorp's target market offered by Washington National; (iii) the complementary (i.e., non-overlapping) nature of PennCorp's and Washington National's product offerings; (iv) PennCorp's ability to use its existing payroll deduction capabilities to service Washington National policyholders without a proportionate increase in costs; (v) future statutory income expected to be received from Washington National's closed block of annuity business; (vi) potential consolidation savings resulting from the Merger; (vii) the financial condition, results of operations and cash flows of PennCorp and Washington National, both on a historical and a prospective basis; (viii) the historical market prices and trading volumes of the PennCorp Common Stock and Washington National Common Stock; (ix) management's expectation that the Merger will be accretive to PennCorp's earnings per share in 1997; and (x) results of due diligence.

INSURANCE

The Company's insurance subsidiaries underwrite a variety of individual insurance products with the primary emphasis on modest premium policies in the accumulation, life and fixed benefit product sectors. Fixed benefit products include indemnity insurance policies in which the benefit amounts are fixed at the time of policy issue. Those products provide supplemental income payments directly to the insured who is disabled and unable to work due to accident or sickness. Life products are primarily low face amount traditional whole life or universal life products which build cash values that are available to the policyholder. Accumulation products include various forms of annuity products which are utilized by policyholders primarily as a means of tax deferred savings. The following table presents the historical

percentages of consolidated insurance operations revenues derived from these product types:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	PERCENTAGE OF CONSOLIDATED INSURANCE OPERATIONS REVENUES AS OF DECEMBER 31,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Fixed benefit	67.1%	48.8%	34.1%
Life	32.9	43.5	46.2
Accumulation	--	7.7	19.7
Total	100.0%	100.0%	100.0%

</TABLE>

The amount of annualized premium in force and policy activity by type of business for the past three years is as follows:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	ANNUALIZED PREMIUM IN FORCE AS OF DECEMBER 31,		
	1994	1995	1996
(Dollars in thousands)			
<S>	<C>	<C>	<C>
Fixed benefit	\$179,791	\$189,681	\$194,475
Life(1)	131,134	216,263	327,538
Total	\$310,925	\$405,944	\$522,013

</TABLE>

(1) Life annualized premium in force includes target premium for interest sensitive products. Interest sensitive policy revenue may vary from target premium as policyholders have no obligation to pay target premium. Additionally, interest sensitive policy revenues are determined based upon contractual charges assessed against policyholder fund and are not determined by policy revenues collected.

<TABLE>

<CAPTION>

	1994		1995			1996		
	Fixed Benefit	Life	Fixed Benefit	Life	Accumulation	Fixed Benefit	Life	Accumulation
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Policies in force - January 1, . . .	786,772	309,549	761,082	422,056	6,861	733,893	562,620	34,854
New issues	124,459	50,743	111,999	60,097	1,691	81,547	54,157	4,834
Business acquired, net	--	131,882	200	170,136	32,069	15,664	67,731	64,210
Policies terminated	(150,149)	(70,118)	(139,388)	(89,669)	(5,767)	(133,032)	(125,811)	(13,633)
Policies in force -December31,. . .	761,082	422,056	733,893	562,620	34,854	698,072	558,697	90,265

</TABLE>

As a result of the acquisition of Integon Life, the Company acquired a substantial block of credit insurance policies (550,152 policies at acquisition, 187,244 policies as of December 31, 1996). Integon Life no longer markets such products and nearly all of Integon Life's credit insurance is subject to a 100.0% coinsurance agreement. Such policies have been excluded from the above table.

MARKETING AND DISTRIBUTION

The Company's insurance subsidiaries collectively are licensed to market the Company's insurance products in all states (other than New York) and in the District of Columbia, all provinces of Canada, Puerto Rico, Panama and certain Caribbean countries. In addition, the Company is authorized to sell its products at U.S. military installations in foreign countries.

The Company's broadly defined markets are reached through four primary distribution channels: agents contracted exclusively with the Company, independent general agents who sell on an individual basis, independent general agents who sell through payroll deduction programs and arrangements for distribution through various financial institutions. Those market segments are further divided as follows:

MAJOR MARKET	SUB-MARKET
Individual	Low and moderate income households Non-English speaking households U.S. military enlistees Suburban and rural locales
Government	Local governments and governmental agencies U.S. federal government Self-employed

Each of the Company's market segments may be served by each of the primary distribution channels. Additionally, though there are certain regions in which all sales forces are active, the Company's sales forces generally operate in geographically discrete regions.

The following tables illustrate, by direct cash premium collected for the year ended December 31, 1996 and relative percentages, the principal marketing regions in which the Company collected in excess of \$10.0 million of policy revenues for the year ended December 31, 1996.

DIRECT PREMIUM COLLECTED						
Jurisdiction	Company	Penn Life	Integon Life	AA Life	Professional	UC Life(1), (2)
(Dollars in thousands)						
Canada . . .	\$ 43,064	\$ 43,055	\$ 2	\$ 7	\$ --	\$ --
North Carolina	38,336	1,222	32,633	1,821	2,200	460
Florida . . .	35,977	1,928	9,848	2,578	7,757	13,866
Missouri . .	33,538	4,343	776	673	114	27,632
Georgia . . .	31,173	945	19,708	1,538	8,155	827
Louisiana . .	30,986	424	1,144	656	637	28,125
Texas	20,438	3,512	6,367	4,695	1,682	4,182
California . .	20,402	8,191	5,976	3,537	85	2,613
Illinois . . .	18,189	3,805	2,931	1,027	37	10,389
Ohio	14,135	4,610	2,533	1,233	335	5,424
South Carolina	13,301	881	5,977	1,084	1,642	3,717
Virginia . . .	12,390	1,648	6,589	2,402	473	1,278
Alabama . . .	10,235	1,927	4,276	749	2,704	579
Subtotal . .	322,164	76,491	98,760	22,000	25,821	99,092
All Others . .	138,379	48,562	43,323	24,815	6,541	15,138
Total	\$460,543	\$125,053	\$142,083	\$46,815	\$32,362	\$114,230

(1) Primarily single premium deferred annuity premiums.
(2) Includes \$16,811 of variable annuity premiums collected on a separate account basis.

PERCENTAGE OF TOTAL DIRECT PREMIUM						
Jurisdiction	Company	Penn Life	Integon Life	AA Life	Professional	UC Life(1), (2)
Canada	9.4%	9.4%	--%	--%	--%	--%

North Carolina	8.3	0.2	7.1	0.4	0.5	0.1
Florida . . .	7.8	0.4	2.1	0.6	1.7	3.0
Missouri . .	7.3	0.9	0.2	0.2	--	6.0
Georgia . . .	6.8	0.2	4.3	0.3	1.8	0.2
Louisiana . .	6.7	0.1	0.3	0.1	0.1	6.1
Texas	4.4	0.8	1.3	1.0	0.4	0.9
California .	4.4	1.8	1.3	0.8	--	0.5
Illinois . .	3.9	0.8	0.6	0.2	--	2.3
Ohio	3.2	1.0	0.6	0.3	0.1	1.2
South Carolina	2.9	0.2	1.3	0.2	0.4	0.8
Virginia . .	2.7	0.4	1.4	0.5	0.1	0.3
Alabama . . .	2.2	0.4	0.9	0.2	0.6	0.1
	-----	-----	-----	-----	-----	-----
Subtotal . .	70.0	16.6	21.4	4.8	5.7	21.5
All Others .	30.0	10.6	9.4	5.4	1.3	3.3
	-----	-----	-----	-----	-----	-----
Total . . .	100.0%	27.2%	30.8%	10.2%	7.0%	24.8%
	=====	=====	=====	=====	=====	=====

</TABLE>

- (1) Primarily single premium deferred annuity premiums.
- (2) Includes \$16,811 of variable annuity premiums collected on a separate account basis.

Career Sales Force

Penn Life's agents constitute substantially all of the Company's career sales force. Penn Life is organized under a regional/branch office structure. The sales regional managers are responsible for approximately 100 sales locations in the United States and Canada. Commissions are shared among the regional and branch office managers and the writing agent. Commissions allocated to the branch offices are used to pay "overwrite" commissions to agents who train new agents and to pay the expenses of the branch office. Any commissions allocated to the branch

9

PAGE 9

offices remaining after payment of "overwrite" commissions and expenses, essentially the branch "profit," are allocated between the senior sales managers and the Company. The Company retained approximately \$2.8 million, \$2.8 million and \$2.4 million during 1996, 1995 and 1994, respectively, in profit sharing income, which is recorded as an offset to commissions. Because the sales managers and the Company share in the profits and losses of the sales regions, managers have a significant incentive to focus on the bottom line results of the sales offices for which they are responsible. The Company believes that this compensation system promotes efficient field office administration. The Company also believes that this system enhances agent loyalty and encourages agents to recruit and train new agents and become sales managers.

Management believes that the expansion of the Penn Life sales force can best be accomplished by broadening the base of sales offices participating in the profit-sharing structure discussed above. Penn Life has opened the following new offices and continues to evaluate additional geographic locations which will complement the current office network.

NEW LOCATIONS

<TABLE>

<CAPTION>

1994	1995	1996
-----	-----	-----
<S>	<C>	<C>
Richmond, VA	Bellaire, TX	Salt Lake City, UT
Houston, TX	Amarillo, TX	San Antonio, TX
Newark, DE	Springfield, MO	Gainesville, FL
	Gilbert, AZ	Portland, OR

</TABLE>

The Penn Life career sales force is organized into three distinct divisions: Instant Issue, Special Services and Individual Life. The Instant Issue and Special Services Divisions sell fixed benefit products and the Individual Life Division sells life products. All divisions concentrate primarily on individual sales or sales to self-employed individuals.

Instant Issue. Instant Issue agents make "cold call" door-to-door presentations and market small denomination policies that provide scheduled payments in fixed amounts to insureds who, as a result of specified types of

accidents, become unable to work or who become hospitalized. The relatively modest annual premium required to purchase this policy facilitates the initial sale. Prior to 1996, the Instant Issue agent typically utilized a special field-underwritten policy form that required the applicant to answer certain questions designed to confirm that the applicant is within the Company's basic underwriting guidelines. During 1996, the Company determined that the use of field-underwritten policies needed to be curtailed for a significant number of products typically sold by this sales force. To the extent similar products are sold, the products are now primarily underwritten in the home office. Such action was instituted by management to help curb rising loss ratios in Instant Issue products.

Special Services. Instant Issue policyholders are a significant source of leads for the Special Services Division. A Special Services agent visits the policyholder's residence to collect renewal premiums on products purchased from the Instant Issue Division. The sales agent also delivers a standardized sales presentation on more comprehensive and higher premium policies. These policies either provide scheduled payments to insureds who are required to be hospitalized as the result of accident or sickness or, less frequently, scheduled payments to insureds who are disabled and unable to work as a result of accident or sickness.

Individual Life. Existing policyholders are the primary source of leads for the Individual Life Division, which sells life products. The Company has worked to restructure this division, expand its product portfolio and aggressively recruit new agents. New product offerings include universal life products and term life products which have been widely accepted by the Penn Life sales force.

10

PAGE 10

The Penn Life sales force is made up of approximately 1,000 agents who produce business annually. The following table sets forth information regarding the career sales division:

<TABLE>
<CAPTION>

	1994	1995	1996
	----	----	----
	(Dollars in thousands)		
<S>	<C>	<C>	<C>
INSTANT ISSUE			
Agents under contract	800	643	682
Weekly average agents producing new business	266	213	225
Submitted annualized new business premiums	\$13,839	\$11,685	\$9,497
Annualized new business premium per agent	\$52.0	\$54.9	\$42.2
SPECIAL SERVICES			
Agents under contract	570	1,001	962
Weekly average agents producing new business	309	342	393
Submitted annualized new business premiums	\$25,825	\$29,122	\$30,936
Annualized new business premium per agent	\$83.6	\$85.2	\$78.7
INDIVIDUAL LIFE			
Agents under contract	150	161	197
Weekly average agents producing new business	69	75	91
Submitted annualized new business premiums	\$6,606	\$6,969	\$8,224
Annualized new business premium per agent	\$95.7	\$92.9	\$90.4
TOTAL ALL CAREER SALES DIVISIONS			
Agents under contract	1,520	1,805	1,841
Weekly average agents producing new business	644	630	709
Submitted annualized new business premiums	\$46,270	\$47,776	\$48,657
Annualized new business premium per agent	\$71.8	\$75.8	\$68.6

</TABLE>

Penn Life is continually striving to develop a core group of agents with proven ability to produce and service new business. The focus on a strong core group of agents has allowed the Company to increase productivity over the past few years without a related incremental increase in agent overhead expenses.

The revenue earned by the career sales distribution system by product type is shown below:

<TABLE>
<CAPTION>

INSURANCE PRODUCT TYPE	1994	1995	1996
-----	----	----	----

	(Dollars in millions)		
<S>	<C>	<C>	<C>
Fixed benefit	\$153.2	\$156.0	\$148.1
Life	30.7	34.4	32.8
Accumulation	--	0.5	1.0
	-----	-----	-----
Total	\$183.9	\$190.9	\$181.9
	=====	=====	=====

</TABLE>

The percentage of career sales division revenue to the Company's total insurance operations revenue by product type is shown below:

<TABLE>			
<CAPTION>			
INSURANCE PRODUCT TYPE	1994	1995	1996
-----	----	----	----
<S>	<C>	<C>	<C>
Fixed benefit	77.6%	76.7%	76.8%
Life	31.7	19.0	12.6
Accumulation	--	1.4	0.9
Total division policy revenue to Company policy revenue	62.5	45.8	32.2

</TABLE>

Payroll Sales Division

The payroll sales division includes marketing units of Professional, AA Life and OLIC. Each of the marketing units is divided into regions utilizing a hierarchical approach to managing the sales representative. Additionally, AA Life and OLIC also utilize field marketing directors and independent marketing organizations to access potential policyholders.

The payroll sales division markets products solely through the channels of employer-sponsored payroll deduction or government-sponsored allotment programs. Under those programs, the agent is permitted by the employer to meet on the employer's premises with its employees and to make both group and individual presentations implicitly endorsed by the employer concerning available products. If an employee elects to purchase a policy, arrangements are made with the employer to deduct the premiums from the employee's wages. The employer therefore is able to provide its employees with insurance benefits without incurring any premium costs. The Company's billing system can be integrated into the employer's payroll system without additional cost to the employer, a feature that facilitates the Company's access to employees of businesses that have not previously participated in payroll deduction programs.

The following tables set forth information regarding the payroll sales division:

<TABLE>			
<CAPTION>			
PAYROLL SALES DIVISION	1994	1995	1996
-----	----	----	----
	(Dollars in thousands)		
<S>	<C>	<C>	<C>
Agents under contract	6,563	6,578	7,539
Number of annually producing agents	3,170	2,684	2,750
Annualized new business premium	\$38,080	\$39,435	\$39,069
Annualized new business premium per producing agent	\$12.0	\$14.7	\$14.2

</TABLE>

The revenue earned by the payroll sales division by product type is shown below:

<TABLE>			
<CAPTION>			
INSURANCE PRODUCT TYPE	1994	1995	1996
-----	----	----	----
	(Dollars in millions)		
<S>	<C>	<C>	<C>
Fixed benefit	\$37.8	\$38.0	\$39.5
Life	44.9	82.0	84.1
Accumulation	--	5.9	8.0
	-----	-----	-----
Total	\$82.7	\$125.9	\$131.6

</TABLE>

The percentage of the payroll sales division revenue to the Company's total insurance operations revenue by insurance product is shown below:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	1994	1995	1996
<S>	<C>	<C>	<C>
Fixed benefit	19.2%	18.7%	20.5%
Life	46.3	45.2	32.3
Accumulation	--	18.5	7.2
Total division policy revenue to Company policy revenue	28.1	30.2	23.3

</TABLE>

Individual Sales Division

The individual sales division includes marketing units of Integon Life and OLIC. The individual sales division markets products to individual customers through leads developed over time. This division utilizes field marketing directors and affiliations with independent marketing organizations to reach its customer base.

The sales agents for this division often make sales presentations on a one-on-one basis with potential prospects. Sales representatives are often faced with competition from other agents and/or products from other companies.

The following tables set forth information regarding the individual sales division:

<TABLE>

<CAPTION>

INDIVIDUAL SALES DIVISION	1994	1995	1996
(Dollars in thousands)			
<S>	<C>	<C>	<C>
Agents under contract	1,895	4,638	6,194
Number of annually producing agents	749	2,033	2,092
Annualized new business premium	\$6,011	\$11,879	\$16,926
Annualized new business premium per producing agent	\$8.0	\$5.8	\$8.1

</TABLE>

The revenue earned by the individual sales division by product is shown below:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	1994	1995	1996
(Dollars in millions)			
<S>	<C>	<C>	<C>
Fixed benefit	\$6.3	\$9.4	\$5.0
Life	21.3	65.0	137.5
Accumulation	--	25.9	52.7
Total	\$27.6	\$100.3	\$195.2

</TABLE>

The percentage of the individual sales division revenue to the Company's total insurance operations revenue by insurance product is shown below:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	1994	1995	1996
<S>	<C>	<C>	<C>
Fixed benefit	3.2%	4.6%	2.6%
Life	22.0	35.8	52.7
Accumulation	--	80.1	47.4
Total division policy revenue to Company policy revenue	9.4	24.0	34.6

</TABLE>

Financial Services Division

The financial services division is comprised of UC Life and Marketing One Financial Corporation ("Marketing One"). Marketing One is one of the nations oldest and largest third-party marketers of annuity and mutual fund products. Founded in 1983 in Portland, Oregon, the company pioneered the distribution of annuities through the bank distribution channel. In 1985, Marketing One expanded its services to the securities arena. Marketing One has assisted over 300 financial institutions, ranging in size from large regional banks to small community banks and thrifts, with their alternative investment programs. Services provided include training thousands of representatives, sales managers, and administrative staff. Marketing One has annual sales in excess of \$1.0 billion.

UC Life markets single premium of annuity and securities products and variable annuity products through independent agents, financial institutions and financial planners.

The following tables set forth information regarding the financial services division:

<TABLE>

<CAPTION>

	1996

	(Dollars in thousands)
	<C>
FINANCIAL SERVICES DIVISION	
Agents under contract	2,970
Number of annually producing agents	750
Annualized new business premium	\$101,602
Annualized new business premium per producing agent	\$135.47

</TABLE>

The revenue earned by the financial services division by product is shown below:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	1996
-----	----
	(Dollars in millions)
	<C>
Fixed benefit	\$ 0.3
Life	6.2
Accumulation	49.5

Total	\$56.0
	=====

</TABLE>

The percentage of the financial services division revenue to the Company's total insurance operations revenue by insurance product is shown below:

<TABLE>

<CAPTION>

INSURANCE PRODUCT TYPE	1996
-----	----
	<C>
Fixed benefit	0.2%
Life	2.4
Accumulation	44.5
Total division policy revenue to Company policy revenue	9.9

</TABLE>

PRODUCTS

General

The Company's products generally are small premium policies with

defined fixed benefits or low face amount life insurance policies, each of which demonstrate stable risk characteristics. The recent acquisitions of Integon Life and UC Life added a portfolio of accumulation products for which the Company actively manages pricing spreads.

Product profitability is achieved through a pricing policy that is based upon conservative actuarial assumptions which take into account the underwriting risks associated with the product being sold, including lapse rates, mortality, morbidity and whether the product is underwritten in the field or by the home office, as well as the administrative expenses associated with the business. The Company, on an ongoing basis, evaluates new products for use by its sales forces.

The Company believes that, because of the characteristics of the market it serves and the nature of its products, the lapse rates for its products, although stable, tend to be higher than those experienced by other life and health insurance companies that operate in more affluent markets. The Company prices its products to reflect these higher lapse rates. To encourage policyholders to maintain their coverages with the Company, fixed benefit products generally incorporate a small fixed annual increase in benefits. Early surrender of accumulation and life products is discouraged by either their low rate of accumulation of cash values or by high surrender charges.

Fixed Benefit Products

Fixed benefit products are sold in large volume and are characterized by low average annual premiums. These products provide one or more of three principal types of benefits: (i) fixed periodic payments to an insured who becomes disabled and unable to work because of an accident and/or sickness, (ii) fixed periodic payments to an insured who becomes hospitalized, and (iii) fixed single payments that vary in amount generally for specified surgical or diagnostic procedures. Because the benefits are fixed in amount at the time of policy issuance and are not intended to provide reimbursement for medical and hospital expenses, payment amounts are not affected by inflation or the rising cost of health care services. Fixed benefit products, primarily those covering inability to work due to an accident, provide payments while the insured is disabled and unable to work, subject to the terms and conditions of the applicable policy. Fixed benefit products under which payments are made to insureds who are disabled and unable to work may be purchased with coverage for either (i) specified types of accidents, (ii) all other types of accidents, or (iii) a combination of accident and sickness. The Company's practice is to sell products that,

14

PAGE 14

together with other similar coverages, do not provide monthly benefits in excess of \$2,000 or 75% of the insured's income, if less.

Certain fixed benefit products, primarily those covering hospitalization due to sickness, provide payments during the period the insured is hospitalized. Most of the Company's fixed benefit products also provide additional fixed periodic payments to an insured who becomes hospitalized. Payments under these products are not designed to cover the actual costs of the insured's hospital stay, but merely to provide the insured with a means of paying supplemental expenses during the hospitalization period. The Company's practice is to provide hospitalization benefits of not more than \$250 per day (\$1,000 per day if the insured requires intensive care treatment).

The accident and sickness policies also may be purchased with riders providing for fixed single payments that vary in amount generally for various surgical and diagnostic procedures. The Company's practice is to sell riders that do not provide benefit payments in excess of \$5,000. If the covered procedure is performed on an out-patient basis, the insured receives one-half of the scheduled payment.

Life Insurance Products

Of the policy revenues attributable to life products, approximately 50.9% are related to interest sensitive life insurance policies and the remainder are related to traditional term and whole life insurance policies.

The Company designs its interest sensitive life insurance policies to avoid the early accumulation of cash values and to discourage early surrenders or terminations by imposing relatively high average surrender charges. This is done to reduce the risk of the Company's insurance subsidiaries having to liquidate investment assets to meet a liquidity demand resulting from the surrender of large numbers of life insurance policies. In addition to the basic policies, policyholders also may purchase accidental death, waiver of premium and annuity riders. The average face amount of the life insurance policies sold

in the twelve months ended December 31, 1996 was \$45,000. The average face amount of the life insurance policies in force at December 31, 1996 was \$45,000.

Accumulation Products

For life insurance policyholders seeking a convenient investment vehicle for their excess funds, the Company offers single premium deferred annuities, flexible premium deferred annuities and variable annuity products. Historically, the Company had not actively marketed accumulation products.

The acquisition of UC Life provided the Company with its first platform to actively market accumulation products. Prior to its acquisition by PennCorp, Integon Life ceased marketing various annuity products as a result of changes in its ratings and financial performance.

As of December 31, 1996, the Company maintained annuity reserves aggregating \$2,030.4 million at an average credited rate of interest of 5.3%. Of the \$2,030.4 million of annuity reserves, approximately 75.7% were subject to surrender charges averaging 5.1% of the contract holder's account balance.

INSURANCE UNDERWRITING

Prior to 1996, most of the products offered by the instant issue sales forces, primarily accident only products, were field underwritten. Beginning in 1996, for nearly all fixed benefit products, the underwriting practice of the Company allows the home office underwriting staff to review each applicant's written application for insurance and, if applicable, an attending physician's report. In some circumstances, the Company will require a more complete medical history before issuing a policy, which may be issued with exclusionary riders. The Company's current practice is not to issue fixed benefit products to individuals in substandard risk classes to the extent permitted by law.

In general, the Company permits simplified underwriting of life products, unless the amount of requested coverage is greater than specified levels between \$25,000 and \$100,000, depending on the age of the applicant. If full underwriting is required, the Company reviews the policy application and an attending physician's report and may require a paramedical examination or complete physical examination depending on the age of the applicant and the amount of coverage requested. If the total amount of coverage applied for plus any coverage in force with the

15

PAGE 15

Company exceeds \$100,000, a prospective policyholder must submit to screening for antibodies related to Acquired Immune Deficiency Syndrome ("AIDS"), to the extent permitted by law. The life products are specifically designed and priced for the mortality risks associated with the Company's simplified underwriting procedures.

Although the increasing incidence of AIDS is expected to affect mortality adversely for the life insurance industry as a whole, the Company believes that the impact of AIDS on its operations should not be material due to the small average size of the life insurance policies sold. The Company requires and considers AIDS information to the fullest extent permitted by law in underwriting and pricing decisions. During the twelve months ended December 31, 1996, 1995 and 1994, the Company paid approximately \$3.2 million, \$1.9 million and \$728,000, respectively in death benefits (representing less than 3.2% of total death benefits paid by the Company during each such period) under individual life policies due to deaths believed by the Company to be AIDS-related. INVESTMENT PORTFOLIO

The Company's investment portfolio is managed with the objectives of maintaining high credit quality and liquidity, maximizing current income within acceptable levels of risk, minimizing market and credit risk and matching the anticipated maturities of investments to the Company's liabilities. To achieve these objectives, the portfolio consists primarily of United States and Canadian government and investment-grade fixed maturity securities, which together with high quality short-term investments accounted for approximately 79.7% and 82.8% of the Company's total invested assets at December 31, 1996 and 1995, respectively. The Company believes that the nature of its fixed benefit products, which have no inflation risk, and its life products, which limit the early accumulation of cash values, permit it to utilize this conservative investment strategy.

At December 31, 1996, 58.6% of the Company's fixed maturity bonds were rated Aa or higher by Moody's and approximately 91.4% were rated Baa or higher by Moody's, respectively. All dollar amounts or percentages set forth in this discussion are based on carrying value unless otherwise indicated.

Other than issues of the United States and Canadian governments and government agencies and authorities, no single issuer represented more than 0.6% of total invested assets at December 31, 1996.

The following table summarizes the Company's investments as of December 31, 1996:

<TABLE>
<CAPTION>

	AMORTIZED COST ----	MARKET VALUE (1) -----	CARRYING VALUE -----	PERCENT OF CARRYING VALUE -----
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Fixed maturities held for investment:				
Investment-grade corporate bonds	\$ 6,293	\$ 6,305	\$ 6,293	0.2%
Below-investment-grade corporate bonds	34,624	34,624	34,624	0.9
Non-rated corporate bonds . . .	46,413	48,830	46,413	1.3
	-----	-----	-----	-----
Total securities held for investment	87,330	89,759	87,330	2.4
	-----	-----	-----	-----
Fixed maturities available for sale:				
U.S. Government and agency bonds	279,534	282,685	282,685	7.8
Debt securities issued or guaranteed by foreign governments(2)	80,492	88,671	88,671	2.4
Municipal bonds	52,384	52,209	52,209	1.4
Investment-grade corporate bonds	984,186	1,002,709	1,002,709	27.5
Below-investment-grade corporate bonds	91,589	92,494	92,494	2.5
Non-rated corporate bonds . . .	44,671	46,067	46,067	1.3
Mandatory Redeemable Preferred Stocks	770	766	766	0.0
Mortgage-backed bonds	1,408,124	1,428,324	1,428,324	39.2
	-----	-----	-----	-----
Total securities available for sale	2,941,750	2,993,925	2,993,925	82.1
	-----	-----	-----	-----
Trading Securities:				
Equity securities	1,796	2,050	2,050	0.1
Short-term investments	29,090	29,090	29,090	0.8
	-----	-----	-----	-----
Total trading securities . . .	30,886	31,140	31,140	0.9
	-----	-----	-----	-----
Equity securities	17,511	20,867	20,867	0.6
Commercial mortgages	202,268	205,384	202,268	5.5
Residential mortgages	54,730	56,024	54,730	1.6
Real estate	23,522	23,522	23,522	0.6
Policy loans	145,976	145,976	145,976	4.0
Short-term investments	63,113	63,113	63,113	1.7
Other investments	23,326	23,326	23,326	0.6
	-----	-----	-----	-----
Total invested assets	\$3,590,412	\$3,653,036	\$3,646,197	100.0%
	=====	=====	=====	=====

</TABLE>

- (1) Market values are obtained principally from the Company's investment advisor.
- (2) Consists principally of Canadian provincial government bonds and bonds issued or guaranteed by the Canadian federal government (in U.S. \$).

The table set forth below indicates the composition of the Company's fixed maturity portfolio by rating as of December 31, 1996:

<TABLE>
<CAPTION>

	HELD FOR	AVAILABLE	TOTAL CARRYING	PERCENT OF TOTAL
--	----------	-----------	-------------------	------------------

RATING (1)	INVESTMENT	FOR SALE	VALUE	CARRYING VALUE
(Dollars in thousands)				
<S>	<C>		<C>	<C>
Aaa	\$ --	\$1,733,170	\$1,733,171	56.2%
Aa		72,441	72,441	2.4
A	3,065	584,643	587,708	19.1
Baa	3,228	418,425	421,653	13.7
Total investment grade	6,293	2,808,679	2,814,973	91.4
Ba	22,562	85,666	108,228	3.5
B	12,062	6,828	18,889	0.6
Total below-investment grade	34,624	92,494	127,117	4.1
Nonrated	42,413	92,752	139,165	4.5
Total bonds	\$87,330	\$2,993,925	\$3,081,255	100.0%

</TABLE>

(1) Includes approximately \$329.5 million of United States government and agency bonds and approximately \$88.7 million of Canadian provincial government bonds and bonds issued or guaranteed by the Canadian federal government (in U.S. \$).

Of the bonds held by the Company, approximately 89.2% were in the highest two NAIC designations at December 31, 1996. The following table sets forth as of December 31, 1996, the carrying values of these securities according to NAIC designations:

<TABLE>

<CAPTION>

NAIC RATING	HELD FOR INVESTMENT	AVAILABLE FOR SALE	TOTAL CARRYING VALUE	PERCENT OF TOTAL CARRYING VALUE
(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>
Class 1(1)	\$ 1,165	\$2,306,852	\$2,308,017	74.9%
Class 2 . . .	6,050	433,066	439,116	14.3
Class 3 . . .	8,912	68,511	77,423	2.4
Class 4 . . .	14,706	6,804	21,510	0.7
Class 5 . . .	--	10,990	10,990	0.4
Class 6 . . .	--	--	--	--
Nonrated	56,497	167,702	224,199	7.3
Total . . .	\$87,330	\$2,993,925	\$3,081,255	100.0%

</TABLE>

(1) Includes approximately \$329.5 million of United States government and agency bonds and approximately \$88.7 million of Canadian provincial government bonds and bonds issued or guaranteed by the Canadian federal government (in U.S. \$).

The following table reflects investment results for the Company for each of the periods indicated.

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1994	1995	1996
(Dollars in thousands)			
<S>	<C>	<C>	<C>
End of period total invested assets(1)	\$822,627	\$2,286,203	\$3,673,504
Net investment income(2) . . .	51,850	102,291	213,563
Net realized investment gains (losses) (3)	(3,556)	595	1,257
Average annual yield	7.3%	7.3%	7.7%

</TABLE>

-
- (1) Consists of total investments plus cash, less amounts due to brokers for securities committed to be purchased at end of period.
 - (2) Net investment income is net of investment expenses and excludes capital gains or losses and provision for income taxes.
 - (3) Amounts shown above are before income taxes, and include provisions for impairments in value which are considered to be other than temporary.

The Company's investments must comply with the insurance laws of the states in which its insurance subsidiaries are domiciled and in which they are licensed as well as applicable provisions of the Company's 9 1/4% Senior Subordinated Notes due 2003. These laws and provisions prescribe the kind, quality and concentration of investments that may be made by the Company and/or its insurance subsidiaries.

REINSURANCE

In keeping with industry practice, the Company reinsures portions of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance agreements. New insurance sales are reinsured above prescribed limits and do not require the reinsurer's prior approval under contracts that are renewable on an annual basis. Generally, the Company enters into indemnity reinsurance arrangements to assist in diversifying its risk and to limit its maximum loss on risks that exceed the Company's policy retention limits ranging from \$25,000 to \$300,000 per life, depending on insurer issue age, the product type and each subsidiaries historical practice. Generally, accidental death benefits in excess of \$50,000 per life are reinsured on a bulk basis. Indemnity reinsurance does not fully discharge the Company's obligation to pay policy claims on the reinsured business. The ceding insurer remains responsible for policy claims to the extent the reinsurer fails to pay such claims. At no time during the past ten years has any present reinsurer of any continuing block of business ceded by any of the Company's insurance company subsidiaries failed to pay any policy claims with respect to such ceded business. At December 31, 1996 and 1995, of the approximately \$31.5 billion and \$25.9 billion of life insurance in force, approximately \$5.8 billion and \$3.1 billion had been ceded to reinsurers, respectively. As of December 31, 1996 the Company's principal reinsurers are North American Reassurance Corp., Reassurance Company of Hanover, Cologne Life Reinsurance Co., Life Reassurance Corp. of America, Worldwide Assurance Company, Ltd., Lincoln National Life Insurance Company and Lincoln National Reassurance Company which collectively have reinsured approximately 50% of the ceded business.

COMPETITION

The accident and health and life insurance industry is highly competitive. PennCorp competes with many insurance companies and insurance holding company systems that have substantially greater capital and surplus, higher A.M. Best Company ("A. M. Best") ratings, larger and more diversified product portfolios, and access to larger agency sales forces. In the United States, there are more than 1,700 life and accident and health insurance companies, most of which compete in the states in which PennCorp conducts business.

Private insurers and voluntary and cooperative plans, such as Blue Cross and Blue Shield, provide insurance for meeting hospitalization and medical expenses. Much of this insurance is sold on a group basis. The federal and state governments also pay substantial costs of medical treatment through Medicare and Medicaid programs. Such major medical insurance generally covers a substantial amount of the medical (but not non-medical) expenses incurred by an insured as a result of major illnesses. PennCorp's fixed benefit products policies are designed to provide coverage which is supplemental to that provided by major medical insurance and may also be used to defray non-medical expenses.

PennCorp's supplemental insurance is not an alternative to major medical insurance, but is sold to complement major medical insurance by covering the gap between major medical insurance reimbursements and the total costs of an individual's health-care expense.

Thus, the Company competes directly with other insurers offering supplemental health insurance and believes that its current policies and premium rates are generally competitive with those offered by other companies selling similar types of insurance. Management believes that the Company's product and market focuses are not widespread in the insurance industry and that it generally does not face direct competition from major national

insurers, although the Company experiences competition from smaller, regional insurance companies. Management also believes that few major national insurers compete directly in the sale of fixed benefit products and life products to the primary market sub segments to which the Company is focused.

The Company's expansion of its product line to include a higher percentage of life and accumulation product revenue as compared to the total revenue has resulted in a broadening of the markets in which the Company faces competition. The sale of life insurance products, and to a greater extent, the sale of accumulation products is very sensitive to an organizations A. M. Best rating, its size and perceived financial strength and the competitiveness and the financial performance of the products themselves. Like the market focus of its fixed benefit products, the Company believes that its target market is not widely served by many of the large, national insurers, but does face direct competition from smaller regional and niche-market focused companies.

The Company's growth strategy emphasizes the acquisition of complementary insurance operations. The Company competes for acquisition candidates with other domestic and international insurance and financial institutions, some of which have substantially greater capital and resources.

REGULATORY MATTERS

Life insurance companies are subject to regulation and supervision by the states in which they transact business. The laws of the various states establish regulatory agencies with broad administrative and supervisory powers related to, among other things, granting and revoking licenses to transact business, regulating trade practices, establishing guaranty associations, licensing agents, approving policy forms, filing premium rates on certain business, setting reserve requirements, determining the form and content of required financial statements, determining the reasonableness and adequacy of capital and surplus and prescribing the type of permitted investments and the maximum concentrations of certain classes of investments. The Company's insurance subsidiaries are subject to periodic examinations by state regulatory authorities. Management does not expect the results of any on-going examinations to have a material effect on the financial condition of the Company.

Most states have enacted legislation regulating insurance holding company systems, including acquisitions of control of insurance companies, dividends, the terms of surplus debentures, the terms of transactions with affiliates, investments in subsidiaries and other related matters. Regulatory restrictions on investments in subsidiaries and affiliates requires the Company to continually review and occasionally modify or restructure the insurance subsidiaries within the insurance holding company system. The Company has ongoing dialogues with the applicable state insurance departments regarding this issue. The Company is registered as an insurance holding company system in Florida, Louisiana, North Carolina, Pennsylvania and Texas, (the domiciliary states of its insurance companies), and routinely reports to other jurisdictions in which its insurance subsidiaries are licensed.

There continues to be substantial scrutiny of the insurance regulatory framework, and a number of state legislatures have enacted legislative proposals that alter, and in many cases increase, state authority to regulate insurance companies and their holding company systems. The NAIC and state insurance regulators also have become involved in a process of reexamining existing laws and regulations and their application to insurance companies. In particular, this reexamination has focused on insurance company investment and solvency issues and, in some instances, has resulted in new interpretations of existing law, the development of new laws and the implementation of internal guidelines. The NAIC has formed committees to study and formulate regulatory proposals on such diverse issues as the use of surplus debentures, accounting for reinsurance transactions, assumption reinsurance, valuation of securities, the adoption of risk-based capital rules, and the regulation of various products offered by insurance companies.

In connection with its accreditation of states to conduct periodic insurance company examinations, the NAIC has encouraged states to adopt model NAIC laws on specific topics, such as holding company regulations and the definition of extraordinary dividends. Model legislation proposed by the NAIC to control the amount of dividends that may be paid by insurance companies without prior regulatory approval has been adopted in most states and is being considered by the legislatures of the other states. As of the date hereof, Louisiana (UC Life's domiciliary state) and North Carolina (Integon Life's domiciliary state) have adopted the NAIC's most restrictive dividend test. Pennsylvania (Penn Life's domiciliary state), Texas (Pacific Life & Accident

Insurance Company's ("PLAIC") and AA Life's domiciliary state), and Florida (Professional's domiciliary state) have adopted dividend tests that are substantially similar to that of the NAIC's model legislation, though less restrictive than that of North Carolina. Most states only allow dividends to be paid out of unassigned funds. It is anticipated that Georgia International Life Insurance Company, Integon Life Insurance Corporation and Professional will be redomesticated to Texas in 1997 and the Texas dividend test will apply to these companies thereafter.

A dividend may be paid by Integon Life if the amount of such dividend together with all dividends made in the preceding twelve months does not exceed the lesser of (i) ten percent (10%) of the insurer's surplus as regards policyholders as of the preceding December 31, or (ii) the insurer's net gain from operations, not including realized capital gains, for the twelve month period ending the preceding December 31. Any dividend above this amount would be considered an "extraordinary" dividend, and could not be paid until the earlier of (i) 30 days after the North Carolina Insurance Commissioner has received written notice of the declaration thereof and has not within such period disapproved such payment, or (ii) the receipt of approval from the North Carolina Insurance Commissioner.

A dividend may be paid by PLIC if the amount of such dividend together with all dividends made in the preceding twelve months does not exceed the greater of (i) 10% of its statutory surplus as of the end of the prior calendar year or (ii) its net income for the prior calendar year. Any dividend above the prescribed amount is an "extraordinary" dividend, and a Pennsylvania insurer may not pay an "extraordinary" dividend to its stockholders until the earlier of (i) 30 days after the Pennsylvania Insurance Commissioner has received written notice of the declaration thereof and has not within such period disapproved such payment, or (ii) the receipt of approval from the Pennsylvania Insurance Commissioner.

Florida insurance law allows Professional to pay a dividend without prior written approval of the Florida Insurance Commissioner in an amount calculated by using one of two alternative formulas:

Alternative one -- The dividend cannot exceed the larger of: (1) the lesser of 10% of surplus or net gain from operations; or (2) 10% of surplus payable from unassigned funds plus 75% of unrealized capital gains; or (3) the lesser of 10% of surplus or net gain before capital gains payable from unassigned funds plus 75% of unrealized capital gains;

Alternative two -- The dividend cannot exceed the larger of: (1) 10% of surplus as to policyholders derived from realized net operating profits and net realized capital gains; or (2) the prior year's entire net operating profits and realized net capital gains. Alternative two also requires surplus as to policyholders equal to or exceeding 115% of minimum required statutory surplus as to policyholders after the dividend is made.

Texas law permits PLAIC and AA Life to pay a dividend without prior consent of the Texas Insurance Commissioner if the amount paid, together with all other dividends paid in the preceding 12 months, does not exceed the greater of (i) 10% of such insurer's surplus as regards to policyholders as of the 31st day of December next preceding, or (ii) the net gain from operations of such insurer for the 12 month period ending the 31st day of December next preceding. Any dividend above this amount would be considered an "extraordinary" dividend and could not be paid until (i) 30 days after the Texas Insurance Commissioner has received notice of the declaration thereof and has not within such period disapproved such payment, or (ii) the Texas Insurance Commissioner shall have approved such payment within the 30 day period

Louisiana law permits UC Life to pay a dividend without prior consent of the Louisiana Insurance Commissioner if the amount paid, together with all other dividends paid in the preceding 12 months, does not exceed the lesser of (i) 10% of such insurer's surplus as regards to policyholders as of the 31st day of December next preceding, or (ii) the insurer's net gain from operations, not including realized capital gains, for the 12 month period ending the 31st day of December next preceding. Any dividend above this amount would be considered an

"extraordinary" dividend and could not be paid until the earlier of (i) 30 days after the Louisiana Insurance Commissioner has received notice of the declaration thereof and has not within such period disapproved such payment, or (ii) the receipt of approval from the Louisiana Insurance Commissioner. As part of its July, 1996 approval of the Company's acquisition of UC Life, the Louisiana Insurance Commissioner approved a dividend plan for UC Life pursuant

to which UC Life may pay a specified amount of dividends for each of the five years following the acquisition, beginning in 1997, amounting to the lesser of the pro forma dividend amounts in such plan or the actual earnings of UC Life, and conditioned on UC Life maintaining a risk-based capital of at least 300% authorized control level.

On the basis of statutory financial statements filed with the state insurance regulators annually, the NAIC calculates twelve financial ratios to assist state regulators in monitoring the financial condition of insurance companies. A "usual range" of results for each ratio is used as a benchmark. Departure from the usual range on four or more of the ratios could lead to inquiries from individual state insurance departments. Except for American-Amicable, Pioneer American and Pioneer Security, the NAIC has not yet issued the 1996 ratios. For the other companies, the Company has calculated what it expects the ratios will be for 1996. Based on statutory financial statements for 1996, PLAIC had more than five ratios and Pioneer Security had three ratios outside of the usual range established by the NAIC. PLAIC and Pioneer Security are primarily holding companies for their principal assets, the common stock of certain of the Companies insurance subsidiaries. Integon Life Insurance Corporation and its wholly-owned subsidiary Georgia International Life Insurance Company each had two of the twelve ratios outside of the usual range which were caused primarily by changes occurring as a result of the acquisition of Integon Life by the Company. PLIC had one of the twelve ratios outside of the usual range, while OLIC and Peninsular had seven, Professional had none, American-Amicable had two, Pioneer American had none and UC Life had one of the twelve ratios outside of the usual ranges. OLIC's and Peninsular's variances were caused primarily as a result of increased reinsurance between these two companies. In the past, variances in the insurance companies' ratios have resulted in inquiries from insurance departments to which the Company has responded. Some of those inquiries have led to the writing restrictions in certain states that are discussed above. The Company may receive inquiries from certain insurance departments concerning its ratio results for 1996, and there can be no assurance that such insurance departments will not take action against the insurance companies.

In December 1992, the NAIC adopted the Risk-Based Capital for Life and/or Health Insurers Model Act (the "Model Act"). The main purpose of the Model Act is to provide a tool for insurance regulators to evaluate the capital of insurers with respect to the risks assumed by them and determine whether there is a need for possible corrective action with respect to them. To date, either the Model Act or similar legislation or regulation has been adopted in all the domiciliary states of the Company's insurance subsidiaries.

The Model Act provides for four different levels of regulatory action with respect to statutory financial statements for the calendar year 1994 and thereafter, each of which may be triggered if an insurer's Total Adjusted Capital (as defined in the Model Act) is less than a corresponding "level" of risk-based capital ("RBC"). The "Company Action Level" is triggered if an insurer's Total Adjusted Capital is less than 200.0% of its "Authorized Control Level RBC" (as defined in the Model Act) or less than 250.0% of its Authorized Control Level RBC and the insurer has a negative trend. At the Company Action Level, the insurer must submit a comprehensive plan to the regulatory authority which discusses proposed corrective actions to improve its capital position. The "Regulatory Action Level" is triggered if an insurer's Total Adjusted Capital is less than 150.0% of its Authorized Control Level RBC. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. The "Authorized Control Level" is triggered if an insurer's Total Adjusted Capital is less than 100.0% of its Authorized Control Level RBC, and at that level the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. The "Mandatory Control Level" is triggered if an insurer's Total Adjusted Capital is less than 70.0% of its Authorized Control Level RBC, and at that level the regulatory authority must take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer.

Calculations using the NAIC formula and the life insurance subsidiaries' statutory financial statements as of December 31, 1996 indicate that each of the insurance subsidiaries' (other than Salem Life) capital substantially exceeded RBC requirements. Although OLIC's capital exceeded RBC requirements, the excess is less substantial than that of the Company's other insurance subsidiaries.

The State of Michigan requires insurance companies to requalify for their insurance licenses following a change in control, and has enacted legislation substantially increasing capital and surplus requirements

for companies filing requalification applications following a change in control. This requalification requirement impacts the Company since it is active in the acquisition of insurance companies. Thus far, it has had a minimal impact on the Company as none of the insurance companies acquired that have failed to requalify in Michigan had in excess of 4% of their total collected premiums prior to acquisition attributable to Michigan.

Certain licenses of the Company's insurance company subsidiaries are subject to limits on the amount of new business that may be written in various states. Of these license restrictions, most were imposed prior to the acquisition of the relevant insurance subsidiary by PennCorp, or relate to events occurring prior to those acquisitions. These license restrictions have not had a material adverse effect on the Company's results of operations and are not expected to have a material adverse effect in the future. In some states, a license restriction, suspension or revocation by another state may result in reciprocal regulatory action.

The Company may be required, under the solvency or guaranty laws of most states in which it does business, to pay assessments (up to certain prescribed limits) to fund policyholder losses or liabilities of insurance companies that become insolvent. Recent insolvencies of insurance companies increase the possibility that such assessments may be required. These assessments may be deferred or forgiven under most guaranty laws if they would threaten an insurer's financial strength and, in certain instances, may be offset against future premium taxes. The occurrence and amount of such assessments have increased in recent years and generally are expected to increase in future years. The Company paid approximately \$2.6 million, \$1.7 million and \$1.0 million in the years ended December 31, 1996, 1995 and 1994, respectively, as a result of such assessments. The likelihood and amount of any other future assessments cannot be estimated and are beyond the control of the Company.

Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation and federal taxation can significantly affect the insurance business.

In addition, there were proposals under consideration since 1994 at the federal and state levels regarding reforms to the health care system in the United States. Although these proposals were not adopted at the federal level, many states have adopted some form of health care reform since then. These reforms have focused on the increasing cost of health care and insurance plans that reimburse insured or health care providers for medical and related costs. Because the Company's fixed benefit products provide supplemental income payments directly to the insured and are not designed to reimburse health care providers, the Company does not expect such reforms to have a material adverse effect on its business.

There can be no assurance that existing insurance-related laws and regulations will not become more restrictive in the future and thereby have a material adverse effect on the operations of the Company and on the ability of the insurance companies to pay dividends or on the ability of PLAIC, Pioneer Security and Salem Life Insurance Corporation to make payments on their respective surplus debentures. For further information related to said surplus debentures, see "Management's Discussion and Analysis of Results of Operations and Financial Condition - Financial Condition, Liquidity and Capital Resources - Surplus Debentures and Dividend Restrictions" on pages 29 and 30 and Note 13 of "Notes to Consolidated Financial Statements" on page 55 hereof.

RATINGS

A.M. Best assigns fifteen letter ratings to insurance companies, with the highest being "A++ (Superior)." A.M. Best ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors, such as holders of the Common Stock. AA Life and UC Life carry a "A- (Excellent)" rating from A. M. Best. An "A- (Excellent)" rating is the fourth highest letter rating. Professional, OLIC, Integon Life Insurance Corporation and Georgia International Life Insurance Company and PLIC carry a "B++ (Very Good)" rating from A.M. Best. A "B++ (Very Good)" rating is the fifth highest letter rating. A.M. Best also has a "Not Assigned" category, which contains nine classifications for companies not assigned or not eligible for an A.M. Best rating. The A.M. Best rating for Peninsular is "NA-9," which is a "no rating at the company's request." This classification was requested by the prior owner of Peninsular. The Company does not intend to seek a letter rating at this time for Peninsular from A.M. Best as Peninsular is not currently a direct writer of insurance products.

EMPLOYEES

At December 31, 1996, the Company had a total of 1,371 employees, of whom 1,146 are United States home office employees, 107 are Canadian employees, and 118 are employed in various regional and branch offices of the Company throughout the United States and Canada. The total employees and United States home office employees include employees of Professional, UC Life, AA Life and Marketing One. None of the Company's employees are represented by unions. The Company considers its relations with its employees to be good.

ITEM 2. PROPERTIES

FACILITIES

The Company's administrative offices are located in Raleigh, North Carolina. The Company owns and occupies a home office facility comprising approximately 165,000 rentable square feet, in Raleigh, North Carolina. The Company subleases a portion of its prior Raleigh home office facility which has a lease term expiring in 1999 and requires annual lease payments of approximately \$1.1 million.

The Company leases approximately 100 offices throughout its sales territories and has a separate Canadian business office facility that includes office and storage space. In addition, Professional leases office space in Jacksonville, Florida, American-Amicable owns its home office facility in Waco, Texas and UC Life leases office space in Baton Rouge, Louisiana. The Company believes that the current makeup of its properties is adequate for its operations and, based on its recent experience, that it will be able to find suitable replacement properties on acceptable terms for any properties the Company chooses to replace or for which leases are terminated or not renewed.

ITEM 3. LEGAL PROCEEDINGS

In January 1996, stockholder derivative lawsuits styled Tozour Energy Systems Retirement Plan v. David J. Stone et al. and PennCorp Financial Group, Inc., C.A. No. 14775 and Lois Miller v. David J. Stone et al. and PennCorp Financial Group, Inc., C.A. No. 14795 were filed against PennCorp and each of its directors, individually, in the Delaware Court of Chancery. The suits allege that the Southwestern Financial Investment involved the usurpation of a corporate opportunity and a waste of PennCorp's assets by Messrs. Stone and Fickes, and that the directors of PennCorp in approving that transaction, failed to act in good faith and breached their fiduciary duties, including the duty of loyalty to PennCorp and its stockholders, having favored the interests of Messrs. Stone and Fickes over PennCorp and its stockholders. These lawsuits seek judgments against each of the defendants for the amount of damages sustained or to be sustained by the Company as a result of the breaches of fiduciary duty alleged in the complaint, the imposition of a constructive trust for the benefit of the Company on profits or benefits obtained by any defendant through the alleged breaches of fiduciary duty, attorney's fees and costs, and such other relief as the court determines to be just, proper or equitable.

The defendants in the Tozour Case have filed a motion seeking its dismissal on the ground that the plaintiff failed to comply with the requirements of Delaware law before instituting a derivative suit and intend to defend the lawsuit vigorously. Because the Company has not been served with the Miller Complaint, no action has been taken in that case, although the Company would also defend it vigorously. The defendants believe, however, that it would not be in the best interests of PennCorp and its shareholders to expend considerable management and director time and to incur substantial expenses to litigate the actions. Consequently, PennCorp's legal advisors have met or spoken by telephone with the plaintiff's counsel on several occasions to discuss the terms of a potential settlement.

The defendants and the plaintiff's counsel are negotiating a stipulation of settlement (the "Proposed Settlement") of the shareholder derivative actions. The Proposed Settlement consists of the following principal elements: (i) Messrs. Stone and Fickes will cancel the 335,564 SW Financial common stock warrants they hold for no consideration enabling PennCorp to purchase the Southwestern Financial Controlling Interest for \$67.5 million, reducing the price to be paid by PennCorp for the Southwestern Financial Controlling Interest by approximately \$2.0 million, (ii) that the PennCorp Board will proceed with the purchase of The Fickes and Stone Knightsbridge Fund Interests, having received a fairness opinion of a nationally recognized investment banking firm with respect to the price to be paid for The Fickes and Stone Knightsbridge Interest, (iii) the PennCorp Board will proceed with

the acquisition of the Southwestern Financial Controlling Interest, having received a fairness opinion of a nationally recognized investment banking firm with respect to the price to be paid for the Southwestern Financial Controlling Interest; (iv) the PennCorp Board will submit the purchase of The Fickes and Stone Knightsbridge Fund Interests and the Southwestern Financial Controlling Interest to a vote of a majority of the PennCorp stockholders present at the Stockholders Meeting and entitled to vote, and stockholders must approve both transactions, (v) Messrs. Stone and Fickes will abstain from voting on the proposals to approve the purchase of The Fickes and Stone Knightsbridge Fund Interests and the Southwestern Financial Controlling Interest, and (vi) the plaintiff's counsel will be entitled to conduct confirmatory discovery.

The Proposed Settlement is subject to approval by the Delaware Chancery Court after notice to PennCorp stockholders. As discussed above, Messrs. Stone and Fickes have agreed that, if the Proposed Settlement is approved by the Delaware Chancery Court, they will cancel their SW Financial common stock warrants, which will reduce the price to be paid by PennCorp for the Southwestern Financial Controlling Interest by approximately \$2.0 million. Because the Knightsbridge Fund restructuring will have the effect of eliminating potential future conflicts of interest between Messrs. Stone and Fickes and PennCorp, and because the Proposed Settlement will have the effect of reducing the price to be paid for the Southwestern Financial Controlling Interest and will obviate the need to expend considerable management and director time to litigate the action, the PennCorp Board has determined that the Proposed Settlement is in the best interests of PennCorp and its shareholders and confers a substantial economic benefit on PennCorp. Accordingly, the PennCorp Board has authorized the payment to plaintiff's counsel of legal fees and disbursements not to exceed \$530,000 in connection with the lawsuit and the related settlement negotiations, if the Proposed Settlement is approved by the Delaware Chancery Court after notice to PennCorp stockholders.

The Company is a party to various pending or threatened legal actions arising in the ordinary course of business some of which include allegations of insufficient policy illustrations and agent misrepresentations. Although the outcome of such actions is not presently determinable, management does not believe that such matters, individually or in the aggregate, would have a material adverse effect on the Company's financial position or results of operations if resolved against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

MARKET FOR COMMON STOCK

The shares of PennCorp Financial Group, Inc. are listed on the New York Stock Exchange ("NYSE") under the ticker symbol "PFG." The following table sets forth for the calendar periods indicated, the high and low sales price per share of the Company's Common Stock as reported on the NYSE and the quarterly cash dividends declared on the Common Stock with respect to each quarter since January 1, 1995. The prices do not include mark-ups, mark-downs, or commissions. As of February 28, 1997, there are approximately 179 shareholders, including nominee holdings, throughout the United States and abroad.

The price history as provided by NYSE and dividends since the initial offering date are presented below:

<TABLE>
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31, 1996	SALES PRICES		DIVIDEND
	HIGH	LOW	DECLARED
<S>	<C>	<C>	<C>
Fourth quarter	\$ 36.375	32.000	\$ 0.05
Third quarter	34.125	25.750	0.05
Second quarter	33.625	26.750	0.05

First quarter
</TABLE>

33.000

26.875

0.05

<TABLE>
<CAPTION>

FOR THE YEAR ENDED DECEMBER 31, 1995	SALES PRICES		DIVIDEND DECLARED
	HIGH	LOW	
<S>	<C>	<C>	<C>
Fourth quarter	\$ 29.875	23.000	\$ 0.03
Third quarter	24.000	18.375	0.01
Second quarter	19.375	16.750	0.01
First quarter	17.625	13.000	0.01

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

26

PAGE 26

ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED
financial data

(Amounts in thousands, except per share information)

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
REVENUES:					
Policy revenues	\$ 348,090	\$ 301,889	\$ 244,422	\$ 201,788	\$ 184,690
Net investment income	213,563	102,291	51,850	43,114	41,302
Other income(1)	27,234	17,563	1,056	3,817	632
Net gains (losses) from the sale of investments	1,257	595	(3,556)	1,439	5,560
Total revenues	590,144	422,338	293,772	250,158	232,184
BENEFITS AND EXPENSES:					
Claims incurred	188,727	141,876	112,650	95,232	91,904
Change in liability for future policy benefits and other policy benefits	79,085	18,126	(9,329)	(13,857)	(14,971)
Insurance and other operating expenses	158,552	147,561	113,596	110,598	108,833
Interest and amortization of deferred debt issuance costs	18,979	19,780	18,274	7,461	17,621
Total benefits and expenses	445,343	327,343	235,191	199,434	203,387
Income before income taxes and extraordinary charge	144,801	94,995	58,581	50,724	28,797
Income taxes	45,418	31,642	21,437	18,217	10,744
Net income before extraordinary charge	99,383	63,353	37,144	32,507	18,053
Extraordinary charge, net of income taxes	(2,372)	--	--	(3,322)	(17,655)
Net income	97,011	63,353	37,144	29,185	398
Preferred stock dividend requirements	14,646	6,540	1,151	--	4,562
Net income (loss) applicable to common stock	\$ 82,365	\$ 56,813	\$ 35,993	\$ 29,185	\$ (4,164)

</TABLE>

(1) Includes \$21.1 million and \$4.7 million of undistributed earnings in unconsolidated affiliates for the years ended 1996 and 1995, respectively.

<TABLE>
<CAPTION>

PER SHARE INFORMATION:

	<C>	<C>	<C>	<C>	<C>
<S>					
Primary:					
Net income before extraordinary charge	\$ 2.98	\$ 2.47	\$ 1.82	\$ 1.71	\$ 1.35
Net income before net gains (losses) from the sale of investments and extraordinary charge	\$ 2.95	\$ 2.45	\$ 1.93	\$ 1.67	\$ 1.03
Extraordinary charge, net of income taxes	\$ (0.08)	\$ --	\$ --	\$ (0.18)	\$ (1.72)

Common shares used in computing primary earnings per share	28,462	22,985	19,830	18,957	11,196
Fully diluted:					
Net income before extraordinary charge	\$ 2.74	\$ 2.36			
Net income before net gains from the sale of investments and extraordinary charge	\$ 2.72	2.35			
Extraordinary charge, net of income taxes	\$ (0.07)	\$ --			
Common shares used in computing fully diluted earnings per share	35,229	25,566			

</TABLE>

<TABLE>

<CAPTION>

AS OF DECEMBER 31,

ASSETS:

<S>	<C>	<C>	<C>	<C>	<C>
Investments and cash	\$3,830,313	\$2,409,427	\$ 822,778	\$ 674,552	\$556,960
Insurance assets	620,329	482,567	341,096	258,723	230,500
Other assets	383,091	258,012	156,080	132,767	117,103
Total assets	\$4,833,733	\$3,150,006	\$1,319,954	\$1,066,042	\$904,563

LIABILITIES AND SHAREHOLDERS' EQUITY:

Insurance liabilities	\$3,562,108	\$2,229,047	\$ 798,030	\$ 649,899	\$611,342
Long-term debt	210,325	307,271	229,041	150,812	111,082
Other liabilities	183,437	117,175	59,107	74,854	41,568
Redeemable preferred stock	32,864	30,007	37,256	-	-
Shareholders' equity	844,999	466,506	196,520	190,477	140,571
Total liabilities and shareholders' equity	\$4,833,733	\$3,150,006	\$1,319,954	\$1,066,042	\$904,563

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PENNCORP FINANCIAL GROUP, INC.

27

PAGE 27

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT

Cautionary Statement for purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. The statements below that relate to future plans, events or performances are forward-looking statements that involve a number of risks or uncertainties. Among those items that could adversely affect the Company's financial condition, results of operations and cash flows are the following: changes in regulations affecting insurance companies, interest rates, the federal income tax code (to the extent the Company's product mix includes tax deferred accumulation products), the ratings assigned to the Company's insurance subsidiaries by independent rating organizations such as A.M. Best (which the Company believes are particularly important to the sale of annuity and other accumulation products) and unanticipated litigation. There can be no assurance that other factors not currently anticipated by management will not also materially and adversely affect the Company's results of operations.

GENERAL

PennCorp Financial Group, Inc. (the "Company", "PennCorp"), through its operating subsidiaries, is a low cost provider of accumulation, life, and fixed benefit accident and sickness insurance products throughout the United States and Canada. The Company's products are sold through several distribution channels, including exclusive agents, general agents, financial institutions, and payroll deduction programs, and are targeted primarily to lower and middle-income individuals in rural and suburban areas. These products are primarily small premium accident and sickness insurance policies with defined fixed benefit amounts, traditional whole life and universal life insurance with low face amounts and accumulation products such as single premium deferred annuities.

The Company's financial condition and results of operations for the periods

covered by this and future "Management's Discussion and Analysis of Financial Condition and Results of Operations" are or will be affected by several common factors, each of which is discussed below.

Strategic Review of Business Units. As a result of the tremendous growth the Company has experienced, the diversification of the underlying business units resulting from acquisitions over time, and the need for the Company to be able to rapidly integrate future acquisitions, the Company began a strategic business evaluation during the third quarter of 1996 which is now nearly complete.

The evaluation considered each of the current operating companies and, in anticipation of the consummation of the merger ("Washington National Merger") of the Company and Washington National Corporation ("Washington National") and the purchase of the Controlling Interest of Southwestern Financial Corporation ("SW Financial"), the impact of those operating companies on the Company's current and long-term profitability potential, the ability of the operating companies to absorb operations related to future acquisitions and the market focus of the operating companies.

Immediately following the consummation of the Washington National and SW Financial transactions, the Company will establish five operating divisions: Career Sales, Individual Sales, Financial Services, Payroll Sales and Other Insurance. The newly reorganized divisions will include the operations of SW Financial and Washington National.

The Company has begun to realign its existing operating companies in light of the strategic review and anticipates a charge related to costs directly associated with the initial divisional restructuring which will have no future economic benefit ("restructuring costs"), including the costs of employee termination benefits and relocation, early service contract termination, and facility abandonment. A charge for the restructuring costs will be included in the Company's results of operations during 1997. In addition, the Company may incur additional restructuring costs when integration plans are implemented for the pending Washington National and SW Financial transactions.

Acquisitions. The Company's growth strategy emphasizes the acquisition of complementary insurance operations and the utilization of the Company's several distribution channels to further penetrate its target markets. In making acquisitions, the Company seeks to broaden its distribution channels, increase its product offerings and expand its geographic presence. The Company also seeks benefits from expense reduction through the consolidation of facilities and staff and the conversion to common administrative systems.

Each of the operating considerations outlined above as well as the cost of capital to the Company, expected cash flows from the target acquisition and actuarial factors, such as future premium, mortality, morbidity, surrenders, operating expenses and yields on assets held to back policy liabilities are considered and weighted in determining the relative risk of financial rewards for taking on the acquisition target. On July 22, 1996, the Company acquired United Companies Life Insurance Company ("UC Life") from United Companies Financial Corporation. UC Life markets fixed and variable annuity products through independent agents and financial institution marketing channels.

On July 25, 1995, the Company consummated the acquisition of Integon Life Insurance Corporation ("Integon Life"). Integon Life's life and annuity products are marketed through a general agency sales force, primarily in the Southeastern United States.

PENNCORP FINANCIAL GROUP, INC.

M D & A continued

On August 31, 1994, the Company acquired American-Amicable Life Insurance Company of Texas ("AA Life") through American-Amicable Holding Corporation ("AAHC"). AA Life markets life insurance products to military and civilian employees at U.S. military installations throughout the world.

The comparability of the Company's financial position, results of operations and cash flows for each of the periods presented have been affected by these acquisitions. The pro forma effects of the acquisitions of UC Life, Integon Life, and AA Life are described in Note 3 to the Company's Consolidated Financial Statements included elsewhere herein.

Financing Activities. As a part of each of the Company's acquisitions and as part of a long-term plan to maintain an appropriate balance in its capital structure, PennCorp has undertaken various public and private financing

transactions. As a result, the Company's historical financial results reflect significant variations in financing costs including preferred stock dividends and extraordinary charges resulting from the early extinguishment of debt.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity requirements are funded primarily by its insurance subsidiaries. The insurance subsidiaries' principal sources of cash are premiums and investment income. The insurance subsidiaries' primary uses of cash are policy claims, commissions, operating expenses, income taxes and payments to the Company for principal and interest due under surplus debentures, tax sharing payments and dividends. Both sources and uses of cash are reasonably predictable.

Financings. On August 2, 1996, the Company issued 2,875,000 shares of \$3.50 Series II Convertible Preferred Stock ("Series II Convertible Preferred Stock") for net proceeds of \$139.2 million. The cash raised through this offering, along with borrowings under the Company's bank credit facility, were utilized (i) to fund the cash portion of the purchase price for UC Life, aggregating \$100.4 million, (ii) to fund a capital contribution of \$57.3 million to UC Life, and (iii) to pay related expenses of the acquisition of UC Life of \$9.7 million. The Company accrued or paid dividends of \$4.0 million during 1996, related to the Series II Convertible Preferred Stock.

On February 28, 1996, PennCorp completed the successful sale of 5,131,300 shares of Common Stock, netting proceeds of \$155.5 million ("February Common Stock Offering"). Proceeds from this offering were utilized to repay \$80.0 million of corporate and \$57.0 million of subsidiary indebtedness, and to pay \$10.0 million to SW Financial's former owner in lieu of PennCorp's obligation to issue an equivalent number of shares of Common Stock.

In May 1996, the Company entered into a revolving credit agreement with a syndicate of banks (the "bank credit agreement") for up to \$175.0 million of funds available at any one time to replace the \$100.0 million bridge facility utilized by the Company to make the investment in SW Financial, which was repaid out of the proceeds of the February Common Stock Offering. During the remainder of 1996, the Company borrowed amounts aggregating \$92.0 million for (i) the repurchase of \$35.4 million in principal amount of the Company's 9 1/4% Senior Subordinated Debenture due 2003 (the "Notes") for \$37.7 million, including interest and premium on early redemption of \$2.3 million, (ii) the refinancing of \$20.0 million of indebtedness under the previously outstanding bridge facility, (iii) the repayment of \$16.5 million of amounts owed certain subsidiaries, and (iv) \$17.8 million for general corporate purposes including the UC Life acquisition, interest payments and common and preferred stock dividend payments. Total interest and related costs incurred under the bank credit facility were \$1.6 million during 1996.

On July 14, 1995, PennCorp issued 2,300,000 shares of the \$3.375 Convertible Preferred Stock ("Convertible Preferred Stock") for net proceeds of \$110.5 million. On March 16, 1995, PennCorp issued 3,750,000 shares of Common Stock, for net proceeds of approximately \$51.2 million. The proceeds from these two offerings were used to (i) consummate the acquisition of Integon Life, which utilized funds totaling \$33.4 million (including a capital contribution of \$15.0 million), (ii) repay \$28.5 million outstanding under, and subsequently cancel, a revolving credit facility, (iii) repurchase, for \$34.6 million, all of the Company's Series A Preferred Stock, (iv) repay \$11.2 million due to Integon Life's former parent company under a subordinated debenture, (v) pay the \$15.4 million cash portion of the purchase price of Occidental Life Insurance Company of North Carolina ("OLIC") (which PennCorp purchased from Pennsylvania Life Insurance Company and its wholly-owned subsidiary, PennCorp Life Insurance Company (collectively referred to herein as "Penn Life") and subsequently contributed to Integon Life), (vi) prepay \$20.0 million principal amount of indebtedness under the AAHC credit facility, and (vii) make payments for general corporate purposes, including interest payments and the cancellation of certain interest rate swap agreements. The Company paid or accrued dividends on the Convertible Preferred Stock amounting to \$7.8 million and \$3.6 million during 1996 and 1995, respectively.

PENNCORP FINANCIAL GROUP, INC.

M D & A continued

As part of the financing for the Integon Life acquisition, PennCorp issued Series B Preferred Stock with an initial value of \$12.8 million, which accretes at 10.4% per annum until its maturity on June 30, 1997, and Series C Preferred Stock with an initial value (subject to offset) of \$17.9 million, which

accretes at 9.3% per annum until its maturity on June 30, 1998. The Series C Preferred Stock's estimated initial value for financial statement purposes was approximately \$16.0 million. Preferred stock dividends accreted during 1996 and 1995, on the Series B and Series C Preferred Stock amounted to \$2.9 million and \$1.3 million, respectively. On March 14, 1997, the Company redeemed all the outstanding Series B Preferred Stock for \$14.7 million, utilizing proceeds available under the bank credit facility.

In addition to the Series B and Series C Preferred Stock, the Company utilized \$30.0 million in borrowings by Salem Holdings Corporation ("SHC"), the parent of Integon Life, from a syndicate of banks in order to fund a portion of the Integon Life acquisition. In March 1996, the Company utilized proceeds from the February Common Stock Offering to repay \$30.0 million of indebtedness outstanding and cancel the SHC bank facility. For the years ended, December 31, 1996 and 1995, the Company incurred interest costs related to borrowings by SHC of \$451,000 and \$513,000, respectively.

In order to fund the AA Life acquisition, AAHC borrowed \$55.0 million under the AAHC credit facility. The AAHC credit facility was repaid and cancelled in March 1996. During 1996, 1995 and 1994, AAHC made principal payments of \$27.0 million, \$23.0 million and \$5.0 million, and had accumulated interest costs of \$385,000, \$3.3 million and \$1.3 million under this facility, respectively.

As part of the financing of the AA Life acquisition, PennCorp issued 450,000 shares of Series A Preferred Stock with a stated dividend rate of approximately 6.0% for the first five years and approximately 8.0% thereafter, until redemption in 2009. During 1994, and prior to its full repurchase on August 25, 1995, PennCorp incurred dividends of \$1.2 million and \$1.7 million, respectively, related to the Series A Preferred Stock.

The Notes, the bank credit agreement and the Series C Preferred Stock impose certain covenants on the Company, including covenants restricting the amount of additional indebtedness the Company may incur, its ability to engage in future acquisitions and certain other business transactions, and the amount of dividends the Company may declare and pay, and requires the Company to maintain specified financial ratios and meet specified financial tests, all of which may impose limitations on the Company's future liquidity.

Surplus Debentures, Dividend Restrictions and Cash Flows. Cash generated by the Company's insurance subsidiaries is made available to PennCorp principally through periodic payments of principal and interest on surplus debentures issued by Pacific Life and Accident Insurance Company ("PLAIC"), Salem Life Insurance Company ("Salem Life") and Pioneer Security Life Insurance Company ("Pioneer Security") (collectively, the "Surplus Note Companies"). The amounts outstanding under the surplus debentures totalled \$367.9 million and \$315.8 million as of December 31, 1996 and 1995, respectively. The surplus debentures generally require (subject to availability of statutory capital and surplus and in some instances, regulatory approval) principal and interest payments to be made periodically in amounts sufficient to allow PennCorp to meet its cash requirements.

The Surplus Note Companies rely upon dividends and tax sharing payments from their respective insurance subsidiaries. Each of the insurance subsidiaries is in turn subject to regulatory restrictions with respect to the maximum amount of dividends that can be paid to the Surplus Note Companies without prior regulatory approval. Such dividend restrictions are primarily in the form of (i) the greater of 10% of statutory capital and surplus or statutory earnings, or (ii) the lesser of 10% of statutory capital and surplus or statutory earnings, depending upon applicable state laws. The Company believes that such restrictions will not significantly impact the Company's liquidity for the foreseeable future.

For the years ended December 31, 1996, 1995 and 1994, the Company received net payments from the Surplus Note Companies of \$31.9 million, \$19.1 million and \$11.5 million, respectively. The Surplus Note Companies received \$25.8 million, \$21.6 million and \$900,000 in dividends and tax sharing payments from their respective insurance subsidiaries. During 1995, and 1994, the Company's downstream holding companies, SHC and AAHC, each had direct bank indebtedness outstanding which restricted the amount of payments which could be made by Salem Life and Pioneer Security for the benefit of the Company. As a result of the repayment of such indebtedness from proceeds of the Company's February Common Stock Offering, Salem Life and Pioneer Security may now make payments under their respective surplus debentures for the benefit of PennCorp.

PENNCORP FINANCIAL GROUP, INC.

The primary cash requirements of the Company are interest payments, preferred stock dividends and common stock dividends which aggregated \$33.9 million, \$24.5 million and \$16.5 million for the years ended December 31, 1996, 1995 and 1994, respectively. For the year ended December 31, 1996, cash made available under the surplus debentures exceeded cash requirements by \$21.2 million. For the years ended December 31, 1995 and 1994, cash requirements of the Company exceeded cash made available to the Company through payments under the surplus debentures by \$5.4 million and \$5.0 million, respectively. During each of these periods, the Company utilized a balance of dividends and surplus note payments from the insurance subsidiaries and borrowings under the Company's credit facilities to fund PennCorp's cash requirements. This balance resulted in what management believes to be, along with other factors, an appropriate retention of statutory capital and surplus to improve the insurance subsidiaries' A.M. Best Company ("A.M. Best") ratings without placing an undue debt burden upon the Company.

During 1997, the maximum dividends and corresponding surplus debenture payments, without prior regulatory approval, are anticipated to be approximately \$27.2 million and the Company's cash requirements are anticipated to be approximately \$35.3 million. The Company intends to utilize funds available under its revolving credit facility to fund the shortfall. For periods beginning in 1998, under current statutory limitations, the Company believes that it will receive sufficient cash flow from the Surplus Note Companies and their respective subsidiaries to satisfy its cash requirements. As a result of the Company's decision to retain capital and surplus at the insurance subsidiary level, and with the contemplated realignment of the insurance subsidiaries into operating divisions, the Company believes that as of December 31, 1996, its insurance subsidiaries have excess capital and surplus. The Company's own established targets for estimated risk-based capital requirements indicate that the insurance divisions could make available approximately \$50.0 million to PennCorp, subject to applicable regulatory approvals.

Investments. The Company's investment portfolio is managed with the objectives of maintaining high credit quality and liquidity, maximizing current income within acceptable levels of risk, minimizing market and credit risk, and matching the anticipated maturities of investments to the Company's liabilities. The Company believes that a conservative investment strategy fits the nature of its insurance products which have little or no inflation risk and limited build-up of cash accumulation values in earlier years.

The Company continuously evaluates its investment portfolio and the conditions under which it might sell securities, including changes in interest rates, changes in prepayment risk, liquidity needs, asset liability matching, tax planning strategies and other economic factors. Those securities that the Company believes would be subject to sale prior to the specified maturity date are included in "securities available for sale," which amounted to \$2,993.9 million and \$1,487.0 million at December 31, 1996 and 1995, respectively. Of those securities available for sale, 92.1% and 92.7% were rated Baa or above by Moody's Investors Services, Inc. at December 31, 1996 and 1995, respectively.

During the years ended December 31, 1996, 1995 and 1994, the Company sold \$378.6 million, \$106.6 million and \$92.8 million of fixed maturity and equity securities, and purchased \$955.8 million, \$217.8 million and \$183.6 million of fixed maturity and equity securities, respectively. Such sales and purchases were often effected to improve the quality of the investment portfolio or to avoid prepayment risks. In addition, during 1996 the Company sold one security in its held for investment portfolio aggregating \$4.9 million as a result of a dramatic deterioration in its credit rating.

During 1995, the Company established a portfolio of "trading securities" to provide the Company with the opportunity to undertake interest rate hedging strategies, to participate in short-term relative value trades and to invest in special situations with the goal of generating short-term trading profits. As a result of trading activities, the Company recognized \$1.3 million and \$5.7 million of profits during 1996 and 1995, respectively.

Mortgage loans on real estate amounted to 7.0% and 1.6% of total invested assets as of December 31, 1996 and 1995, respectively. The substantial increase in mortgage loans was the result of the UC Life acquisition. UC Life invests in first mortgage loans and provides a mortgage loan warehousing facility for its former parent as a means of obtaining higher invested asset yields necessary to support competitively priced annuity products. The Company has established a reserve for loan loss which aggregated \$11.9 million as of December 31, 1996. As of December 31, 1996 and 1995, the Company had non-performing loans amounting to \$1.4 million and \$3.5 million, respectively. The Company is in various stages of foreclosure or sales of such loans. The Company believes its current loan loss provision is adequate to cover any future losses related to currently performing and non-performing loans.

Cash and short-term investments totaled \$102.6 million and \$444.7 million as of December 31, 1996 and 1995, respectively. At December 31, 1996 and 1995,

respectively, the Company held approximately \$12.2 million and \$3.8 million in short-term investments needed in the settlement of investment trades early in the following year.

PENNCORP FINANCIAL GROUP, INC.

31

PAGE 31

M D & A continued

Disintermediation risk. With the acquisition of UC Life and Integon Life, the Company significantly expanded its interest sensitive portfolio of products including universal life and accumulation products. The Company actively manages the difference in interest yields on assets backing interest sensitive liabilities and amounts credited to policyholder account balances so as to provide a margin or "spread". For the years ended December 31, 1996 and 1995, the Company had total interest sensitive liabilities aggregating \$1,808.0 million and \$702.1 million, respectively and obtained a spread on such liabilities of 2.1% and 1.9%, respectively. As part of the ongoing management of interest sensitive business, the Company annually undertakes "cash flow testing" sensitivities in which Management evaluates a range of interest rate scenarios under which credited interest rates and asset/liability durational matching may become mismatched. The Company believes that it has sufficient liquidity to withstand all reasonable scenarios established by Management.

Cash Flows From Operations. The periods covered by Management's Discussion and Analysis of Financial Condition and Results of Operations indicate cash provided by operating activities of \$164.7 million, \$75.7 million and \$5.6 million in 1996, 1995 and 1994, respectively. The positive cash flow from operating activities is not necessarily indicative of the Company's cash flow as \$(205.2) million, \$(53.2) million and \$2.1 million of cash was (used) provided to fund cash flows for interest sensitive life and accumulation products during 1996, 1995 and 1994, respectively, which are classified as financing activities in accordance with generally accepted accounting principles.

Inflation. The Company sells fixed benefit, life, and accumulation products. Approximately 48.6% of the Company's total policy revenues for the year ended December 31, 1996, were derived from fixed benefit products. These products typically provide a predetermined fixed payment that will be paid under specified conditions. Fixed benefit products are not designed to provide reimbursement for medical and related costs incurred as a result of accidents and sickness. Accordingly, payment amounts are not affected by the insured's actual cost of health care services. Because of the characteristics of its fixed benefit products, the Company believes that inflation does not have a material effect on its operations.

Pending Merger, Acquisition and Related Transactions. On January 22, 1997, the Company filed with the Securities and Exchange Commission ("SEC"), a preliminary PennCorp Financial Group, Inc. and Washington National Corporation Joint Proxy Statement and Prospectus ("Joint Proxy Statement") in which the Company, pending final review by the SEC, will be soliciting shareholder approval for the following transactions: (i) the Washington National Merger, (ii) the acquisition of the Controlling Interest in SW Financial, (iii) the acquisition of the Fickes and Stone Knightsbridge Interests, and (iv) other items (see Note 15 and 16 of Notes to Consolidated Financial Statements included elsewhere herein).

The Washington National Merger and the acquisition of the Controlling Interest in SW Financial will expand the Company's individual and payroll sales division operations with similar products, distribution channels and asset mixes.

Should the Company obtain shareholder approval for the above transactions, the Company's reported financial information would change significantly.

The following unaudited pro forma selected financial data represents the Company's consolidated results of operations, as if the Washington National Merger, SW Financial transaction, UC Life acquisition and other financial transactions occurred on January 1, 1996, and the pro forma financial position, as if such transactions occurred as of December 31, 1996. The unaudited selected financial data has been prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the transactions been consummated as of January 1, 1996, or December 31, 1996, respectively, or the results of operations or financial position which may occur in the future.

M D & A continued

FOR THE YEAR ENDED DECEMBER 31,	Pro forma 1996	Actual 1996
<S>	<C>	<C>
Total revenues	\$ 1,256.5	\$ 590.1
Income before income taxes, undistributed earnings in unconsolidated affiliates, discontinued operations and extraordinary charge	214.7	144.8
Net income before discontinued operations and extraordinary charge applicable to common stock	114.8	99.4
Fully diluted net income before discontinued operations and extraordinary charge per share applicable to common stock	2.82	2.74

AS OF DECEMBER 31,		
Total assets	\$ 9,735.4	\$ 4,833.7
Insurance and other liabilities	8,106.8	3,745.5
Long-term debt	488.5	210.3
Mandatory redeemable preferred stock	18.1	32.9
Total shareholders' equity	1,122.0	845.0
</TABLE>		

In anticipation of the Washington National Merger and the acquisition of the Controlling Interest in SW Financial, the Company recently consummated a five-year, \$450 million revolving credit facility ("revolver") with a syndicate of banks and terminated the Bank Credit Agreement. The revolver provides the Company with sufficient capacity, (i) to pay the cash portion of the Washington National Merger consideration, (ii) to pay the consideration due to the controlling shareholders of SW Financial, (iii) to provide amounts needed to refinance existing indebtedness at SW Financial, and (iv) to provide liquidity for other general corporate purposes.

Borrowings under the revolver will carry variable rates of interest plus a margin which varies with the Company's implied senior unsecured indebtedness rating. Based upon PennCorp's current ratings, the revolver would reduce the Company's current borrowing rates under the formerly outstanding bank facility by approximately 35 basis points and would reduce the cost of indebtedness outstanding at SW Financial by nearly 300 basis points.

The Company anticipates, pending regulatory and shareholder approval, consummating the Washington National Merger, the acquisition of the Controlling Interest in SW Financial, and the acquisition of the Fickes and Stone Knightsbridge Interests in late April 1997.

New Accounting Pronouncements. The Financial Accounting Standard Board ("FASB") has released for comment an Exposure Draft of a proposed Statement of Financial Accounting Standards, "Consolidated Financial Statements: Policy and Procedures" (the "Proposed Statement"). The Proposed Statement provides new guidelines with respect to the circumstances under which entities must report financial information on a consolidated basis. The Proposed Statement, if issued, would be effective for fiscal years beginning after December 15, 1996. Although the Company cannot predict if, and in what form, the Proposed Statement will be issued, the Company believes that the Proposed Statement could require consolidation of Southwestern Life and Union Bankers and certain other transactions of the Company and Knightsbridge.

On March 3, 1997, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," replacing Accounting Principles Board ("APB") Opinion No. 15, "Earnings per Share." SFAS No. 128 replaces "primary" and "fully diluted" earnings per share ("EPS") under APB Opinion No. 15 with "basic" and "diluted" EPS. Unlike primary EPS, basic EPS excludes the dilutive effects of options, warrants and other convertible securities. Dilutive EPS reflects the potential dilution of securities that could share in the earnings of an entity, similar to fully diluted EPS. However, under SFAS No. 128, the Company would use the average market price for its stock during the reporting period to determine the cost of options as opposed to the greater of the closing price at the end of the period or the average market price during the period, as currently required by APB Opinion No. 15. SFAS No. 128 is effective for years ending after December 15, 1997.

RESULTS OF OPERATIONS

The following analysis should be read in conjunction with the historical financial statements of the Company and related notes thereto contained elsewhere herein. Significant financial information, percentage changes and ratios (excluding realized gains and losses on sale of investments and equity in undistributed earnings of unconsolidated affiliates) are shown in the following table:

	1996	1995	1994

<S>	<C>	<C>	<C>
RATIOS TO REVENUES			
Total policy benefits	47.1%	38.4%	34.7%
Insurance expenses	15.4	19.1	20.7
Other operating expenses	12.5	16.3	17.5
Interest and amortization of deferred debt issuance costs	3.3	4.7	6.1
Pretax operating margin	21.7	21.5	20.9

PENNCORP FINANCIAL GROUP, INC.

33

PAGE 33

M D & A continued

Operating Ratios. Pretax operating margin improved modestly to 21.7% of revenues during 1996 from 21.5% and 20.9% in 1995 and 1994, respectively. The slight improvement was primarily due to declines in all operating ratios except for policy benefits, which nearly offset the other improvements. As the mix of insurance products shifts toward life and accumulation products versus fixed benefit products, management believes the 1996 ratios will be indicative of future ratios.

The ratio of total policy benefits to revenues increased during 1996 to 47.1% from 38.4% and 34.7% in 1995 and 1994, respectively. The increase in total policy benefits to revenues during 1996 was primarily attributable to the continued increase in life products, relative to fixed benefit products, since benefits for life insurance products are typically greater, as a percentage of premium, than benefits for fixed benefit products. Additionally, accumulation products, such as deferred annuities, are priced to allow for the vast majority of interest earned on assets backing policy reserves to be credited to the policyholder account balance resulting in a faster growth in policy benefits than policy benefits for fixed benefit products. Also, during 1996, the Company experienced higher than expected mortality and morbidity costs for Penn Life and OLIC, which collectively resulted in an approximately 2.0% increase in the claims incurred ratio for the Company as a whole. The increase in total policy benefits during 1995, as compared to 1994 was the result of the shift in product mix, from fixed benefit accident and sickness insurance, to accumulation and life insurance products as claims incurred ratios remained consistent between periods.

Insurance expenses dropped during 1996 to 15.4% of revenues from 19.1% and 20.7% during 1995 and 1994, respectively. The reduction in all periods resulted primarily from increased premium volume and persistency resulting in less amortization of insurance assets (primarily the present value of insurance in force) as a percentage of revenues. In addition, for the year ended December 31, 1996, certain interest sensitive blocks of business had significantly less amortization of deferred policy acquisition costs and present value of insurance in force, as compared to 1995 and 1994, due to reduced short-term profit margins from adverse mortality. The Company believes that the reduced profit margins will not impact the long-term profitability. However, should such mortality experience continue, the ultimate recoverability of deferred policy acquisition costs and present value of insurance in force could be adversely affected.

Other operating expenses declined as a percentage of revenues to 12.5% during 1996, from 16.3% and 17.5% during 1995 and 1994, respectively. This downward trend was due to the acquisitions of UC Life and Integon Life, which are administered by the Company at overhead expense rates less than the business in force prior to their respective acquisitions. Despite the growing revenue base, the Company's total underlying expense infrastructure has increased only moderately. In addition, expense costs have shifted from overhead and maintenance expenses to those more closely related to the production of new business.

Interest costs fell to 3.3% of revenues during 1996, from 4.7% during 1995, and 6.1% during 1994. The Company's financings for each of its acquisitions have

impacted these ratios. During 1996, the Company utilized common and preferred stock offerings to finance acquisition activities rather than debt. The weighted average interest cost for outstanding indebtedness dropped to 8.8% for the year ended December 31, 1996, from 9.0% and 9.3% for the years ended December 31, 1995, and 1994, respectively. The reduction in such interest costs was the result of the Company replacing subsidiary indebtedness with borrowings by the Company which carry substantially lower interest rates.

Policy Revenues. Policy revenues increased to \$348.1 million in 1996 from \$301.9 and \$244.4 million in 1995 and 1994, respectively. Fixed benefit policy revenues decreased by 3.1% and 1.2% to \$169.3 million and \$174.7 million during 1996 and 1995, respectively, after increasing by 15.9% during 1994 to \$176.9 million. Increases in fixed benefit policy revenues during 1994 resulted primarily from the acquisition of Professional. During 1996 and 1995, the Company's operating focus was concentrated primarily on increasing life policy revenues to achieve a balance of life policy revenues with those of fixed benefit products. In addition, during 1996 the Company effectively ceased marketing its "instant issue" fixed benefit products and as a result of higher than anticipated loss ratios which resulted in a \$4.9 million decline in fixed benefit policy revenues.

Life policy revenues increased 43.9%, 75.0% and 37.2% to \$170.0 million, \$118.1 million and \$67.5 million for the years ended 1996, 1995 and 1994, respectively. The acquisition of UCLife in July 1996, and Integon Life in July 1995, added \$72.4 million and \$22.2 million of life policy revenues during 1996 and 1995, respectively. The inclusion of AA Life for the full year 1995 increased life policy revenue by \$29.1 million while AA Life provided an additional \$13.7 million of life policy revenues during 1994. Partially offsetting some of these increases were declines in Penn Life's policy revenues from closed blocks of business of \$1.1 million, \$750,000 and \$1.0 million during 1996, 1995 and 1994, respectively.

PENNCORP FINANCIAL GROUP, INC.

34

PAGE 34

M D & A continued

Net Investment Income. The effects of a larger invested asset base and improved average portfolio yields to 7.6% in 1996 from 7.3% during 1995 and 1994, have resulted in net investment income increasing 108.8%, 97.1% and 20.3% in 1996, 1995 and 1994, to \$213.6 million, \$102.3 million and \$51.9 million, respectively. The acquisitions of UCLife, which added invested assets of \$1,484.4 million in July 1996, Integon Life, which added invested assets of \$1,336.9 million in July 1995, and AA Life, which added invested assets of \$204.3 million in August 1994, contributed to the increase in investment income. During 1996, UCLife added \$50.0 million of investment income and Integon Life incrementally added \$59.7 million as a result of being included for the entire year. During 1995, Integon Life and AA Life incrementally added \$40.1 million and \$9.7 million to investment income, respectively. During 1994, AA Life and Professional provided additional investment income to the Company of \$4.8 million and \$2.5 million, respectively.

Claims Incurred. Claims incurred increased 33.0%, 25.9% and 18.3% during 1996, 1995 and 1994, to \$188.7 million, \$141.9 million and \$112.7 million, respectively. The increase in claims during 1996 was due to the addition of UCLife, \$3.3 million, the inclusion of Integon Life for the full year, \$35.1 million, and adverse mortality experience at OLIC and Penn Life of \$4.2 million and \$2.6 million, respectively, when compared to the previously reported period. The Company believes that the modest increase in claims at OLIC and Penn Life are a statistical aberration and do not appear to be the result of poor underwriting or anti-selection. The Company is continuing to closely monitor the claims activity in each insurance subsidiary. During 1995, the increase in claims incurred attributable to Integon Life and AA Life, was \$22.8 million and \$10.3 million, respectively. During 1994, the impact of the AA Life acquisition and the inclusion of Professional for the entire year increased claims incurred by \$18.2 million.

Insurance Related Expenses. Insurance related expenses (including commissions, amortization of deferred policy acquisition costs and amortization of the present value of insurance in force) increased 9.7%, 29.2% and 4.3% to \$87.4 million, \$79.7 million and \$61.7 million during 1996, 1995 and 1994, respectively. During each of the periods the amortization of the present value of insurance in force increased slightly as a result of acquisitions. During 1996, and 1995, the Company utilized deferral methods comparable to those utilized in 1994 and thus the increase in amortization of deferred policy acquisition costs was the result of the growth of the blocks of new business issued since the acquisition of each subsidiary and related deferred costs. The

increased insurance related expenses were also the result of somewhat higher commissions which totaled \$34.7 million, \$31.9 million and \$30.7 million during 1996, 1995 and 1994, respectively.

Other Operating Expenses. Other operating expenses (including general operating, overhead and policy maintenance expenses) increased during 1996 to \$71.2 million compared to \$67.9 million during 1995 and \$51.9 million during 1994. Excluding the impact of the UCLife acquisition in 1996 and the inclusion of Integon Life and AA Life for the full year period 1996 and 1995, respectively, and a non-recurring restructuring charge of \$3.9 million in 1995, primarily related to the relocation of the Company's operating facility, other operating expenses decreased by \$7.2 million or 14.8% during 1996 to \$41.3 million for the Company's other insurance subsidiaries compared to \$48.5 and \$46.0 million during 1995 and 1994, respectively.

Also included in other operating expense is the amortization of costs in excess of net assets acquired which aggregated \$8.0 million, \$6.6 million and \$5.2 million for 1996, 1995 and 1994, respectively.

Income Taxes. The effective tax rates for the years ended December 31, 1996, 1995 and 1994, were 36.7%, 35.1% and 36.6%, respectively. The 1996 effective rate is higher than the statutory rate of 35% primarily due to non-deductible amortization of costs in excess of net assets acquired. The decline of the effective tax rate for 1995 as compared to 1996 and 1994 is due to previously non-deductible operating losses becoming available to reduce tax on operating earnings. Effective tax rates in 1994 are higher than the statutory rate principally due to foreign taxes and non-deductible amortization of costs in excess of net assets acquired.

PENNCORP FINANCIAL GROUP, INC.

35

PAGE 35

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
PennCorp Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of PennCorp Financial Group, Inc. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules as listed in the accompanying index. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennCorp Financial Group, Inc. and subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

PENNCORP FINANCIAL GROUP, INC.

36

PAGE 36

CONSOLIDATED STATEMENTS
of income

<TABLE>

<CAPTION>

(Amounts in thousands, except per share information)

	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1995	1994

<S>	<C>	<C>	<C>
REVENUES:			
Premiums, principally accident and sickness	\$ 256,859	\$ 239,010	\$ 214,674
Interest sensitive policy product charges	91,231	62,879	29,748
Net investment income	213,563	102,291	51,850
Other income	6,132	12,845	1,056
Net gains (losses) from the sale of investments	1,257	595	(3,556)

Total revenues	569,042	417,620	293,772

BENEFITS AND EXPENSES:			
Claims incurred	188,727	141,876	112,650
Change in liability for future policy benefits and other policy benefits	79,085	18,126	(9,329)
Amortization of present value of insurance in force and deferred policy acquisition costs	52,877	47,732	30,948
Amortization of costs in excess of net assets acquired	7,990	6,557	5,241
Underwriting and other administrative expenses	97,685	93,272	77,407
Interest and amortization of deferred debt issuance costs	18,979	19,780	18,274

Total benefits and expenses	445,343	327,343	235,191

Income before income taxes, undistributed earnings in unconsolidated affiliates and extraordinary charge	123,699	90,277	58,581
Income taxes	45,418	31,642	21,437

Net income before undistributed earnings in unconsolidated affiliates and extraordinary charge	78,281	58,635	37,144
Undistributed earnings in unconsolidated affiliates	21,102	4,718	-

Net income before extraordinary charge	99,383	63,353	37,144
Extraordinary charge (net of income taxes of \$1,277, \$- and \$-)	(2,372)	-	-

Net income	97,011	63,353	37,144
Preferred stock dividend requirements	14,646	6,540	1,151

Net income applicable to common stock	\$ 82,365	\$ 56,813	\$ 35,993
=====			
PER SHARE INFORMATION:			
Primary:			
Net income applicable to common stock before extraordinary charge	\$ 2.98	\$ 2.47	\$ 1.82
Extraordinary charge, net of income taxes	(0.08)	-	-

Net income applicable to common stock	\$ 2.90	\$ 2.47	\$ 1.82
Common shares used in computing primary earnings per share	28,462	22,985	19,830
Fully diluted:			
Net income applicable to common stock before extraordinary charge	\$ 2.74	\$ 2.36	
Extraordinary charge, net of income taxes	(0.07)	-	

Net income applicable to common stock	\$ 2.67	\$ 2.36	
Common shares used in computing fully diluted earnings per share	35,229	25,566	

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

37

PAGE 37

CONSOLIDATED BALANCE SHEETS

<TABLE>

<CAPTION>

(Amounts in thousands, except share information)

	AS OF DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
ASSETS:		
Investments:		
Fixed maturity securities:		
Held for investment, at amortized cost (fair value \$89,759 in 1996 and \$51,354 in 1995)	\$ 87,330	\$ 51,366
Available for sale, at fair value (amortized cost \$2,941,750 in 1996 and \$1,414,187 in 1995)	2,993,925	1,486,985
Equity securities available for sale, at fair value (cost \$17,511 in 1996 and \$13,707 in 1995)	20,867	15,172
Trading securities, at fair value	31,140	86,104
Mortgage loans on real estate, net of allowance of \$11,945 in 1996 and \$- in 1995	256,998	36,563
Policy loans	145,976	125,179
Short term investments	63,113	416,953
Other investments	46,848	43,937
Total investments	3,646,197	2,262,259
Cash	39,464	27,778
Accrued investment income	48,643	30,992
Accounts and notes receivable, net of allowance of \$6,528 in 1996 and \$8,388 in 1995	47,307	34,842
Investments in unconsolidated affiliates	144,652	119,390
Present value of insurance in force	351,973	288,664
Deferred policy acquisition costs	268,356	193,903
Costs in excess of net assets acquired	148,174	121,795
Other assets	138,967	70,383
Total assets	\$ 4,833,733	\$ 3,150,006
LIABILITIES:		
Policy liabilities and accruals:		
Future policy benefits	\$ 3,476,801	\$ 2,153,607
Policy and contract claims	44,878	36,429
Other policyholder funds	40,429	39,011
Total policy liabilities and accruals	3,562,108	2,229,047
Income taxes payable, primarily deferred	65,036	24,977
Notes payable	210,325	307,271
Accrued expenses and other liabilities	118,401	92,198
Total liabilities	3,955,870	2,653,493
Mandatory redeemable preferred stock:		
Series B, \$.01 par value, \$100 initial redemption value; authorized, issued and outstanding 127,500 in 1996 and 1995	14,689	13,307
Series C, \$.01 par value, \$100 initial redemption value; authorized, issued and outstanding 178,500 in 1996 and 1995	18,175	16,700
SHAREHOLDERS' EQUITY:		
\$3.375 Convertible Preferred Stock, \$.01 par value, \$50 redemption value; authorized issued and outstanding 2,300,000 in 1996 and 1995	110,513	110,513
\$3.50 Series II Convertible Preferred Stock, \$.01 par value, \$50 redemption value; authorized issued and outstanding 2,875,000 in 1996	139,157	--
Common stock, \$.01 par value; authorized 50,000,000; issued and outstanding 28,647,714 in 1996 and 22,879,708 in 1995	286	229
Additional paid-in capital	393,156	220,482
Unrealized foreign currency translation losses	(14,969)	(15,539)
Unrealized gains on securities available for sale	19,582	30,353
Retained earnings	202,144	125,375
Treasury shares (189,750 in 1996 and 1995)	(3,370)	(3,370)
Notes receivable secured by common stock	(1,500)	(1,537)
Total shareholders' equity	844,999	466,506
Total liabilities and shareholders' equity	\$ 4,833,733	\$ 3,150,006

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

38

PAGE 38

CONSOLIDATED STATEMENTS
of changes in shareholders' equity

<TABLE> <CAPTION> (Amounts in thousands)	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1995	1994
<S>	<C>	<C>	<C>
CONVERTIBLE PREFERRED STOCK:			
Balance at beginning of year	\$ 110,513	\$ -	\$ -
Issuance of convertible preferred stock	139,157	110,513	-
Balance at end of year	249,670	110,513	-
COMMON STOCK:			
Balance at beginning of year	229	191	191
Issuance of common stock	56	38	-
Exercise of stock options	1	-	-
Balance at end of year	286	229	191
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	220,482	169,310	169,301
Issuance of common stock	170,393	51,172	-
Exercise of stock options	2,281	-	-
Treasury stock awarded to employees, net of unearned award	-	-	9
Balance at end of year	393,156	220,482	169,310
UNREALIZED FOREIGN CURRENCY TRANSLATION LOSSES:			
Balance at beginning of year	(15,539)	(17,882)	(13,118)
Change in unrealized foreign currency translation losses during the year, net of income taxes	570	2,343	(4,764)
Balance at end of year	(14,969)	(15,539)	(17,882)
UNREALIZED GAINS (LOSSES) ON SECURITIES AVAILABLE FOR SALE:			
Balance at beginning of year	30,353	(24,454)	-
Cumulative effect of accounting change, net of income taxes	-	-	9,328
Equity in unrealized losses of unconsolidated affiliate	(6,045)	-	-
Change in unrealized gains (losses) on securities available for sale during the year, net of income taxes	(4,726)	54,807	(33,782)
Balance at end of year	19,582	30,353	(24,454)
RETAINED EARNINGS:			
Balance at beginning of year	125,375	69,856	34,730
Net income	97,011	63,353	37,144
Dividends on common stock	(5,630)	(1,327)	(765)
Amortization of discount and dividends on preferred stock	(14,646)	(6,540)	(1,151)
Treasury stock awarded to employees, net of unearned award	-	-	(102)
Earned portion of treasury stock awarded to employees	34	33	-
Balance at end of year	202,144	125,375	69,856
TREASURY SHARES:			
Balance at beginning of year	(3,370)	(386)	(280)
Purchases of treasury shares	-	(2,984)	(232)
Treasury shares awarded to employees, net of unearned award	-	-	126
Balance at end of year	(3,370)	(3,370)	(386)
NOTES RECEIVABLE SECURED BY COMMON STOCK:	(1,500)	(1,537)	(115)
Total shareholders' equity	\$ 844,999	\$ 466,506	\$ 196,520

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

39

PAGE 39

CONSOLIDATED STATEMENTS
of cash flows

<TABLE> <CAPTION> (Amounts in thousands)	FOR THE YEARS ENDED DECEMBER 31,		
	1996	1995	1994
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income before undistributed earnings in unconsolidated affiliates and extraordinary charge	\$ 78,281	\$ 58,635	\$ 37,144
Adjustments to reconcile net income before undistributed earnings in unconsolidated affiliates and extraordinary charge to net cash provided by operating activities:			
Capitalization of deferred policy acquisition costs	(99,545)	(83,795)	(58,919)
Amortization of value of business in force, deferred policy acquisition costs, intangibles, depreciation and accretion, net	59,337	50,428	38,935
Increase (decrease) in policy liabilities and accruals and other policyholder funds	73,202	12,417	(29,894)
Purchases of trading securities	--	(1,031)	--
Sales of trading securities	56,004	47,145	--
Other, net	(2,585)	(8,126)	18,302
Net cash provided by operating activities	164,694	75,673	5,568
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash expended in acquisition of businesses, net of cash acquired of \$-, \$- and \$12,931	(99,596)	(18,363)	(89,137)
Purchases of fixed maturity securities held for investment	(27,000)	(15,950)	(472)
Purchases of fixed maturity securities available for sale	(920,430)	(188,388)	(174,872)
Purchases of equity securities	(8,398)	(13,415)	(8,294)
Purchase of affiliate	--	(107,366)	--
Maturities of fixed maturity securities held for investment	42,351	6,214	18,098
Maturities of fixed maturity securities available for sale	81,538	27,198	41,370
Sales of fixed maturity securities held for investment	4,910	--	--
Sales of fixed maturity securities available for sale	368,331	99,804	83,182
Sales of equity securities	5,328	6,818	9,574
Decrease (increase) in short-term investments, net (including changes in amounts due to broker)	412,687	39,392	(20,269)
Acquisitions and originations of mortgage loans	(112,473)	--	--
Sales of mortgage loans	151,972	--	--
Principal collected on mortgage loans	21,657	--	--
Other, net	4,521	(3,288)	(3,553)
Net cash used in investing activities	(74,602)	(167,344)	(144,373)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of notes payable	230,000	130,783	83,500
Issuance of common stock	155,450	51,210	--
Issuance of preferred stock	139,157	110,513	33,034
Purchases of treasury stock	--	(2,984)	(232)
Reduction of notes payable	(330,624)	(91,507)	(5,271)
Redemption of preferred stock	--	(33,415)	--
Receipts from interest sensitive products credited to policyholders' account balances	160,403	91,175	47,497
Return of policyholders' account balances on interest sensitive products	(365,554)	(144,413)	(45,426)
Repurchase agreement, net	(52,839)	--	--
Other, primarily dividends, net	(14,399)	(4,950)	--
Net cash provided (used) by financing activities	(78,406)	106,412	113,102
Net increase (decrease) in cash	11,686	14,741	(25,703)
CASH AT BEGINNING OF YEAR	27,778	13,037	38,740
CASH AT END OF YEAR	\$ 39,464	\$ 27,778	\$ 13,037
SUPPLEMENTAL DISCLOSURES:			
Income taxes paid (refunded)	\$ (4,992)	\$ 787	\$ 2,474

Interest paid	18,185	20,001	15,443
NON-CASH FINANCING ACTIVITIES:			
Debt assumed with acquisition	--	38,214	--
Securities issued in conjunction with acquisition	14,999	28,750	--
Amounts due on acquisition of affiliate	--	11,114	--

</TABLE>

See accompanying Notes to Consolidated Financial Statements

PENNCORP FINANCIAL GROUP, INC.

40

PAGE 40

NOTES TO CONSOLIDATED
financial statements

(1) BASIS OF PRESENTATION

PennCorp Financial Group, Inc. (the "Company", "PennCorp") is an insurance holding company. The Company commenced operations with the acquisition of Pennsylvania Life Insurance Company ("PLIC") and Executive Fund Life Insurance Company (which was merged into PLIC effective July 1, 1996) and Pacific Life and Accident Insurance Company ("PLAIC") on August 23, 1990. Through its wholly-owned life insurance subsidiaries, PLIC and its wholly-owned subsidiary, PennCorp Life Insurance Company (collectively referred to herein as "Penn Life"), Peninsular Life Insurance Company ("Peninsular"), Professional Insurance Corporation ("Professional"), Pioneer Security Life Insurance Company ("Pioneer Security") and its wholly-owned subsidiaries American-Amicable Life Insurance Company of Texas and Pioneer American Insurance Company (Pioneer Security and its subsidiaries collectively referred to herein as "AA Life"), Salem Life Insurance Corporation ("Salem Life") and its wholly-owned subsidiaries Integon Life Insurance Corporation ("ILIC") and Georgia International Life Insurance Company and Occidental Life Insurance Company of North Carolina ("OLIC") (Salem Life and its wholly-owned subsidiaries collectively referred to herein as "Integon Life"), United Companies Life Insurance Company ("UC Life"), and PLAIC, the Company offers a broad range of accident and sickness, life, and accumulation insurance products to individuals through a sales force that is contractually exclusive to certain of the Company's subsidiaries and through general agents.

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All dollar amounts presented hereafter, except share information, are stated in thousands.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Accounts that the Company deems to be acutely sensitive to changes in estimates include deferred policy acquisition costs, future policy benefits, policy and contract claims and present value of insurance in force. In addition, the Company must determine requirements for disclosure of contingent assets and liabilities as of the date of the financial statements based upon estimates. In all instances, actual results could differ from estimates.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS

Fixed maturities classified as held for investment are recorded at cost, adjusted for amortization of premium or discount, as the Company has the intent and ability to hold them to maturity. Fixed maturities and equity securities classified as available for sale are recorded at fair value, as they may be sold in response to changes in interest rates, prepayment risk, liquidity needs, the need or desire to increase income or capital and other economic factors. Changes in unrealized gains and losses related to securities available for sale are recorded as a separate component of shareholders' equity, net of applicable income taxes. Securities classified as trading securities are reported at fair value with realized gains and losses and changes in unrealized gains and losses included in the determination of net income as a component of other income. The classification of securities as held for investment,

available for sale or trading is generally determined at the date of purchase. The Company carries certain equity investments in affiliates on the equity basis of accounting as a result of its percentage ownership and lack of voting control. Mortgage-backed securities held for investment or available for sale are amortized using the interest method including anticipated prepayments at the date of purchase. Significant changes in estimated cash flows from original assumptions are reflected in the period of such change. Mortgage loans on real estate are recorded at cost, adjusted for amortization of premium or discount and provision for loan loss, if necessary. Policy loans, short-term investments, and other investments are recorded at cost, which approximates market.

Realized investment gains and losses and declines in value which are other than temporary, determined on the basis of specific identification, are included in net income.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which was issued by the Financial Accounting Standards Board in May 1993. Since December 1991, the Company has utilized concepts considered in SFAS No. 115 regarding the classification of investments in debt securities. The implementation of SFAS No. 115 has resulted in the Company reflecting certain invested assets at fair value rather than lower of aggregate cost or market as was the previous accounting practice. As of January 1, 1994 the adoption of SFAS No. 115 resulted in an increase in the value reflected in the financial statements for the fixed maturity securities available for sale of approximately \$14,351 and an increase in shareholders' equity of \$9,328, net of deferred tax.

PENNCORP FINANCIAL GROUP, INC.

41

PAGE 41

Notes to Consolidated Financial Statements, continued

In November 1995, the Financial Accounting Standards Board ("FASB") announced that for the year ended December 31, 1995, companies that are subject to the reporting requirements of SFAS No. 115 would have a one-time opportunity to reclassify securities currently classified as held for investment without the risk of tainting the accounting for investments on a historical basis. The Company has evaluated the securities contained in this portfolio and has determined under which conditions it may dispose of such securities. In light of this review, the Company has reclassified approximately \$61,410 of securities which were previously classified as held for investment to available for sale. The result of such reclassification was to increase shareholders' equity by \$1,198, net of applicable deferred income taxes.

INSURANCE REVENUE RECOGNITION

Accident and sickness insurance premiums are recognized as revenue ratably over the time period to which premiums relate. Revenues from traditional life insurance policies represent premiums which are recognized as earned when due. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the lives of the policies. This association is accomplished by means of the provision for liabilities for future policy benefits and the deferral and amortization of policy acquisition costs.

Revenues for interest sensitive products such as universal life and annuity contracts represent charges assessed against the policyholders' account balance for the cost of insurance, surrenders and policy administration. Benefits charged to expenses include benefit claims incurred during the period in excess of policy account balances and interest credited to policy account balances.

POLICY LIABILITIES

Liabilities for future policy benefits generally have been computed on the net level premium method, based on estimated future investment yield, mortality, morbidity and withdrawals. Estimates used are based on experience adjusted to provide for possible adverse deviation. These estimates are periodically reviewed and compared with actual experience. Future policy benefits for interest sensitive products include the balance that accrues to the benefit of the policyholders and amounts that have been assessed to compensate the life insurance subsidiaries for services to be provided in the future.

Policy and contract claims represent estimates of both reported claims and claims incurred but not reported based on experience.

ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable consist primarily of agents' balances and premiums receivable from agents and policyholders in the United States and Canada. Agents' balances are partially secured by commissions due to agents in the future and premiums receivable are secured by policy liabilities. An allowance for doubtful accounts is established, based upon specific identification and general provision, for amounts which the Company estimates will not ultimately be collected.

DEFERRED POLICY ACQUISITION COSTS

Estimated costs of acquiring new business which vary with, and are primarily related to, the production of new business, have been deferred to the extent that such costs are deemed recoverable from future revenues. Such estimated costs include commissions, certain costs of policy issuance, underwriting and certain variable agency expenses. Costs deferred on accident and sickness and traditional life policies are amortized, with interest, over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to expected total premium revenue to be received over the life of the policies. Expected premium revenue is estimated by using the same mortality, morbidity and withdrawal assumptions used in computing liabilities for future policy benefits. For interest sensitive products and limited pay life products, policy acquisition costs are amortized in relation to the emergence of anticipated gross profits over the life of the policies.

PRESENT VALUE OF INSURANCE IN FORCE

The present value of insurance in force represents the anticipated gross profits to be realized from future revenues on insurance in force at the date such insurance was purchased, discounted to provide an appropriate rate of return and amortized, with interest based upon the policy liability or contract rate, over the years that such profits are anticipated to be received in proportion to the estimated gross profits. Accumulated amortization was \$151,173 and \$122,851 as of December 31, 1996 and 1995, respectively.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

NET INCOME PER COMMON SHARE

Net income per common share is determined after recognition of preferred stock dividends and accretion of discount on preferred stock and is based on the weighted average number of common shares outstanding during the year after giving consideration to the dilutive effect of stock options and stock warrants. Fully diluted net income per share assumes the conversion of convertible preferred stock.

The Company adopted the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation", in 1996. This statement provides a choice for the accounting of employee stock compensation plans. A company may elect to use a new fair-value methodology, under which compensation cost is measured and recognized in results of operations, or continue to account for these plans under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Note 12 of the Consolidated Financial Statements contains a summary of the pro forma effects to reported net income applicable to common stock and earnings per share for 1996 and 1995, if the Company had elected to account for employee stock compensation plans utilizing the fair value methodology prescribed by SFAS No. 123.

COSTS IN EXCESS OF NET ASSETS ACQUIRED

Costs in excess of the fair value of net assets acquired are amortized on a straight-line basis primarily over 20 years. Accumulated amortization was \$32,434 and \$26,484 as of December 31, 1996 and 1995, respectively.

The Company continually monitors the value of costs in excess of net assets acquired based upon estimates of future earnings. Any amounts deemed to be impaired are charged, in the period in which such impairment was determined, as an expense against earnings. For the periods presented there was no charge to

earnings for the impairment of costs in excess of net assets acquired.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

FOREIGN CURRENCY TRANSLATION

The financial statement accounts of the Canadian operations, which are denominated in Canadian dollars, are translated into U.S. dollars as follows: (i) Canadian currency assets and liabilities are translated at the rates of exchange as of the balance sheet dates and the related unrealized translation adjustments are included as a separate component of shareholders' equity, and (ii) revenues, expenses and cash flows, expressed in Canadian dollars, are translated using a weighted average of exchange rates for each of the periods presented.

REINSURANCE

Financial reinsurance that does not transfer significant insurance risk is accounted for as deposits. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies. Balances due to, or from, reinsurers have been reflected as assets and liabilities rather than being netted against the related account balances.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

(3) ACQUISITIONS

On July 22, 1996, the Company consummated the acquisition of UC Life for a total purchase price of \$110,056 including expenses incurred of \$9,706 and earnings through the date of consummation of the acquisition of \$3,608. The fair value of net assets acquired amounted to \$76,008 resulting in \$34,048 costs in excess of net assets acquired.

The UC Life acquisition has been accounted for as a purchase transaction in accordance with generally accepted accounting principles, and accordingly, all assets and liabilities acquired were recorded at fair value as of the acquisition date which became the new cost basis.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

On July 25, 1995, the Company consummated the acquisition of Integon Life for a total purchase price of \$48,596 including acquisition expenses of approximately \$3,200. The fair value of net assets acquired amounted to \$2,974 resulting in \$45,622 of costs in excess of net assets acquired.

The acquisition of Integon Life was initiated on January 20, 1995, when the Company and its subsidiaries entered into a series of related agreements to acquire all of the issued and outstanding capital stock of Salem Holdings Corporation (formerly Integon Life Corporation), including the purchase for \$15,000 in cash, of a 49% limited partnership interest in the ultimate limited partner that controlled Integon Life. Prior to the consummation of the acquisition, the Company's 49% equity interest in the net income of Integon Life, which aggregated \$3,808, was reported on the equity method of accounting as undistributed earnings in unconsolidated affiliates for the period from January 20, 1995, to July 25, 1995.

The Integon Life acquisition has been accounted for as a purchase transaction in accordance with generally accepted accounting principles, and accordingly,

assets and liabilities acquired have been recorded as a step purchase with fair values determined as of January 20, 1995 and July 25, 1995, which became the new cost basis.

On August 31, 1994, the Company consummated the acquisition of AA Life for a total cash purchase price of \$103,392 including acquisition expenses of \$1,865. The fair value of net assets acquired was \$86,880 resulting in \$16,512 of costs in excess of net assets acquired.

The AA Life acquisition has been accounted for as a purchase transaction in accordance with generally accepted accounting principles, and accordingly, all assets and liabilities acquired were recorded at fair value as of the acquisition date which became the new cost basis. .

The results of operations of the acquired companies are included in the accompanying financial statements since the respective acquisition dates.

The following unaudited pro forma data represents the Company's consolidated results of operations as if (i) the Integon Life and AA Life acquisition occurred as of January 1, 1994, and (ii) the UC Life acquisition occurred as of January 1, 1995. This unaudited pro forma data has been prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made as of January 1, 1995 and 1994, or results which may occur in the future.

<TABLE>
<CAPTION>
(Amounts in thousands, except per share information)

FOR THE YEARS ENDED DECEMBER 31,	1996	1995	1994
<S>	<C>	<C>	<C>
Total revenues	\$ 639,076	\$ 635,508	\$ 484,181
Income before income taxes, undistributed earnings in unconsolidated affiliates and extraordinary charge	131,683	118,742	51,779
Net income applicable to common stock	82,884	54,077	30,417
Per share information:			
Net income applicable to common stock - primary	2.79	1.84	1.21
Net income applicable to common stock - fully diluted	2.59	1.81	

</TABLE>

(4) FOREIGN INFORMATION AND BUSINESS SEGMENT INFORMATION

The Company's only reportable industry segment is life insurance, and its only significant foreign operations are conducted in Canada. Within the life insurance segment the Company's significant lines of business include fixed benefit, life and accumulation products. Assets and related investment income are allocated based upon related insurance liabilities which are backed by such assets. Other operating expenses are allocated in relation to the mix of related revenues.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

The components of operations for the years ended December 31 were as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
TOTAL REVENUES:			
Insurance operations			
U.S.			
Fixed benefit products	\$ 147,226	\$ 162,747	\$ 159,644
Life products	253,959	174,934	91,322
Accumulation products	111,146	32,378	-
Canada			
Fixed benefit products	45,695	40,596	37,641
Life products	6,690	6,430	5,618
Non-insurance operations, corporate and eliminations	4,326	535	(453)

	\$ 569,042	\$ 417,620	\$ 293,772
=====			
INCOME BEFORE INCOME TAXES, UNDISTRIBUTED EARNINGS IN UNCONSOLIDATED AFFILIATES AND EXTRAORDINARY CHARGE:			
Insurance operations			
U.S.			
Fixed benefit products	\$ 39,664	\$ 52,148	\$ 18,735
Life products	52,363	26,245	40,908
Accumulation products	33,289	14,423	-
Canada			
Fixed benefit products	15,435	15,568	13,007
Life products	642	2,451	1,391
Non-insurance operations, corporate and eliminations	(17,694)	(20,558)	(15,460)
	\$ 123,699	\$ 90,277	\$ 58,581
=====			

</TABLE>

Total assets as of December 31 were as follows:

	1996	1995
=====		
<S>	<C>	<C>
TOTAL ASSETS:		
Insurance operations		
U.S.		
Fixed benefit products	\$ 479,900	\$ 453,087
Life products	1,686,611	1,497,654
Accumulation products	2,349,905	945,100
Canada		
Fixed benefit products	139,887	120,011
Life products	43,613	39,357
Non-insurance operations, corporate and eliminations	133,817	94,797
	\$ 4,833,733	\$ 3,150,006
=====		

</TABLE>

(5) INVESTMENTS

The following investments, other than obligations of the U.S. Government or agencies thereof, individually exceeded 10% of total shareholders' equity as of December 31:

	1996		1995	
	AMORTIZED COST	FAIR VALUE	AMORTIZED COST	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Canadian government obligations	\$ 80,492	\$ 88,671	\$ 61,245	\$ 66,374
=====				

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

The amortized cost and fair value of investments in fixed maturities held for investment as of December 31 were as follows:

	1996			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Mortgage-backed securities, principally obligations of U.S. Government agencies	\$ 34,546	\$ 2,307	\$ -	\$ 36,853

Corporate securities	52,784	124	2	52,906
	\$ 87,330	\$ 2,431	\$ 2	\$ 89,759

</TABLE>

<TABLE>
<CAPTION>

1995

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Corporate securities	\$ 51,366	\$ -	\$ 12	\$ 51,354

</TABLE>

The amortized cost and fair value of investments in fixed maturities available for sale as of December 31 were as follows:

<TABLE>
<CAPTION>

1996

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Mortgage-backed securities, principally obligations of U.S. Government agencies	\$1,408,124	\$ 25,710	\$ 5,510	\$1,428,324
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	326,484	5,783	2,760	329,507
Debt securities issued by foreign governments	80,492	8,179	-	88,671
Corporate securities	1,126,650	29,940	9,167	1,147,423
	\$2,941,750	\$ 69,612	\$ 17,437	\$2,993,925

</TABLE>

<TABLE>

1995

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Mortgage-backed securities, principally obligations of U.S. Government agencies	\$ 484,945	\$ 23,288	\$ 1,880	\$ 506,353
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	363,305	18,207	980	380,532
Debt securities issued by foreign governments	61,245	5,210	81	66,374
Corporate securities	504,692	33,486	4,452	533,726
	\$1,414,187	\$ 80,191	\$ 7,393	\$1,486,985

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

The amortized cost and fair value of fixed maturities held for investment as of December 31, 1996, by contractual maturity, are shown below:

<TABLE>
<CAPTION>

AMORTIZED
COST

FAIR
VALUE

<S>	<C>	<C>
Due in one year or less	\$ 5,223	\$ 5,223
Due after 1 through 5 years	16,793	16,854
Due after 5 through 10 years	30,768	30,829
Mortgage-backed securities, principally obligations of U.S. Government agencies	34,546	36,853
	\$ 87,330	\$ 89,759

</TABLE>

The amortized cost and fair value of fixed maturities available for sale as of December 31, 1996, by contractual maturity, are shown below:

<S>	AMORTIZED COST	FAIR VALUE
Due in one year or less	\$ 126,527	\$ 127,588
Due after 1 through 5 years	340,267	348,026
Due after 5 through 10 years	781,999	798,307
Due after 10 years	284,833	291,680
Mortgage-backed securities, principally obligations of U.S. Government agencies	1,408,124	1,428,324
	\$ 2,941,750	\$ 2,993,925

</TABLE>

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

Included in fixed maturities held for investment as of December 31, 1996 and 1995, are below investment-grade securities with an amortized cost and fair value of \$34,624 and \$39,281, respectively. Included in fixed maturities held for investment as of December 31, 1996, are unrated securities with an amortized cost of \$46,413 and a fair value of \$48,831.

Included in fixed maturities available for sale as of December 31, 1996 and 1995, are below investment-grade securities with an amortized cost of \$91,590 and \$30,556 and a fair value of \$92,494 and \$33,541, respectively. Included in fixed maturities available for sale as of December 31, 1996, are unrated securities with an amortized cost of \$92,315 and a fair value of \$92,752.

As of December 31, 1996, net unrealized appreciation in equity securities available for sale of \$3,356 consisted of gross unrealized gains of \$4,047, less gross unrealized losses of \$691. As of December 31, 1995, net unrealized appreciation in equity securities available for sale of \$1,465 consisted of gross unrealized gains of \$2,031, less gross unrealized losses of \$566.

Fair values for fixed maturity securities were provided by independent pricing services using market quotations, prices provided by market makers, or estimates of fair values obtained from yield data relating to investment securities with similar characteristics. The fair values for equity securities were determined using market quotations from principal public exchange markets.

The Company's commercial and residential mortgage portfolios had carrying values \$256,998 and \$36,563, respectively, and, fair values of approximately \$261,408 and \$37,190, respectively, as of December 31, 1996 and 1995. The fair values for mortgage loans on real estate are estimated using the quoted market prices for securities collateralized by similar mortgage loans, adjusted for the differences in loan characteristics. For mortgage loans on real estate where quoted market prices are not available, the fair values are estimated using discounted cash flow analysis and interest rates for loans with similar credit ratings.

PENNCORP FINANCIAL GROUP, INC.

As of December 31, 1996, commercial and residential mortgage loan investments were concentrated in the following states:

<TABLE>
<CAPTION>

	CARRYING VALUE	PERCENT OF TOTAL CARRYING VALUE
<S>	<C>	<C>
Georgia	\$ 42,412	16.5%
Florida	40,234	15.7
Colorado	31,434	12.3
Virginia	17,892	6.7
Tennessee	15,828	6.2
Alabama	15,142	5.9
Louisiana	13,912	5.5
All other	80,144	31.2
	-----	-----
	\$256,998	100.0%

</TABLE>

Investments with a carrying value of \$62,767 and \$49,036 were on deposit with certain regulatory authorities as of December 31, 1996 and 1995, respectively.

Realized, and changes in unrealized gains and losses, on investments for the years ended December 31 were as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
REALIZED GAINS (LOSSES) ON DISPOSITIONS OF INVESTMENTS:			
Securities held for investment:			
Gross gains from sales	\$ -	\$ -	\$ -
Gross losses from sales	(28)	-	-
Net gains (losses) from redemptions	(105)	1	(2,186)
	-----	-----	-----
	(133)	1	(2,186)
Securities available for sale:			
Gross gains from sales	2,562	3,009	182
Gross losses from sales	(1,800)	(2,616)	(1,572)
Net gains (losses) from redemptions	(166)	201	20
	-----	-----	-----
	596	594	(1,370)
Mortgage loans	794	-	-
Net realized gains (losses)	\$ 1,257	\$ 595	\$ (3,556)
=====			
CHANGES IN UNREALIZED GAINS (LOSSES):			
Securities held for investment	\$ 2,441	\$ 3,575	\$ (9,639)
Securities available for sale	(18,732)	111,732	(52,408)
	-----	-----	-----
Net change in unrealized gains (losses)	\$ (16,291)	\$ 115,307	\$ (62,047)
=====			
TRADING PORTFOLIO:			
Net gains from sales	\$ 4,930	\$ 1,830	
Net change in unrealized gains (losses)	(3,626)	3,880	
	-----	-----	-----
Total trading gains	\$ 1,304	\$ 5,710	

</TABLE>

Major categories of net investment income for the years ended December 31, consisted of the following:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Fixed maturity securities	\$ 170,871	\$ 70,715	\$ 44,759
Mortgage loans on real estate	13,693	2,783	1,702
Policy loans	8,409	5,240	2,725
Short term investments	12,966	16,891	1,641
Other investments	13,100	10,168	2,291
	-----	-----	-----
Gross investment income	219,039	105,797	53,118

Less: investment expenses	5,476	3,506	1,268
Net investment income	\$ 213,563	\$ 102,291	\$ 51,850

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

48

PAGE 48

Notes to Consolidated Financial Statements, continued

The Company had non-income producing fixed maturity investments with an amortized cost of \$17,115 and \$10,184 as of December 31, 1996 and 1995, respectively.

(6) SOUTHWESTERN LIFE INVESTMENT

On December 14, 1995, Southwestern Financial Corporation ("SW Financial"), a newly organized corporation formed by the Company and Knightsbridge Capital Fund I, L.P. ("Knightsbridge", see Notes 15 and 16) purchased Southwestern Life Insurance Company, Union Bankers Insurance Company and certain other related assets from I.C.H. Corporation for \$260,000.

Through its direct investment of \$120,000 in SW Financial (the "Southwestern Life Investment"), the Company beneficially owns 67.2% of SW Financial's outstanding common stock, including 100% of SW Financial's non-voting common stock, 15.1% of SW Financial's voting common stock, and preferred stock of SW Financial and its subsidiary. PennCorp is also a 16.3% limited partner in Knightsbridge.

The consolidated condensed results of operations and financial position of SW Financial are provided below:

	FOR THE YEAR ENDED DECEMBER 31, 1996	FOR THE PERIOD DECEMBER 14-31, 1995
<S>	<C>	<C>
REVENUES:		
Policy revenues	\$ 196,912	\$ 12,668
Net investment income	128,972	6,015
Other income (including limited partnership distributions of 15,811 in 1996)	27,439	320
Net gains from the sale of investments	516	--
Total revenues	353,839	19,003
BENEFITS AND EXPENSES:		
Claims incurred	234,773	14,736
Change in liability for future policy benefits and other policy benefits	(36,929)	(2,318)
Insurance and other operating expenses	92,731	3,617
Interest and amortization of deferred debt issuance costs	14,052	664
Total benefits and expenses	304,627	16,699
Income before income taxes and extraordinary charge	49,212	2,304
Income taxes	18,247	882
Net income	30,965	1,422
Preferred stock dividend requirements	2,754	205
Net income applicable to common stock	\$ 28,211	\$ 1,217

</TABLE>

AS OF DECEMBER 31,	1996	1995
<S>	<C>	<C>
ASSETS:		

Invested assets	\$ 1,640,991	\$ 1,710,537
Insurance assets	107,230	115,831
Other assets	462,329	387,656
	-----	-----
Total assets	\$ 2,210,550	\$ 2,214,024
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Insurance liabilities	\$ 1,745,160	\$ 1,821,292
Long-term debt	159,750	160,000
Other liabilities	127,237	74,826
Redeemable preferred stock	33,879	31,099
Shareholders' equity	144,524	126,807
	-----	-----
Total liabilities and shareholders' equity	\$ 2,210,550	\$ 2,214,024
	=====	=====

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

49

PAGE 49

Notes to Consolidated Financial Statements, continued

(7) DEFERRED POLICY ACQUISITION COSTS AND PRESENT VALUE OF INSURANCE IN FORCE

Deferred policy acquisition costs represent commissions, certain costs of policy issuance, including underwriting and certain variable agency costs.

Information relating to these costs for the years ended December 31, is as follows:

	1996	1995	1994
	<C>	<C>	<C>
=====			
<S>			
Policy acquisition costs deferred:			
Commissions	\$ 48,502	\$ 49,191	\$ 31,591
Underwriting and issue costs	51,043	34,604	27,328
	-----	-----	-----
Policy acquisition costs amortized	99,545	83,795	58,919
Unrealized investment loss adjustment	(24,556)	(22,234)	(11,141)
Foreign currency translation adjustment	(461)	(1,007)	-
	(75)	486	(751)
	-----	-----	-----
Balance as of December 31	\$ 268,356	\$ 193,903	\$ 132,863
	=====	=====	=====

</TABLE>

As a part of the purchase accounting for the Company's acquisitions, a present value of insurance in force asset is established which represents the value of the right to receive future cash flows from insurance contracts existing at the date of acquisition. Such value is the actuarially determined present value of the projected cash flows from the acquired policies, discounted at an appropriate risk rate of return.

The methods used by the Company to value the fixed benefit, life, and accumulation products purchased are consistent with the valuation methods used most commonly to value blocks of insurance business. It is also consistent with the basic methodology generally used to value insurance assets. The method used by the Company includes identifying the future cash flows from the acquired business, the risks inherent in realizing those cash flows, the rate of return the Company believes it must earn in order to accept the risks inherent in realizing the cash flows, and determining the value of the insurance asset by discounting the expected future cash flows by the discount rate the Company requires.

The discount rate used to determine such values is the rate of return required in order to invest in the business being acquired. In selecting the rate of return, the Company considered the magnitude of the risks associated with the type of business acquired and actuarial factors described in the following paragraph, cost of capital available to the Company to fund the acquisition, compatibility with other Company activities that may favorably affect future profits, and the complexity of the acquired company.

Expected future cash flows used in determining such values are based on actuarial determinations of future premium collection, mortality, morbidity, surrenders, operating expenses and yields on assets held to back policy liabilities as well as other factors. Variances from original projections, whether positive or negative, are included in income as they occur and will affect the present value of insurance in force interest rates for products subject to SFAS No. 97. To the extent that these variances indicate that future cash flows will differ from those included in the original scheduled amortization of the present value of the insurance in force, future amortization may be adjusted. Recoverability of the present value of insurance in force is evaluated annually and appropriate adjustments are then determined and reflected in the financial statements for the applicable period.

Information related to the present value of insurance in force is as follows:

	1996	1995	1994
Balance as of January 1	\$ 288,664	\$ 208,233	\$ 172,887
Addition due to acquisition	79,077	132,949	56,000
Accretion of interest	27,530	22,135	16,853
Amortization	(55,851)	(47,633)	(36,661)
Unrealized investment gain (loss) adjustment	12,582	(27,425)	-
Foreign currency translation adjustment	(29)	405	(846)
Balance as of December 31	\$ 351,973	\$ 288,664	\$ 208,233

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

Expected gross amortization, based upon current assumptions and accretion of interest at a policy liability or contract rate ranging from 3.5% to 14.5%, for the next five years of the present value of insurance in force is as follows:

	BEGINNING BALANCE	GROSS AMORTIZATION	ACCRETION OF INTEREST	NET AMORTIZATION
1997	\$ 351,973	\$ 63,796	\$ 25,354	\$ 38,442
1998	313,531	55,640	22,937	32,703
1999	280,828	50,205	20,674	29,531
2000	251,297	45,077	18,622	26,455
2001	224,842	39,166	16,746	22,420

(8) FUTURE POLICY BENEFITS

The liability for future policy benefits consists of reserves for fixed benefit, life and accumulation products. For interest sensitive life products and annuity products, the liability for future policy benefits is equal to the accumulated fund value. Fund values are equal to the excess premium received and interest credited to the fund value less deductions for mortality costs and expense charges. Current declared interest rates credited range from 4.0% to 6.75 percent. Mortality costs and expense charges are established by the Company based upon its experience and cost structure.

For traditional life products, the liability for future policy benefits is based primarily upon Commissioners' Standard Ordinary Tables with interest rates ranging from 2.5% to 6.0 percent. Fixed products establish a liability for future policy benefits equal to the excess of the present value of future benefits to or on behalf of the policyholder over the future net premium discounted at interest rates ranging primarily from 4.5% to 8.0 percent. Traditional life products' and fixed benefit products' future policy benefits are determined using Company experience as to mortality, morbidity and lapses with a provision for adverse deviation. The Company may vary assumptions by year of policy issue.

The following table presents information on changes in the liability for accident and sickness claims for the years ended December 31:

	1996	1995	1994
Claim liability at January 1	\$ 127,078	\$ 126,920	\$ 136,043
Less reinsurance recoverables	1,372	2,050	2,750
Net balance at January 1	125,706	124,870	133,293
Addition due to acquisition	1,079	1,095	-
Add claims incurred during the year related to:			
Current year	63,673	62,106	76,686
Prior years	(6,816)	(2,855)	(579)
Total incurred	56,857	59,251	76,107
Less claims paid during the year related to:			
Current year	19,057	20,346	32,828
Prior years	36,435	39,164	51,702
Total paid	55,492	59,510	84,530
Net balance at December 31	128,149	125,706	124,870
Plus reinsurance recoverables	2,242	1,372	2,050
Claim liability at December 31*	\$ 130,391	\$ 127,078	\$ 126,920

</TABLE>

* Included in the balance sheet captions "future policy benefits" and "policy and contract claims".

PENNCORP FINANCIAL GROUP, INC.

51

PAGE 51

Notes to Consolidated Financial Statements, continued

(9) NOTES PAYABLE

The outstanding principal amounts of the notes payable consist of the following as of December 31:

	1996	1995
Unsecured 9 1/4% Senior Subordinated Notes due 2003 (a)	\$ 114,646	\$ 150,000
Bank Debt due in 1996 (b)	-	100,000
Bank Debt with annual principal requirement (c)	-	57,000
Revolving bank credit facility (d)	92,000	-
Unsecured 9% Notes payable due December 31, 1996	-	271
Other	3,679	-
	\$ 210,325	\$ 307,271

</TABLE>

(a) Interest costs under the Notes totaled \$13,545, \$14,463 and \$15,206 during 1996, 1995 and 1994, respectively. At December 31, 1996, the effective rate for the Notes was approximately 9.6 percent.

(b) Interest costs under the \$100,000 credit facility totaled \$1,701 and \$362 in 1996 and 1995, respectively. The effective rate of interest charged on amounts outstanding during 1996 was 7.2 percent.

(c) Interest costs under the \$57,000 in bank debt totaled \$836 and \$3,839 in 1996 and 1995, respectively. The effective rate of interest charged on amounts outstanding during 1996 was 8.1 percent.

(d) Interest costs under the \$175,000 revolving credit facility totaled \$1,558

in 1996. The effective rate of interest charged was 6.0% during 1996 on a weighted average outstanding balance of \$25,861.

The fair value of amounts outstanding as notes payable for the years ended December 31, 1996 and 1995, amounted to \$215,341 and \$311,771, respectively. All recorded amounts other than the Senior Subordinated Notes approximate market as they carry variable rates of interest which adjust at least every 90 days. The fair value of the Senior Subordinated Notes is determined based upon quotes from market makers.

The aggregate maturities of notes payable during each of the five years after December 31, 1996, are as follows: 1997, \$570; 1998, \$617; 1999, \$668; 2000, \$724; 2001, \$92,951.

All of the Company's debt obligations contain financial and operating covenants. The Company and its subsidiaries were in compliance with all applicable covenants as of December 31, 1996.

The Company realized an after-tax extraordinary charge of \$2,372 for the year ended December 31, 1996. The charge represents (i) the write-off of \$816 of deferred financing costs related to the retirement of certain indebtedness of the Company and its subsidiaries, and (ii) the write-off of \$1,556 of deferred financing, swap cancellation and other costs related to the repurchase of approximately \$35,354 in principal amount of the Senior Subordinated Notes.

(10) INCOME TAXES

The Company and a number of its non-insurance subsidiaries file a consolidated federal income tax return with a July 31 year end, which differs from its financial year end. Marketing One and its subsidiaries file a consolidated federal income tax return with a December 31 year end. The AA Life, PLAIC, and Salem Life groups each file a consolidated federal life insurance company income tax return on a calendar year basis with their life insurance subsidiaries.

Total income taxes for the years December 31, 1996, 1995, and 1994 were allocated as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Income from operations	\$ 45,418	\$ 31,642	\$ 21,437
Extraordinary item	(1,277)	-	-
Shareholders' equity	(1,864)	28,493	(13,015)
	\$ 42,277	\$ 60,135	\$ 8,422

</TABLE>

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

The provisions for income tax expense (benefit) attributable to income before extraordinary charge for the years ended December 31, 1996, 1995 and 1994, are as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Current U.S.	\$ (1,285)	\$ (1,311)	\$ 1,174
Current foreign	2,319	4,519	2,210
Deferred U.S.	39,943	26,329	17,310
Deferred foreign	4,441	2,105	661
Charge in lieu of tax	-	-	82
	\$ 45,418	\$ 31,642	\$ 21,437

</TABLE>

</TABLE>

Taxes computed using the federal statutory rate of 35% in 1996, 1995 and 1994, are reconciled to the Company's actual income tax expense attributable to income before extraordinary charge as follows:

<TABLE>

<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Tax expense computed at statutory rate	\$ 43,294	\$ 31,597	\$ 20,504
Dividends received deduction	(860)	(85)	(8)
Amortization of costs in excess of net assets acquired	2,796	2,295	1,834
Change in valuation allowance	(1,265)	(5,102)	(2,388)
Foreign taxes net of U.S. tax benefit	1,507	2,937	1,413
Other	(54)	-	82
Income tax expense	\$ 45,418	\$ 31,642	\$ 21,437

</TABLE>

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax liabilities at December 31, 1996 and 1995, relate to the following:

<TABLE>

<CAPTION>

	1996		1995	
<S>	<C>	<C>	<C>	<C>
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
Deferred policy acquisition costs	\$ -	\$ 72,676	\$ -	\$ 47,635
Present value of insurance and force	-	95,252	-	99,905
Future policy benefits	65,999	-	85,266	-
Net operating losses	38,557	-	35,524	-
Foreign and alternative minimum tax credits	21,252	-	16,030	-
Unrealized gain on investment securities	-	13,650	-	15,478
Other	23,048	14,830	35,545	19,801
Valuation allowance	148,856 (15,892)	196,408 -	172,365 (17,157)	182,819 -
	\$ 132,964	\$ 196,408	\$ 155,208	\$ 182,819

</TABLE>

The valuation allowance for deferred tax assets as of January 1, 1996 and 1995 was \$15,892 and \$17,157, respectively. The net change in the total valuation allowance for the years ended December 31, 1996 and 1995, was a decrease of \$1,265 and of \$104, respectively. If recognized as a tax benefit, a portion of the valuation allowance totaling \$7,349 would be allocated to reduce costs in excess of net assets acquired.

In assessing the realization of deferred taxes, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon those considerations, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance at December 31, 1996.

At December 31, 1996, the Company has life consolidated net operating loss carryforwards of approximately \$100,009 for tax return purposes. In addition, OLIC and Peninsular have available, on a separate return basis, acquired net operating loss

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

carryforwards of approximately \$10,153. The utilization of acquired net operating loss carryforwards is limited in any one year to the lesser of (i) the life insurance group's consolidated taxable income or (ii) the subsidiary's taxable income computed on a separate return basis.

The approximate net operating loss carryforwards for income tax purposes expire as follows:

EXPIRATION DATE	LIFE CONSOLIDATED RETURN	LIFE SEPARATE RETURN
<C>	<C>	<C>
2004	\$ -	\$ 5,072
2005	533	4,981
2006	-	-
2007	15,967	-
2008	38,047	100
2009	9,985	-
2010	-	-
2011	35,477	-
	\$ 100,009	\$ 10,153

</TABLE>

Under provisions of the Life Insurance Company Tax Act of 1959, certain special deductions were allowed to life insurance companies for federal income tax purposes. These special deductions were repealed by the Tax Reform Act of 1984, and the untaxed balances were frozen at their December 31, 1983 levels. These balances, aggregate approximately \$42,301 for the Company's life insurance subsidiaries, and are subject to taxation if certain levels of premium income or life insurance reserves are not maintained, or if the life insurance companies make excess distributions to shareholders. It is not expected that a tax would become due on any such balance and no deferred income taxes have been provided. However, if such tax were to become payable, it would amount to approximately \$14,805.

(11) PREFERRED STOCK

The Company issued 2,875,000 shares of \$50 redemption value \$3.50 Series II Convertible Preferred Stock (the "Series II Convertible Preferred Stock") on August 2, 1996. The Series II Convertible Preferred Stock is convertible at the option of the holder, unless previously redeemed, into 1.4327 shares of common stock for each share, subject to adjustment in certain events. Dividends accrued and unpaid as of December 31, 1996, were \$1,677. The carrying value of the Series II Convertible Preferred Stock approximates market due to the short-term nature of the instrument.

On July 25, 1995, the Company issued 127,500 shares of 10% Series B Preferred Stock and 178,500 shares of 9% Series C Preferred Stock to fund a portion of the Integon Life purchase price. The Series B Preferred Stock and the Series C Preferred Stock are mandatorily redeemable on or before June 30, 1997 and June 30, 1998, respectively. The redemption price of the Series C Preferred Stock is subject to certain offsets related to the Integon Life stock purchase agreement. Dividends accrued and unpaid were \$1,939 and \$557 on the Series B Preferred Stock and \$2,175 and \$700 on the Series C Preferred Stock, respectively, as of December 31, 1996 and 1995.

The Company issued 2,300,000 shares of \$50 redemption value \$3.375 Convertible Preferred Stock (the "Convertible Preferred Stock") on July 14, 1995. The Convertible Preferred Stock is convertible at the option of the holder, unless previously redeemed, into 2.2124 shares of common stock for each share, subject to adjustment in certain events. Dividends accrued and unpaid as of December 31, 1996 and 1995 were \$1,660. The carrying value of the Convertible Preferred Stock approximates market due to the short-term nature of the instrument.

In conjunction with the acquisition of AA Life in August 1994, the Company issued 450,000 shares of nonvoting Series A Preferred Stock, \$0.01 per share par value and \$100 per share redemption value. The Series A Preferred Stock was redeemed on August 25, 1995, from the proceeds received from the issuance of the Convertible Preferred Stock. During 1995, and 1994, the Company paid or

accrued dividends amounting to \$1,725 and \$1,151, respectively.

(12) STOCK OPTIONS AND WARRANTS

The Company has established two management stock option plans, the 1992 Stock Option Plan which set aside up to 475,635 shares for grant and the 1996 Stock Option Plan which set aside up to 2,800,000 shares for grant. Options granted under the 1992 Stock Option Plan are deemed to be in four equal units which are earned over four years from the

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

date of grant and are exercisable during a one-year period immediately following the fourth anniversary of the date of grant. The 1996 Stock Option Plan allows for awards of stock or options subject to such terms, conditions, and restrictions, and/or limitations, if any, as the Stock Option Committee of the Board of Directors deems appropriate.

The Company has also established a senior management stock award plan ("Warrant Plan"). The Warrant Plan allows for grants to senior executive officers of PennCorp and Directors of PennCorp who are not executive officers of the Company. Grant prices are determined based on the average price of the shares traded on the date of grant. Warrants granted under the Warrant Plan are determined by the Compensation Committee and are exercisable at such times and in such amounts as the Compensation Committee shall determine, but no warrant granted under the Warrant Plan will be exercisable more than ten years after the date of grant. Upon change of control (as defined) of PennCorp, all outstanding warrants become immediately vested and exercisable, and any warrants that remain unexercised shall be canceled and replacement warrants shall be issued by the surviving entity.

As part of an employment agreement effective August 1990, the Company issued to a former officer of the Company, warrants to purchase up to 570,760 shares of the common stock of the Company at any time up to 10 years from the date of the agreement. The warrants are exercisable at a price of \$4.00 per share which was fair value on the date of grant.

The Company has established a U.S. Sales Manager incentive stock option plan in which the senior sales manager of one of the Company's insurance subsidiaries may earn stock options in the amount of 275,000 shares over a five-year period, subject to achieving certain performance goals, in addition to an initial grant of 100,000 options. Such options are vested immediately as earned, except for the initial 100,000 which vest in September 1999, and option prices range from \$15 per share, for the initial 100,000 options, to the fair value of the common stock of the Company on the date of grant for those shares subject to performance goals.

The following table summarizes data relating to stock options and warrants activity and associated weighted average option exercise price information for the years ended December 31:

<TABLE>
<CAPTION>

	1996		1995		1994	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Number of shares subject to option/warrant:						
Outstanding at beginning of year	2,329,754	\$ 10.86	2,261,981	\$ 9.61	2,221,034	\$ 8.78
Granted	44,000	\$ 31.09	110,000	\$ 17.64	137,000	\$ 15.84
Expired/canceled	(59,000)	\$ 13.82	(42,227)	\$ 13.43	(96,053)	\$ 13.24
Exercised	(147,867)	\$ 5.40	---	\$ ---	---	\$ ---
Outstanding at end of year	2,166,887	\$ 11.56	2,329,754	\$ 10.86	2,261,981	\$ 9.61
Exercisable at end of year	2,105,438	\$ 11.00	---	\$ ---	---	\$ ---
Available for future grant at end of year	2,792,000		144,063		262,024	

</TABLE>

The following table summarizes information concerning outstanding and exercisable options and warrants as of December 31, 1996:

<TABLE>
<CAPTION>

		OPTIONS/WARRANTS OUTSTANDING			OPTIONS/WARRANTS EXERCISABLE	
RANGE OF EXERCISE PRICES		NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
\$4.00 - \$5.40		893,887	5.8	4.51	893,887	4.51
\$14.00 - \$19.58		1,229,000	6.2	15.96	1,211,551	15.78
\$27.25 - \$32.43		44,000	8.4	31.70	---	---
		2,166,887			2,105,438	

</TABLE>

In accordance with the provisions of SFAS No. 123, the Company applies APB Opinion 25 and related Interpretations in accounting for its stock option and warrant plans and, accordingly, does not recognize compensation cost. If the Company had elected to recognize compensation cost based on the fair value of the options and warrants as of the grant date as prescribed by SFAS No. 123, the reduction in net income applicable to common stock and earnings per share would have been immaterial.

PENNCORP FINANCIAL GROUP, INC.

55

PAGE 55

Notes to Consolidated Financial Statements, continued

(13) STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

Cash generated by the Company's insurance subsidiaries is made available to PennCorp principally through periodic payments of principal and interest on surplus debentures issued by PLAIC, Salem Life and Pioneer Security, (collectively, the "Surplus Note Companies"). The amounts outstanding under the surplus debentures totalled \$367.9 million and \$315.8 million as of December 31, 1996 and 1995, respectively. Surplus debentures generally require (subject to availability of statutory capital and surplus and in some instances, regulatory approval) principal and interest payments to be made periodically in amounts sufficient to allow PennCorp to meet its cash requirements.

The Company's cash flow is derived principally from dividends and principal and interest payments on the surplus debentures issued by the insurance subsidiaries.

Dividend payments of the Company's insurance subsidiaries are limited by, or subject to the approval of the insurance regulatory authority of each subsidiary's state of domicile. Such dividend requirements and approval processes vary significantly from state to state. In 1997, the insurance subsidiaries will be able to pay a maximum of \$27,165 in dividends to the Company without prior regulatory approval. In 1997, the insurance subsidiaries, subject to availability of cash and statutory capital and surplus, could pay a maximum of \$50,730 on surplus note payments to the Company.

Statutory capital and surplus of the Company's life insurance subsidiaries as reported to regulatory authorities at December 31, 1996 and 1995, totaled \$305,126 and \$167,753, respectively. Shareholders' equity of the Company's life insurance subsidiaries included in the consolidated balance sheet totaled \$592,304 and \$410,228 at December 31, 1996 and 1995, respectively. Statutory net income (loss) of the Company's life insurance subsidiaries as reported to regulatory authorities totaled \$(21,330), \$18,581 and \$20,156 for the years ended December 31, 1996, 1995 and 1994, respectively. Surplus note interest expense of \$51,254, \$24,170 and \$11,527 for the years ended December 31, 1996, 1995, and 1994, respectively, is included in statutory net income (loss).

The Company's Canadian branch and Canadian subsidiary report to Canadian regulatory authorities based upon Canadian statutory accounting principles that vary in some respects from U.S. statutory accounting principles. Consolidated Canadian net assets based upon Canadian statutory accounting principles were \$51,567 and \$43,186 as of December 31, 1996 and 1995, respectively.

Remittances to PLIC from the Canadian operations totaled \$-, \$2,485 and \$5,761 for the years ended December 31, 1996, 1995 and 1994, respectively.

On October 1, 1990, the Company established a defined contribution retirement plan (the "Defined Contribution Plan") for all employees of the Company who have attained age 21, and for certain agents whose commission earnings represent more than 50% of their income from the Company. Contributions to the Defined Contribution Plan are made pursuant to salary deferral elections by participants in an amount equal to 1% to 15% of their annual compensation. In addition, the Company makes matching contributions in an amount equal to 50% of each participant's salary deferral to a maximum of 3% of annual compensation. The Defined Contribution Plan also provides for a discretionary employer profit sharing contribution, which is determined annually by the Board of Directors for the succeeding plan year. Profit sharing contributions are credited to participant's accounts on the basis of their respective compensation in accordance with a formula that provides a higher percentage contribution for compensation in excess of the federal Social Security wage base. Salary deferral contribution accounts are at all times fully vested, while matching contribution accounts vest ratably from one to two years of service, and profit sharing contribution accounts vest ratably from one to five years of service. All participant accounts are fully vested at death, disability or attainment of age 65. Payment of vested benefits under the Defined Contribution Plan may be elected by a participant in a variety of forms of payment. The Company's funding policy is to contribute annually an amount that can be deducted for federal income tax purposes. Expenses related to this plan for the years ended December 31, 1996, 1995 and 1994, amounted to \$1,520, \$1,335 and \$1,105, respectively.

The Company has an established bonus plan for insurance subsidiary officers. The amount available to pay awards for any year is determined by a committee of senior executives of the Company and is subject to the review and recommendation of the Compensation Committee and approval of the Board of Directors of the Company. Awards are based primarily on the income growth of the Company and the performance of eligible participants. The Company accrued or paid \$1,144, \$691 and \$180 under this plan during the years ended December 31, 1996, 1995 and 1994, respectively.

PENNCORP FINANCIAL GROUP, INC.

56

PAGE 56

Notes to Consolidated Financial Statements, continued

If the Company meets established performance goals, the Company's two most senior officers are eligible to receive annual cash bonuses based primarily on annual growth rates in fully diluted earning per share. Bonus awards range from 0% to 200% of a predetermined target annually. During 1996, the Company did not accrue for such bonuses as the employment arrangements containing the bonus plan are contingent upon the purchase by the Company of the Fickes and Stone Knightsbridge Interests (see Notes 15 and 16 below).

Prior to its acquisition by the Company, Integon provided postretirement life and health benefits for employees who retired at age 55 or later and agents who retired at age 65 or later with 10 or more years of service. A closed group of agent retirees under age 65 was also eligible for benefits. Spouses, surviving spouses and dependent children were eligible for life and health benefits. Retired employees under age 65 are covered by a health maintenance organization under which benefits are generally paid at 100% after various copayments. Retired agents or employees outside the service area are covered by a self-funded indemnity plan which has a deductible with 20%-30% coinsurance. Retirees contribute toward their own benefits and contributions are required for spouses and dependent children. Under the plan, health benefits for retirees are the same as before retirement, except amounts paid by Medicare are excluded from consideration. The plan was terminated as of the date of acquisition.

Postretirement benefits are accrued (but not funded) for eligible retirees. The components of the accumulated postretirement benefit obligation as of December 31 were as follows:

<TABLE>

<CAPTION>

	1996	1995
<S>	<C>	<C>
Retirees	\$ 5,279	\$ 5,253
Fully eligible active plan participants	-	1,778
Other active plan participants	-	658
	-----	-----
Accrued postretirement benefit obligation	\$ 5,279	\$ 7,689

For the year ended December 31, 1996, the postretirement benefit liability was calculated assuming an annual trend rate in health care inflation of 8% in 1997 grading down to 5.5% in 2000 and after. If the health care cost trend rate assumption increased by 1%, the accumulated postretirement benefit obligation as of December 31, 1996, would increase \$198 or 3.8%.

(15) RELATED PARTY TRANSACTIONS

During 1995, two of the Company's officers and directors, Messrs. Stone and Fickes, formed a fund, Knightsbridge Capital Fund I, L.P., ("Knightsbridge") for the purpose of making equity and equity linked investments in companies engaged primarily in the life insurance industry. Knightsbridge has received subscriptions for approximately \$92,000 in limited partnership interests, including a \$15,000 subscription from the Company.

In the second half of 1995, the Company and Knightsbridge determined that a joint venture strategy was in the best interest of both parties. As part of that joint venture, Knightsbridge provides PennCorp with a right of first refusal with respect to all insurance transactions considered by Knightsbridge. The joint venture entity formed for this purpose is Knightsbridge Management, L.L.C. ("KM"). PennCorp participates in 45% of the net distributable income of KM.

The Company has established an independent committee of the Board of Directors to oversee the relationship between PennCorp and Knightsbridge. KM has the primary responsibility for negotiating the terms of, and arranging the financing for PennCorp or PennCorp/Knightsbridge shared transactions. Certain of those individuals involved in the daily operations of KM are also officers of the Company.

KM receives management fees from all of its limited partners, including the Company, for the management of Knightsbridge. KM also receives payment in kind consideration in lieu of additional management fees from PennCorp for providing corporate and financial management services to the Company. Fees received by KM from the Knightsbridge limited partners including PennCorp, as well as the management fees paid in kind by the Company are subject to offset in future periods based upon a portion of transaction fees generated by KM.

In February 1996, the PennCorp Board of Directors (the "PennCorp Board") and the principals of Knightsbridge began discussions on consolidating Messrs. Stone's and Fickes' outside interests under PennCorp. Such discussions culminated in a restructuring of the Knightsbridge relationship including the following completed and pending transactions (see Note 16) (i) Messrs. Stone and Fickes entered into five-year employment agreements, (ii) the proposed acquisition of the Fickes and Stone Knightsbridge Interests, (iii) the proposed acquisition of the Fickes and Stone interests in SW Financial, subject to certain contingencies, and (iv) the purchase by the Company, from the limited partners of Knightsbridge, the right to acquire UC Life for \$7,500.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

For the years ended December 31, 1996 and 1995, PennCorp paid or accrued \$2,548 and \$3,900 in transaction fees to KM related to the UC Life and SW Financial transactions, respectively. During 1996, certain of the Company's affiliates and subsidiaries paid management fees to KM amounting to \$2,190 which have been contingently expensed in the accompanying financial statements pending the shareholder vote on the acquisition of the Fickes and Stone Knightsbridge Interests. SW Financial and UC Life paid KM investment advisory fees totalling \$1,813 and \$- during 1996 and 1995, respectively. In addition, PennCorp received a \$1,000 stand-by commitment fee from SW Financial for contingent financing on a real estate transaction. SW Financial did not draw upon the commitment.

As required by the joint venture agreement, all bonuses paid to officers of KM who are also officers of PennCorp must be approved by the Compensation Committee of the Board of Directors of PennCorp. During 1995, the Company paid or accrued for KM incentive bonuses to certain individuals who are officers of PennCorp and KM of approximately \$2,400.

In August 1995, the Company sold its preferred and common stock position in a company which has historically provided investment management services to the PennCorp insurance subsidiaries and for which a senior executive officer of the

investment management firm is a member of the PennCorp Board of Directors. Fees paid for such investment management services amounted to \$895, \$738 and \$789 during 1996, 1995 and 1994, respectively.

Certain individuals, who are shareholders, directors and officers of PennCorp, and affiliates of these individuals, provide services to the Company. During 1996 and 1995, payments aggregating \$250 and \$210, respectively, were made to these individuals and their affiliates for services provided in connection with the Company's acquisition activity. During 1994, fees amounting to \$813 were paid in connection with the establishment of PennCorp's Canadian subsidiary, the acquisition of AA Life, and certain reinsurance transactions.

(16) OTHER COMMITMENTS AND CONTINGENCIES

On January 22, 1997, the Company filed with the Securities and Exchange Commission ("SEC"), a preliminary PennCorp Financial Group, Inc. and Washington National Corporation Joint Proxy Statement and Prospectus ("Joint Proxy Statement") in which the Company, pending final review by the SEC, will be soliciting shareholder approval for the following transactions: (i) the Washington National Merger, (ii) the acquisition of the Controlling Interest in SW Financial, (iii) the acquisition of the Fickes and Stone Knightsbridge Interests, and (iv) other items.

Under the terms of the amended and restated Washington National Merger agreement, Washington National shareholders will receive the right to receive \$29.50 per share of consideration in the form of cash, PennCorp Common Stock, or a combination of cash and PennCorp Common Stock. The aggregate consideration to be received by the Washington National shareholders will be approximately \$377,000, of which no more than \$100,000 will be payable in cash.

PennCorp will receive its right to acquire the Controlling Interest in SW Financial through the assignment by Fickes and Stone and Knightsbridge ("the Controlling Parties") of certain rights including common stock and common stock equivalents of SW Financial. The Controlling Parties will receive aggregate cash consideration ranging from \$67,500 to \$69,600 (not including expenses) depending upon the outcome of certain contingencies.

In addition, PennCorp has proposed to acquire the Fickes and Stone Knightsbridge Interests for total consideration estimated to be \$10,000. Fickes and Stone will each receive consideration in the form of estimated annual payments of \$330 due April 15, 1997, each year through 2001 and the by issuance by PennCorp of 169,491 shares of PennCorp Common Stock to each of Fickes and Stone on April 15, 2001.

It is anticipated that PennCorp common shareholders will vote on the above transactions in April 1997, and, subject to shareholder approval, the Company intends to consummate such transactions as expeditiously as possible.

The Company and its subsidiaries are obligated under operating leases, primarily for office space. Rent expense, net of sublease income, was \$8,416, \$8,489 and \$7,172 in 1996, 1995 and 1994, respectively.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

<TABLE>	
<CAPTION>	
Minimum lease commitments are:	
<C>	<C>
1997	\$ 8,806
1998	4,269
1999	2,852
2000	1,716
2001	796
2002 and thereafter	177

Total minimum payments required*	\$ 18,616
=====	
</TABLE>	

* Total minimum lease payments have not been reduced by minimum sublease rentals of \$947 due in the future under noncancelable subleases.

In January 1996, stockholder derivative lawsuits styled Tozour Energy Systems Retirement Plan v. David J. Stone et al, and PennCorp Financial Group, Inc.,

C.A. No. 14775 (the "Tozour Case") and Lois Miller v. David J. Stone et al, and PennCorp Financial Group, Inc., C.A. No. 14795 (the "Miller Complaint") were filed against PennCorp and each of its directors, individually, in the Delaware Court of Chancery. The suits allege that the SW Financial Investment involved the usurpation of a corporate opportunity and a waste of PennCorp's assets by Messrs. Stone and Fickes, and that the directors of PennCorp in approving that transaction, failed to act in good faith and breached their fiduciary duties, including the duty of loyalty to PennCorp and its stockholders, having favored the interests of Messrs. Stone and Fickes over PennCorp and its stockholders. These lawsuits seek judgments against each of the defendants for the amount of damages sustained, or to be sustained, by the Company as a result of the breaches of fiduciary duty alleged in the complaint, the imposition of a constructive trust for the benefit of the Company on profits or benefits obtained by any defendant through the alleged breaches of fiduciary duty, attorney's fees and costs, and such other relief as the court determines to be just, proper or equitable.

The defendants in the Tozour Case have filed a motion seeking its dismissal on the ground that the plaintiff failed to comply with the requirements of Delaware law before instituting a derivative suit and intend to defend the lawsuit vigorously. Because the Company has not been served with the Miller Complaint, no action has been taken in that case, although the Company would also defend it vigorously. The defendants believe, however, that it would not be in the best interests of PennCorp and its shareholders to expend considerable management and director time and to incur substantial expenses to litigate the actions. Consequently, PennCorp's legal advisors have met or spoken by telephone with the plaintiff's counsel on several occasions to discuss the terms of a potential settlement.

The defendants and the plaintiff's counsel are negotiating a stipulation of settlement (the "Proposed Settlement") of the shareholder derivative actions. The Proposed Settlement consists of the following principal elements: (i) Messrs. Stone and Fickes will cancel the 335,564 SW Financial common stock warrants they hold for no consideration enabling PennCorp to purchase the SW Financial Controlling Interest for \$67.5 million, reducing the price to be paid by PennCorp for the SW Financial Controlling Interest by approximately \$2.0 million, (ii) that the PennCorp Board will proceed with the purchase of The Fickes and Stone Knightsbridge Interests, having received a fairness opinion of a nationally recognized investment banking firm with respect to the price to be paid for The Fickes and Stone Knightsbridge Interests, (iii) the PennCorp Board will proceed with the acquisition of the SW Financial Controlling Interest, having received a fairness opinion of a nationally recognized investment banking firm with respect to the price to be paid for the SW Financial Controlling Interest; (iv) the PennCorp Board will submit the purchase of The Fickes and Stone Knightsbridge Interests and the SW Financial Controlling Interest to a vote of a majority of the PennCorp stockholders present at the Stockholders Meeting and entitled to vote, and stockholders must approve both transactions, (v) Messrs. Stone and Fickes will abstain from voting on the proposals to approve the purchase of The Fickes and Stone Knightsbridge Interests and the SW Financial Controlling Interest, and (vi) the plaintiff's counsel will be entitled to conduct confirmatory discovery.

Certain other lawsuits have been brought against the Company's life insurance and non-life subsidiaries in the normal course of business involving the settlement of various matters seeking compensatory and in some cases punitive damages. Management believes that the ultimate settlement of all such litigation will not have a materially adverse effect on the Company's consolidated financial position or results of operations.

Effective January 1, 1996, the Company outsourced the vast majority of its data center operations and administrative systems programming to a third party vendor. The processing agreement extends through December 2002 and requires the Company or its insurance subsidiaries to make payments ranging from approximately \$8,399 to \$9,248 during each of the contract years. The contract has standard provisions for early cancellation, including breakage fees. As part of the outsourcing agreement, the Company has agreed to provide a line of credit which may be drawn upon during the first two years, with repayment in nearly equal monthly installments over the remainder of the contract.

The Company has agreed to provide guarantees of indebtedness of certain officers and directors up to a maximum of \$10,000.

PENNCORP FINANCIAL GROUP, INC.

Notes to Consolidated Financial Statements, continued

The life insurance companies are required to be members of various state

insurance guaranty associations in order to conduct business in those states. These associations have the authority to assess member companies in the event that an insurance company conducting business in that state is unable to meet its policyholder obligations. Assessments from guaranty associations, which have not been material, are recorded as assessments when received.

The Company has guaranteed approximately \$12,800 in mortgage loans sold to third parties.

(17) REINSURANCE

In the normal course of business, the Company reinsures portions of certain policies that it underwrites to limit disproportionate risks. The Company retains varying amounts of individual insurance up to a maximum retention of \$300 on any life. Amounts not retained are ceded to other insurance enterprises or reinsurers on an automatic or facultative basis.

The Company cedes varying amounts of certain accident and sickness policies up to a maximum cession of \$240, as well as varying portions of certain disability income policies on a facultative basis.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Therefore, the Company is contingently liable for recoverable unpaid claims and policyholder liabilities ceded to reinsurers in the unlikely event that assuming reinsurers are unable to meet their obligations. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The effect of reinsurance on policy revenues earned is as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Direct policy revenues and amounts assessed against policyholders	\$ 358,825	\$ 310,693	\$ 250,167
Reinsurance assumed	1,320	2,307	765
Reinsurance ceded	12,055	11,111	6,510
Net premiums and amounts earned	\$ 348,090	\$ 301,889	\$ 244,422

</TABLE>

Fees incurred for financial reinsurance were approximately, \$265 in 1996, \$339 in 1995, and \$515 in 1994.

PENNCORP FINANCIAL GROUP, INC.

UNAUDITED QUARTERLY FINANCIAL DATA

The following is a summary of the quarterly results of operations for the two years ended December 31, 1996 and 1995:

(Amounts in thousands, except per share information)

<TABLE>
<CAPTION>

1996 QUARTER-ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
Total revenues	\$132,178	\$137,424	\$148,370	\$ 172,172
Net income before extraordinary charge	\$ 20,154	\$ 25,917	\$ 22,564	\$ 30,748
Net income applicable to common stock	\$ 16,647	\$ 23,208	\$ 18,006	\$ 24,504
Net income per share of common stock - primary	\$ 0.66	\$ 0.80	\$ 0.61	\$ 0.84
Net income per share of common stock - fully diluted	\$ 0.60	\$ 0.73	\$ 0.58	\$ 0.76

</TABLE>

<TABLE>
<CAPTION>

1995 QUARTER-ENDED	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
<S>	<C>	<C>	<C>	<C>
Total revenues	\$ 88,694	\$ 88,730	\$120,112	\$ 124,802
Net income before extraordinary charge	\$ 11,966	\$ 15,022	\$ 20,698	\$ 15,667
Net income applicable to common stock	\$ 11,100	\$ 15,022	\$ 18,740	\$ 12,810
Net income per share of common stock - primary	\$ 0.54	\$ 0.60	\$ 0.79	\$ 0.54
Net income per share of common stock - fully diluted	\$ -	\$ -	\$ 0.73	\$ 0.51

</TABLE>

61

PAGE 61

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item is incorporated by reference to "Election of Directors" and "Executive Officers" in the Company's Proxy Statement for its 1997 Annual Meeting of the Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference to "Director-Fees", "Executive Compensation and Other Information", and "Compensation Committee Interlocks and Insider Participation" in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders, except that the information required by paragraphs (k) and (l) of Item 402 of Regulation S-K and set forth in such Proxy Statement is specifically not incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is incorporated by reference to "Security Ownership of Certain Beneficial Owners and Management" in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is incorporated by reference to "Compensation Committee Interlocks and Insider Participation" and "Certain Transactions" in the Company's Proxy Statement for its 1997 Annual Meeting of Shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents

1. The financial statements of PennCorp Financial Group, Inc. and Subsidiaries set forth on pages 35 through 60, and the Independent Auditors' Report set forth on page 35 hereof are in response to the information required by this Item.

2. An index to the financial statement schedules required to be filed by Item 8 of this Report on Form 10-K is set forth immediately before the attached financial statement schedules on page 75 of this filing.

3. Exhibits

2.1 Purchase Agreement among I.C.H. Corporation SWL Holding Corporation, Care Financial Corporation, Facilities Management Installation, Inc. and Southwestern Financial Corporation, Southwestern Financial Services Corporation and PennCorp Financial Group, Inc., dated as of December 1, 1995 and Addendum to Purchase Agreement dated as of

- 2.2 Amended and Restated Stock Purchase Agreement between United Companies Financial Corporation and Pacific Life and Accident Insurance Company dated as of July 24, 1996. (4)

- 2.3 Amended and Restated Agreement and Plan of Merger dated as of November 25, 1996 by and between PennCorp Financial Group, Inc. and Washington National Corporation. (2)
- 3.1 Restated By-Laws of PennCorp Financial Group, Inc. (12)
- 3.2 Second Restated Certificate of Incorporation of PennCorp Financial Group, Inc. as amended. (7)
- 4.1 Certificate of Elimination for Series A Cumulative Preferred Stock. (5)
- 4.2 Certificate of Designation of Series B Preferred Stock. (5)
- 4.3 Certificate of Designation of Series C Preferred Stock. (5)
- 4.4 Corrected Certificate of Designation of \$3.375 Convertible Preferred Stock. (5)
- 4.5 Certificate of Designation of \$3.50 Series II Convertible Preferred Stock (3)
- 4.6 Indenture between PennCorp Financial Group, Inc. and The Bank of New York, as trustee, with respect to 9 1/4% Senior Subordinate Notes due 2003. (11)
- 10.1 Surplus Debenture Number Four in the original principal amount of \$162,539,890, issued by Pacific Life and Accident Insurance Company to PennCorp Financial Group, Inc., dated January 1, 1994. (10)
- 10.2 Surplus Debenture Number Five in the original principal amount of \$17,606,203, issued by Pacific Life and Accident Insurance Company to PennCorp Financial Group, Inc., dated September 29, 1994. (9)
- 10.3 Surplus Debenture Number Six in the original principal amount of \$55,000,000, issued by Pacific Life and Accident Insurance Company to PennCorp Financial Group, Inc., dated July 24, 1996. (1)
- 10.4 10% Promissory Note in the original principal amount of \$30,661,996, issued by American-Holdings Corporation to Pennsylvania Life Insurance Company, dated July 1, 1996. (1)
- 10.5 Certificate of Contribution in the original principal amount of \$54,332,790 issued by Integon Financial Life Insurance Corporation to Integon Life Corporation, dated July 25, 1995. (5)

MANAGEMENT COMPENSATION RELATED
AGREEMENTS

- 10.6 Employment Agreement, dated as of August 19, 1990, between PennCorp Financial Group, Inc. and William M. McCormick. (13)
- 10.7 PennCorp Financial, Inc. Retirement and Savings Plan. (13)
- 10.8 PennCorp Financial, Inc. Executive Officer Incentive Plan. (13)
- 10.9 PennCorp Financial Group, Inc. 1992 Stock Option Plan. (13)
- 10.10 PennCorp Financial Group, Inc. Senior Management Warrant Award Program. (13)
- 10.11 Form of Restricted Stock Agreement By and Between PennCorp Financial Group, Inc. and certain participants, effective as of April 1, 1994. (9)
- 10.12 Employment Agreement between PennCorp Financial Group, Inc. and David J. Stone entered into June 7, 1996. (1)
- 10.13 Employment Agreement between PennCorp Financial Group, Inc. and Steven W. Fickes entered into June 7, 1996. (1)
- 10.14 PennCorp Financial Group, Inc. 1996 Stock Award and Stock Option Plan (1)
- 10.15 PennCorp Financial Group, Inc. 1996 Senior Executive Annual Incentive Award Plan (1)
- 10.16 Real Estate Purchase and Sale Agreement between Peoples Security Life Insurance Company and PennCorp Financial Group, Inc., dated March 24, 1995. (8)
- 10.17 Registration Rights Agreement dated as of December 14, 1995, between PennCorp Financial Group, Inc., I.C.H. Corporation, SWL Holding Corporation and Care Financial Corporation. (6)
- 10.18 Conversion, Standstill and Registration Rights Agreement between United Companies Financial Corporation and PennCorp Financial Group, Inc. dated as of July 24, 1996. (1)
- 10.19 Registration Rights Agreement dated as of August 2, 1996, by and among PennCorp Financial Group, Inc., Smith Barney Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporate. (1)
- 10.20 Stockholders Agreement dated December 14, 1995 between Southwestern Financial Corporation and the Security holders listed on the signature pages thereof. (6)

- 11 Computations of earnings per share. (1)
- 12 Computation of ratio of earnings to fixed charges. (1)
- 21 List of subsidiaries of the Registrant. (1)
- 22 Auditors consent. (1)

- (1) Filed herewith.
- (2) Such exhibit is incorporated by reference to the Form 8-K dated November 25, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on December 4, 1996, providing a copy of the Amended and Restated Agreement and Plan of Merger with Washington National Corporation.
- (3) Such exhibit is incorporated by reference to the Registration Statement on Form S-3 (Registration No. 333- 13285) of PennCorp Financial Group, Inc. filed with the Securities and Exchange Commission on October 10, 1996.
- (4) Such exhibit is incorporated by reference to the Form 8-K dated July 24, 1996 was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on August 8, 1996 relating to the financial statements and pro forma financial information of the United Companies Life Insurance Company.
- (5) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1995 of PennCorp Financial Group, Inc.
- (6) Such exhibit is incorporated by reference to the Form 8-K dated December 14, 1995 which was filed by PennCorp Financial Group, Inc. with the Securities and Exchange Commission on December 28, 1995 related to its investment in Southwestern Financial Corporation.
- (7) Such exhibit is incorporated by reference to the Form 8-A dated July 11, 1995 which was filed by PennCorp Financial Group, Inc. with the Securities and Exchange Commission on July 12, 1995.
- (8) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended June 30, 1995 of PennCorp Financial Group, Inc.
- (9) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended September 30, 1994 of PennCorp Financial Group, Inc.
- (10) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended June 30, 1994 of PennCorp Financial Group, Inc.
- (11) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1993 of PennCorp Financial Group, Inc.
- (12) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992 of PennCorp Financial Group, Inc.
- (13) Such exhibit is incorporated by reference to the Registration Statement on Form S-1 (Registration No. 33-50530) of PennCorp Financial Group, Inc. filed on August 6, 1992.

(b) Reports on Form 8-K.

A report on Form 8-K/A (Amendment No. 1) dated January 29, 1996 was filed with the Securities and Exchange Commission on February 21, 1996 related to the Company's economic participation in Southwestern Financial Corporation providing the audited combined financial statements as of December 31, 1994 and 1993 and for each of the years in the three-year period ended December 31, 1994

and unaudited combined financial statements as of September 30, 1995 and for the nine-month period ended September 30, 1995 for the insurance operations of I.C.H. Corporation acquired by Southwestern Financial Corporation, the Notes thereto and the Independent Auditors' Report with respect thereto, and the unaudited pro forma statements of operations of the Company for the year ended December 31, 1994 and for the nine-months ended September 30, 1995, and the unaudited pro forma balance sheet of the Company as of September 30, 1995 and the Notes thereto, reflecting the consummation of the

investment by the Company in Southwestern Financial Corporation.

A report on Form 8-K, dated July 17, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on July 17, 1996, relating to its acquisition of United Companies Life Insurance Company.

A report on Form 8-K, dated August 5, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on August 5, 1996, relating to the press release announcing the pricing of its \$3.50 Series II Convertible Preferred Stock.

A report on Form 8-K, dated July 24, 1996 was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on August 8, 1996 relating to the financial statements and pro forma financial information of the United Companies Life Insurance Company.

A report on Form 8-K, dated November 15, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on November 15, 1996, relating to the press release announcing the signing of a definitive Merger Agreement with Washington National Corporation.

A report on Form 8-K, dated November 25, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on December 4, 1996, providing a copy of the Amended and Restated Agreement and Plan of Merger with Washington National Corporation.

SIGNATURES

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

PennCorp Financial Group, Inc.
(Registrant)

By: /s/ David J. Stone

David J. Stone
Chairman of the Board, Chief Executive
Officer and Director
(Principal Executive Officer)
March 24 , 1997

Date

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 registrant and in the capacities and on the dates indicated.

<TABLE>

<S>	<C>
/s/ Steven W. Fickes	/s/ Allan D. Greenberg
----- Steven W. Fickes President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	----- Allan D. Greenberg Director
March 24 , 1997	March 24 , 1997
----- Date	----- Date
/s/ William M. McCormick	/s/ Thomas A. Player
----- William M. McCormick Director	----- Thomas A. Player Director
March 24 , 1997	March 24 , 1997
----- Date	----- Date

/s/ Kenneth Roman

/s/ Bruce W. Schnitzer

Kenneth Roman
Director

Bruce W. Schnitzer
Director

March 24 , 1997

March 24 , 1997

Date

Date

/s/ Maurice W. Slayton

/s/ David C. Smith

Maurice W. Slayton
Director

David C. Smith
Director

March 24 , 1997

March 24 , 1997

Date

Date

/s/ David J. Stone

David J. Stone
Chairman of the Board, Chief Executive Officer
and Director (Principal Executive Officer)
March 24 , 1997

Date

</TABLE>

PENNCORP FINANCIAL GROUP, INC. AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

Financial Statements:

Reference is made to data appearing on pages 35 through 60, and to the Independent Auditors' Report appearing on page 35 hereof.

<TABLE>

<CAPTION>

Schedules: *

<S>

Independent Auditors' Report - Financial Statement Schedules

	Page
Schedule I	
Summary of Investments - Other than Investments	
in Related Parties.....	68
Schedule II	
Condensed Financial Information of Registrant.....	69
Schedule III	
Supplementary Insurance Information.....	72
Schedule IV	
Reinsurance.....	73
Schedule V	
Valuation and Qualifying Accounts.....	74

</TABLE>

* All other schedules have been omitted as they are not applicable or not required, or the information is given in the financial statements, notes hereto or in other schedules.

SCHEDULE I

PENNCORP FINANCIAL GROUP, INC.

Summary of Investments - Other Than Investments in Related Parties
December 31, 1996
(Dollars in thousands)

<TABLE>

<CAPTION>

Type of Investment	Cost	Market Value	Amount At Which Shown In The Balance Sheet
<S>	<C>	<C>	<C>
Fixed Maturities held for investment:			
Bonds:			
United States Government agencies and authorities	\$ --	\$ --	\$ --
States, municipals and political subdivisions	--	--	--
Foreign governments	--	--	--
Other Special Revenue	--	--	--
Public Utilities	--	--	--
All other corporate bonds	87,330	89,759	87,330
Redeemable preferred stock	--	--	--
	-----	-----	-----
Total fixed maturities held for investment	\$ 87,330	\$ 89,759	\$ 87,330
	-----	-----	-----
Fixed maturities held for sale:			
Bonds:			
United States Government agencies and authorities	915,300	928,640	928,640
States, municipals and political subdivisions	77,661	78,285	78,285
Foreign governments	80,491	88,670	88,670
Other Special Revenue	720,208	729,204	729,204
Public Utilities	101,858	105,253	105,253
All other corporate bonds	1,045,462	1,063,107	1,063,107
Redeemable preferred stock	770	766	766
	-----	-----	-----
Total fixed maturities held for sale	\$2,941,750	\$2,993,925	\$2,993,925
	-----	-----	-----
Fixed maturities trading:			
Bonds:			
Other Special Revenue	31,021	31,140	31,140
Equity securities	17,511	20,867	20,867
Mortgage loans and real estate	280,520	284,929	280,520
Policy Loans	145,976	145,976	145,976
Short term investments	63,113	63,113	63,113
Other investments	23,326	23,326	23,326
	-----	-----	-----
Total investments	\$3,590,547	\$3,653,035	\$3,646,197
	=====	=====	=====

</TABLE>

69

PAGE 70 OF 83

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT

PENNCORP FINANCIAL GROUP, INC.
(Parent company only)

CONDENSED STATEMENTS OF EARNINGS
For the years ended December 31,

70

Page 69

SCHEDULE II

PENNCORP FINANCIAL GROUP, INC.
(PARENT COMPANY ONLY)

CONDENSED STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(Dollars in thousands)

<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>

Revenue:			
Interest income from subsidiaries	\$ 35,525	\$ 27,680	\$ 9,773
Other interest income	2,428	638	30
Other income	423	3,985	288
	-----	-----	-----
Total revenue	38,376	32,303	10,091
	-----	-----	-----
Operating expenses:			
General and administrative expenses	2,493	2,257	784
Interest and amortization of deferred debt issuance costs	17,920	15,938	16,756
	-----	-----	-----
Total operating expenses	20,413	18,195	17,540
	-----	-----	-----
Income (loss) before income taxes, equity in undistributed earnings of subsidiaries and extraordinary charge	17,963	14,108	(7,449)
Income tax expense (benefit)	251	4,139	(2,507)
	-----	-----	-----
Net income (loss) before equity in undistributed earnings of subsidiaries and extraordinary charge	17,712	9,969	(4,942)
Equity in undistributed earnings of subsidiary	81,029	53,384	42,086
	-----	-----	-----
Net income before extraordinary charge	98,741	63,353	37,144
Extraordinary charge, net of tax benefit of (\$932, \$ - , \$ -)	(1,730)	--	--
	-----	-----	-----
Net Income	\$ 97,011	\$ 63,353	\$ 37,144
	=====	=====	=====

</TABLE>

71

Page 70

SCHEDULE II

PENNCORP FINANCIAL GROUP, INC.
(PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS
AS OF DECEMBER 31, 1996 AND 1995
(Dollars in thousands)

<TABLE>

<CAPTION>

ASSETS	1996	1995
	-----	-----
<S>	<C>	<C>
Investments:		
Investment in subsidiaries	\$ 846,568	\$ 568,114
Notes receivable from subsidiaries	235,146	183,364
	-----	-----
Total investments	1,081,714	751,478
Cash and short term investments	2,099	1,713
Accrued investment income due from subsidiaries	3,918	18,808
Deferred debt issuance costs	2,482	3,824
Furniture and fixtures	463	499
Other assets	10,728	5,217
	-----	-----
	\$ 1,101,404	\$ 781,539
	=====	=====
LIABILITIES		
Notes payable	206,646	250,000
Due to subsidiaries	12,778	13,322
Accrued expenses and other liabilities	4,117	21,704
	-----	-----
Total liabilities	223,541	285,026
	-----	-----
Mandatory redeemable preferred stock, Series B	14,689	13,307
Mandatory redeemable preferred stock, Series C	18,175	16,700
SHAREHOLDERS' EQUITY		
\$3.375 Convertible preferred stock	110,513	110,513
\$3.50 Series II convertible preferred stock	139,157	--
Common stock	286	229

Additional paid in capital	393,156	220,482
Treasury stock	(3,370)	(3,370)
Retained earnings	202,144	125,375
Unrealized foreign currency translation adjustment	(14,969)	(15,539)
Unrealized gains on securities available for sale	19,582	30,353
Notes receivable from officers and employees for stock purchases	(1,500)	(1,537)
	-----	-----
Total shareholders' equity	844,999	466,506
	-----	-----
Total liabilities and shareholders' equity	\$ 1,101,404	\$ 781,539
	=====	=====

</TABLE>

72

Page 71

SCHEDULE II

PENNCORP FINANCIAL GROUP, INC.
(PARENT COMPANY ONLY)
CONDENSED STATEMENT OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994
(Dollars in thousands)

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net earnings	\$ 97,011	\$ 63,353	\$ 37,144
Adjustments to reconcile net earnings to net cash provided (used) in operating activities:			
Amortization of intangibles and depreciation	1,238	1,121	786
Equity in undistributed earnings of subsidiaries	(81,029)	(53,385)	(42,086)
Increase (decrease) in liabilities and due to subs	(544)	7,898	(24,532)
Other	79	(23,753)	(733)
	-----	-----	-----
Net cash provided (used) by operations	16,755	(4,766)	(29,421)
	-----	-----	-----
Cash flows from investing activities:			
Cash expended in acquisition of business	--	(18,363)	(47,343)
Purchase of affiliate	--	(115,454)	--
Cash provided from sale of business	--	--	27,107
Issuance of surplus note to subsidiary	(155,000)	--	(19,732)
Principle payment on surplus note	100,000	--	--
Dividend received from subsidiary	11,283	1,603	1,200
Capital contribution to subsidiary	(208,708)	(54,399)	(15,601)
Other	--	--	1,004
	-----	-----	-----
Net cash used by investing activities	(252,425)	(186,613)	(53,365)
	-----	-----	-----
Cash flows from financing activities:			
Issuance of notes payable	230,000	101,500	30,000
Issuance of common stock	155,450	51,210	--
Issuance of preferred stock	139,157	110,513	33,034
Purchase of treasury stock	--	(2,984)	(232)
Reduction of notes payable	(273,353)	(30,000)	(1,500)
Redemption of preferred stock	--	(33,415)	--
Dividends paid	(15,198)	(4,950)	(765)
Cost of debt refinancing	--	--	(159)
	-----	-----	-----
Net cash provided by financing activities	236,056	191,874	60,378
	-----	-----	-----
Increase (decrease) in cash	386	495	(22,408)
Cash at beginning of year	1,713	1,218	23,626
	=====	=====	=====
Cash at end of year	\$ 2,099	\$ 1,713	\$ 1,218
	=====	=====	=====
Supplemental Disclosure:			
Interest paid	\$ 16,921	\$ 15,308	\$ 14,310
	=====	=====	=====
Taxes paid	\$ 200	--	--
	=====	=====	=====
Non-cash financing activities:			
Securities issued in conjunction with acquisition	\$ 14,999	\$ 28,750	--

</TABLE>

SCHEDULE III

PENNCORP FINANCIAL GROUP, INC.
 SUPPLEMENTARY INSURANCE INFORMATION
 Years ended December 31,

SCHEDULE III

PENNCORP FINANCIAL GROUP, INC.
 SUPPLEMENTARY INSURANCE INFORMATION
 Years ended December 31, 1996, 1995 and 1994
 (In thousands)

<TABLE>
 <CAPTION>

Segment	Deferred policy acquisition costs	Future policy benefits, losses, claims and loss expenses	Other policy claims and benefits payable	Premium revenue	Net investment income	Benefits, claims, losses, and settlement expenses	Amortization of deferred policy acquisition costs	Other operating expenses
<S> 1994	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed benefit Life	\$ 80,215 52,648	\$ 308,944 451,363	\$ 2,080 35,643	\$ 176,950 67,472	\$ 22,018 29,832	\$ 89,377 13,944	\$ 7,392 3,749	\$ 54,754 22,653
Total	\$ 132,863	\$ 760,307	\$ 37,723	\$ 244,422	\$ 51,850	\$ 103,321	\$ 11,141	\$ 77,407
1995								
Fixed benefit Life	\$ 98,152 84,016	\$ 294,863 1,093,922	\$ 3,179 4,453	\$ 174,708 119,062	\$ 21,887 54,399	\$ 62,644 77,468	\$ 13,323 7,483	\$ 47,961 42,867
Accumulation	11,735	801,251	31,379	8,119	26,005	19,890	1,428	2,444
Total	\$ 193,903	\$ 2,190,036	\$ 39,011	\$ 301,889	\$ 102,291	\$ 160,002	\$ 22,234	\$ 93,272
1996								
Fixed benefit Life	\$ 135,111 111,693	\$ 278,820 1,212,497	\$ 2,787 4,599	\$ 169,311 169,974	\$ 22,730 89,277	\$ 61,648 135,412	\$ 14,384 9,947	\$ 49,364 42,167
Accumulation	21,552	2,030,362	33,043	8,805	101,556	70,752	225	6,154
Total	\$ 268,356	\$ 3,521,679	\$ 40,429	\$ 348,090	\$ 213,563	\$ 267,812	\$ 24,556	\$ 97,685

</TABLE>

SCHEDULE IV

PENNCORP FINANCIAL GROUP, INC.
 REINSURANCE
 Years ended December 31,

SCHEDULE IV

PENNCORP FINANCIAL GROUP, INC.

REINSURANCE
Years ended December 31, 1996, 1995 and 1994
(In thousands)

<TABLE>
<CAPTION>

	Gross Amount	Ceded to other companies	Assumed from other companies	Net amount	Percentage of amount assumed to net
<S>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1994:					
Life insurance in force	\$13,460,398	\$ 1,079,869	\$ 436,615	\$12,817,144	
Premiums:					
Accident and health insurance	\$ 177,512	\$ 562	\$ 0	\$ 176,950	0.0%
Life insurance/accumulation	72,655	5,948	765	67,472	1.1%
	\$ 250,167	\$ 6,510	\$ 765	\$ 244,422	
Year ended December 31, 1995:					
Life insurance in force	\$25,913,359	\$ 3,621,309	\$ 404,852	\$22,696,902	
Premiums:					
Accident and health insurance	\$ 175,517	\$ 1,036	\$ 227	\$ 174,708	0.1%
Life insurance/accumulation	135,176	10,075	2,080	127,181	1.6%
	\$ 310,693	\$ 11,111	\$ 2,307	\$ 301,889	
Year ended December 31, 1996:					
Life insurance in force	\$31,498,035	\$ 5,884,609	\$ 1,779,439	\$27,392,865	
Premiums:					
Accident and health insurance	\$ 169,727	\$ 416	\$ 0	\$ 169,311	0.0%
Life insurance/accumulation	189,098	11,639	1,320	178,779	0.7%
	\$ 358,825	\$ 12,055	\$ 1,320	\$ 348,090	

</TABLE>

77

PAGE 78 OF 83

SCHEDULE V

PENNCORP FINANCIAL GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31,

78

Page 74

SCHEDULE V

PENNCORP FINANCIAL GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 1996, 1995, AND 1994
(IN THOUSANDS)

<TABLE>
<CAPTION>

	Balance at beginning of period	Charge to cost and expenses	Charge to other accounts	Deductions	Balance at end of period
--	--------------------------------	-----------------------------	--------------------------	------------	--------------------------

	<C>	<C>	<C>	<C>	<C>
1996:					
<S>					
Mortgage loans on real estate	12,661 (a)			716	11,945
Allowance for bond losses	189 (a)				189
Unearned loan charges	266 (a)				266
Accounts and notes receivable	8,388	4,082		5,942	6,528
1995:					
Mortgage loan on real estate	2,314 (b)			2,314	-
Accounts and notes receivable	8,392	615		619	8,388
1994:					
Mortgage loan on real estate	-				-
Accounts and notes receivable	8,182	873		663	8,392

(a) Amount recorded as a purchase GAAP adjustment in conjunction with the acquisition of UC Life.

(b) Amount recorded as a purchase GAAP adjustment in conjunction with the acquisition of Integon Life.

79

PAGE 75

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT
<S>	<C>
2.1	Purchase Agreement among I.C.H. Corporation, SWL Holding Corporation, Care Financial Corporation, Facilities Management Installation, Inc. and Southwestern Financial Corporation, Southwestern Financial Services Corporation and PennCorp Financial Group, Inc., dated as of December 1, 1995 and Addendum to Purchase Agreement dated as of December 14, 1995. (6)
2.2	Amended and Restated Stock Purchase Agreement between United Companies Financial Corporation and Pacific Life and Accident Insurance Company dated as of July 24, 1996. (4)
2.3	Amended and Restated Agreement and Plan of Merger dated as of November 25, 1996 by and between PennCorp Financial Group, Inc. and Washington National Corporation. (2)
3.1	Restated By-Laws of PennCorp Financial Group, Inc. (12)
3.2	Second Restated Certificate of Incorporation of PennCorp Financial Group, Inc. as amended. (7)
4.1	Certificate of Elimination for Series A Cumulative Preferred Stock. (5)
4.2	Certificate of Designation of Series B Preferred Stock. (5)
4.3	Certificate of Designation of Series C Preferred Stock. (5)
4.4	Corrected Certificate of Designation of \$3.375 Convertible Preferred Stock. (5)
4.5	Certificate of Designation of \$3.50 Series II Convertible Preferred Stock (3)
4.6	Indenture between PennCorp Financial Group, Inc. and The Bank of New York, as trustee, with respect to 9 1/4% Senior Subordinate Notes due 2003. (11)
10.1	Surplus Debenture Number Four in the original principal amount of \$162,539,890, issued by Pacific Life and Accident Insurance Company to PennCorp Financial Group, Inc., dated January 1, 1994. (10)
10.2	Surplus Debenture Number Five in the original principal amount of \$17,606,203, issued by Pacific Life and Accident Insurance

</TABLE>

<TABLE>

EXHIBIT
NUMBER

EXHIBIT

<S>

<C>

- 10.3 Surplus Debenture Number Six in the original principal amount of \$55,000,000, issued by Pacific Life and Accident Insurance Company to PennCorp Financial Group, Inc., dated July 24, 1996. (1)
- 10.4 10% Promissory Note in the original principal amount of \$30,661,996, issued by American-Holdings Corporation to Pennsylvania Life Insurance Company, dated July 1, 1996. (1)
- 10.5 Certificate of Contribution in the original principal amount of \$54,332,790 issued by Integon Financial Life Insurance Corporation to Integon Life Corporation, dated July 25, 1995. (5)

</TABLE>

MANAGEMENT COMPENSATION RELATED
AGREEMENTS

<TABLE>

<S>

<C>

- 10.6 Employment Agreement, dated as of August 19, 1990, between PennCorp Financial Group, Inc. and William M. McCormick. (13)
- 10.7 PennCorp Financial, Inc. Retirement and Savings Plan. (13)
- 10.8 PennCorp Financial, Inc. Executive Officer Incentive Plan. (13)
- 10.9 PennCorp Financial Group, Inc. 1992 Stock Option Plan. (13)
- 10.10 PennCorp Financial Group, Inc. Senior Management Warrant Award Program. (13)
- 10.11 Form of Restricted Stock Agreement By and Between PennCorp Financial Group, Inc. and certain participants, effective as of April 1, 1994. (9)
- 10.12 Employment Agreement between PennCorp Financial Group, Inc. and David J. Stone entered into June 7, 1996. (1)
- 10.13 Employment Agreement between PennCorp Financial Group, Inc. and Steven W. Fickes entered into June 7, 1996. (1)
- 10.14 PennCorp Financial Group, Inc. 1996 Stock Award and Stock Option Plan (1)
- 10.15 PennCorp Financial Group, Inc. 1996 Senior Executive Annual Incentive Award Plan (1)
- 10.16 Real Estate Purchase and Sale Agreement between Peoples Security Life Insurance Company and PennCorp Financial Group, Inc., dated March 24, 1995. (8)

</TABLE>

<TABLE>

EXHIBIT
NUMBER

EXHIBIT

<S>

<C>

- 10.17 Registration Rights Agreement dated as of December 14, 1995, between PennCorp Financial Group, Inc., I.C.H. Corporation, SWL Holding Corporation and Care Financial Corporation. (6)
- 10.18 Conversion, Standstill and Registration Rights Agreement between United Companies Financial Corporation and PennCorp Financial Group, Inc. dated as of July 24, 1996. (1)

10.19	Registration Rights Agreement dated as of August 2, 1996, by and among PennCorp Financial Group, Inc., Smith Barney Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated. (1)
10.20	Stockholders Agreement dated December 14, 1995 between Southwestern Financial Corporation and the Security holders listed on the signature pages thereof. (6)
11	Computations of earnings per share. (1)
12	Computation of ratio of earnings to fixed charges. (1)
21	List of subsidiaries of the Registrant. (1)
22	Auditors consent. (1)
27	Financial Data Schedule (1)

</TABLE>

- (1) Filed herewith.
- (2) Such exhibit is incorporated by reference to the Form 8-K dated November 25, 1996, was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on December 4, 1996, providing a copy of the Amended and Restated Agreement and Plan of Merger with Washington National Corporation.
- (3) Such exhibit is incorporated by reference to the Registration Statement on Form S-3 (Registration No. 333- 13285) of PennCorp Financial Group, Inc. filed with the Securities and Exchange Commission on October 10, 1996.
- (4) Such exhibit is incorporated by reference to the Form 8-K dated July 24, 1996 was filed with the Securities and Exchange Commission by PennCorp Financial Group, Inc. on August 8, 1996 relating to the financial statements and pro forma financial information of the United Companies Life Insurance Company.
- (5) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1995 of PennCorp Financial Group, Inc.
- (6) Such exhibit is incorporated by reference to the Form 8-K dated December 14, 1995 which was filed by PennCorp Financial Group, Inc. with the Securities and Exchange Commission on December 28, 1995 related to its investment in Southwestern Financial Corporation.
- (7) Such exhibit is incorporated by reference to the Form 8-A dated July 11, 1995 which was filed by PennCorp Financial Group, Inc. with the Securities and Exchange Commission on July 12, 1995.

82

PAGE 78

- (8) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended June 30, 1995 of PennCorp Financial Group, Inc.
- (9) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended September 30, 1994 of PennCorp Financial Group, Inc.
- (10) Such exhibit is incorporated by reference to the Quarterly Report on Form 10-Q for the three months ended June 30, 1994 of PennCorp Financial Group, Inc.
- (11) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1993 of PennCorp Financial Group, Inc.
- (12) Such exhibit is incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992 of PennCorp Financial Group, Inc.
- (13) Such exhibit is incorporated by reference to the Registration

Statement on Form S-1 (Registration No. 33-50530) of PennCorp
Financial Group, Inc. filed on August 6, 1992.

PACIFIC LIFE AND ACCIDENT INSURANCE COMPANY

SURPLUS DEBENTURE NO. 6

\$55,000,000

July 24, 1996

FOR VALUE RECEIVED, Pacific Life and Accident Insurance Company, a Texas life insurance corporation ("Pacific"), subject to the terms, conditions, restrictions, and limitations contained herein, promises to pay to the order of PennCorp Financial Group, Inc. Corporation, a Delaware corporation ("PennCorp"), or to any subsequent holder hereof (the "Holder"), the principal sum of Fifty-Five Million Dollars (\$55,000,000) together with interest on the unpaid balance thereof at a rate (the "Rate") equal to the sum of (i) two and one-half percent (2.5%) per annum and (ii) the rate of interest required by that certain Credit Agreement, dated as of July, 1996, among PennCorp as borrower, ING Capital (U.S.) Corporation, as administrative agent, and the other lenders party thereto, (together with all amendments, renewals, extensions or refinancings thereof, the "Loan Agreement"). In respect to the Loan (as defined in the Loan Agreement) made to PennCorp, it is understood that the rate of interest with respect to the Loan may vary from time to time by operation of law or under the terms and conditions of the Loan Agreement. Each change in the interest rate applicable to the Loan shall cause a corresponding change in the calculation of the Rate, effective as of the time and date of such change in the interest rate applicable to the Loan, without any notice to Pacific or further action by the Holder. In the event the Loan is repaid in full prior to the full repayment of the Surplus Debenture, the Rate shall become 10% at that time.

Interest on this Surplus Debenture will be payable on March 31, June 30, September 30 and December 31 of each year (each, an "Interest Payment Date"), commencing on March 31, 1997 and continuing until the entire principal amount of this Surplus Debenture is paid in full. Both principal of and interest on this Surplus Debenture will be due and payable in the following manner at the offices of the Holder.

1. On or before each Interest Payment Date, Pacific will calculate the Surplus of Pacific (as hereinafter defined) as of the most recent date practicable, but in no event prior to the end of the immediately preceding calendar quarter (each such date being hereinafter referred to as a "Calculation Date").
2. On each Interest Payment Date, Pacific will pay the Holder the amount of accrued but unpaid interest on the unpaid principal balance of this Surplus Debenture to the extent the Surplus of Pacific exceeds \$1.2 million as of the Calculation Date immediately prior to such Interest

Payment Date.

3. If, as of any Calculation Date, the Surplus of Pacific does not exceed \$1.2 million by an amount sufficient to pay all accrued but unpaid interest on this Surplus Debenture, the remaining accrued but unpaid interest (together with interest thereon at the Rate) shall be

1

2

payable on the next Interest Payment Date to the extent the Surplus of Pacific exceeds \$1.2 million as of the Calculation Date immediately prior to such next Interest Payment Date.

4. Pacific will pay to the Holder on the dates set forth below (a "Principal Payment Date") the amounts of principal set forth below or such lesser amount as may be paid hereunder, together with all accrued but unpaid interest, to the extent the Surplus of Pacific exceeds \$1.2 million as of the most recent Calculation Date:

<TABLE>

<CAPTION>

Payment Date -----	Principal Amount Each Date -----
<S>	<C>
March 31, 1997	\$ 6,000,000
September 30, 1997	6,000,000
March 31, 1998	6,000,000
September 30, 1998	6,000,000
March 31, 1999	2,500,000
September 30, 1999	2,500,000
March 31, 2000	2,500,000
September 30, 2000	2,500,000
March 31, 2001	2,500,000
September 30, 2001	2,500,000
March 31, 2002	2,500,000
September 30, 2002	2,500,000
March 31, 2003	3,000,000
September 30, 2003	8,000,000

</TABLE>

5. If on a Principal Payment Date, the Surplus of PLAIC does not exceed \$1.2 million by an amount sufficient to pay to the Holder the principal amount due, together with all accrued but unpaid interest on this Surplus Debenture, the remaining unpaid portion of such principal amount and such interest (together with interest thereon at the Rate)

shall be payable thereafter at such time or from time to time as the Surplus of PLAIC exceeds \$1.2 million.

6. For purposes of this Surplus Debenture, the term "Surplus of PLAIC" shall mean the remainder obtained after subtracting the carrying value of the insurance subsidiaries of PLAIC from the sum of:
- a. "common capital stock" of PLAIC;
 - b. "gross paid-in and contributed surplus" of PLAIC;
 - c. "unassigned surplus" of PLAIC;
 - d. "special surplus" of PLAIC;

2

3

- e. any amounts required to be carried as liabilities with respect to outstanding surplus debentures issued by PLAIC; and
- f. surplus evidenced by surplus debentures of PLAIC which is not included in clauses a-e of this paragraph 6.

The items listed in clauses a-f of this paragraph 6 will be calculated in accordance with the accounting practices required or permitted by the Texas Department of Insurance ("Texas Department") for inclusion in the Annual Statement of PLAIC filed with the Texas Department as of December 31 of each year.

7. The obligation of PLAIC to pay this Surplus Debenture will not otherwise be or constitute a liability of PLAIC or a claim against any of its assets except in the event of the liquidation of PLAIC, and in no event will this Surplus Debenture be considered or treated as a current or fixed liability or obligation of PLAIC under the Texas insurance laws and the regulations thereunder except to the extent that a payment of principal or interest becomes due and payable hereunder or to the extent otherwise required by Texas law.
8. In the event of the liquidation of PLAIC, this Surplus Debenture will become immediately due and payable and will be superior to and in preference of the rights and claims of the shareholders of PLAIC; provided, however, that to the extent required by applicable law, all obligations, rights and claims hereunder are expressly subordinated to the claims of (a) policyholders, insureds, and beneficiaries under

insurance contracts or policies issued by PLAIC and (b) any supervisor, conservator or receiver of PLAIC appointed by the Commissioner of Insurance of the State of Texas.

9. All payments made hereunder will be credited first to accrued but unpaid interest, if any, and the balance of such payment will be credited to the principal amount hereof.
10. As a condition to the consolidation or merger of PLAIC into another corporation or the sale of all or substantially all of PLAIC's assets to any other corporation, the corporation into which PLAIC is consolidated or merged or to which the assets of PLAIC are transferred shall unconditionally assume the liability of PLAIC hereunder.
11. By acceptance and as a part of the consideration for the issuance hereof, the Holder expressly acknowledges that it has been informed and has knowledge that this Surplus Debenture has not been registered under the Securities Act of 1933, as amended, or the securities laws of any state and that PLAIC has issued this Surplus Debenture for investment purposes and not with a view toward a public distribution hereof and that this Surplus Debenture may not be sold or otherwise transferred in the absence of an effective registration statement with respect hereto or an exemption from registration under the Securities Act of 1933, as amended, or any other applicable securities laws.

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12. If this Surplus Debenture is collected through judicial proceedings, PLAIC agrees, subject to conditions and restrictions contained herein, to pay all reasonable legal fees and disbursements incurred by the Holder in connection with such collection.
13. This Surplus Debenture may be prepaid in whole or in part at any time or from time to time without premium or penalty to the extent that the Surplus of PLAIC exceeds \$1.2 million on the most recent Calculation Date before the date of any proposed prepayment.
14. This Surplus Debenture will be governed by and construed in accordance with the laws of the State of Texas.
15. It being the intention of the parties hereto to conform strictly to the applicable usury laws of the State of Texas, all agreements between PLAIC and PennCorp whether now or hereafter arising and whether written or oral, are here expressly limited so that in no event, whether by reason of acceleration of the maturity of any amount owed hereunder or otherwise, shall the amount paid or agreed to be

paid to PennCorp for the use, forbearance or retention of money hereunder or otherwise exceed the maximum amount permissible under applicable law (the "Maximum Lawful Amount"). If fulfillment of any provision hereof, at the time performance of such provision shall be due, shall cause the amount of interest applicable to this Surplus Debenture to exceed the Maximum Lawful Amount, then, ipso facto, the obligation to be fulfilled shall be reduced to the extent necessary to cause the amount of interest applicable to this Surplus Debenture not to exceed the Maximum Lawful Amount; and if the holder of this Surplus Debenture shall ever receive anything of value deemed interest under applicable law that would cause the interest applicable to this Surplus Debenture to exceed the Maximum Lawful Rate, an amount equal to the portion of such interest in excess of the Maximum Lawful Rate shall be applied to the reduction of the principal amount owing hereunder and not to the payment of interest, or if such excessive interest exceeds the unpaid principal amount hereof, such excess shall be promptly refunded to PLAIC by the holder hereof. All sums paid or agreed to be paid to the holder of this Surplus Debenture for the use, forbearance or retention of the indebtedness of PLAIC shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that interest on account of such indebtedness is uniform throughout the full term thereof. The provisions of this paragraph shall control agreements between PLAIC and the holder of this Surplus Debenture.

16. PennCorp may assign its rights hereunder to any person or entity without the consent of PLAIC. This Surplus Debenture will inure to the benefit of PLAIC and its successors and assignees. Notwithstanding the above, this Surplus Debenture is registered as to both principal and any stated interest with PLAIC and transfer of the Surplus Debenture may be effected only by surrender of the old instrument and either the reissuance by PLAIC of a new instrument to the new holder or the issuance by PLAIC of a new instrument to the new holder. No transfer of any ownership interest in this Surplus Debenture shall be made unless such transfer is permitted under Texas insurance law and PLAIC and PennCorp shall comply

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with all regulatory and legal limitations and requirements in connection with any transfer of this Surplus Debenture.

17. To the extent required by Texas law, PLAIC will notify the Texas Department of the payment of principal and interest under this Surplus Debenture.

IN WITNESS WHEREOF, PLAIC has caused this Surplus Debenture to be duly executed as of July 24, 1996.

PACIFIC LIFE AND ACCIDENT INSURANCE COMPANY

By: /s/ ROSS A. MARAZZO

Name: Ross A. Marazzo

Title: Vice President, Regulatory and
Corporate Compliance

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), NOR PURSUANT TO THE SECURITIES OR "BLUE SKY" LAWS OF ANY STATE. THIS SECURITY MAY NOT BE OFFERED, SOLD, TRANSFERRED, PLEDGED, HYPOTHECATED, OR OTHERWISE ASSIGNED, EXCEPT PURSUANT TO (A) A REGISTRATION STATEMENT THAT IS EFFECTIVE UNDER THE ACT OR (B) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE ACT.

10% Discount Note
Due 2021

Certificate No. 6

Principal Amount: \$30,644,630

American-Amicable Holdings Corporation, a Delaware corporation (the "Company"), which term includes any successor entity, for value received promises to pay to PennCorp Financial Group, Inc., a Delaware corporation (the "Holder"), or registered assigns, the principal sum of \$30,644,630 on December 31, 2021, and to pay interest quarterly on each March 31, June 30, September 30 and December 31 (each an "Interest Payment Date"), commencing June 30, 1996 on said principal sum from the most recent Interest Payment Date to which interest on this Security has been paid or duly provided for unless the date hereof is a date to which interest on this Security is paid or duly provided for, in which case from the date of this Security.

Payments of the principal of and interest on this Security will be paid to the Holder at the principal executive offices of the Company in New York, New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. At the option of the Company, such payments may be made by check mailed to the Holder at its address shown on the records of the Company. Interest will be calculated on the basis of a 360-day year of twelve 30-day months.

2

1.

REDEMPTION

1.1 Optional Redemption; Prices. The Company at its option may, at any time, redeem all, or from time to time any part, of this Security upon payment of 100% of the outstanding principal amount of this Security plus accrued interest to the date fixed for redemption.

1.2 Notice of Redemption. Notice of redemption to the

Holder shall be given by giving notice of such redemption at least 30 days and not more than 60 days prior to the date fixed for redemption to the Holder.

The notice of redemption to the Holder shall specify the principal amount of this Security, as applicable, to be redeemed, the date fixed for redemption, the redemption price, the place of payment, that payment will be made upon presentation and surrender of this Security, that such redemption is pursuant to the right of optional redemption provided herein, that interest accrued, if any, to the date fixed for redemption will be paid as specified in said notice and that on and after said date any interest thereon or on the portions thereof to be redeemed will cease to accrue. In case this Security is to be redeemed in part only the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of this Security, a new Security in the principal amount equal to the unredeemed portion thereof will be issued.

1.3 Payment of Security Called for Redemption. If notice of redemption has been given as above provided, this Security or portions thereof specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with any interest accrued to the date fixed for redemption, if any, and on and after said date (unless the Company shall default in the payment of this Security at the redemption price, together with interest accrued to said date, if any) interest on this Security or portions thereof so called for redemption shall cease to accrue. On presentation and surrender of this Security at the place of payment specified in said notice, this Security or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with any interest accrued thereon to the date fixed for redemption.

If this Security or portions thereof called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the date fixed for redemption at the rate borne by this Security.

2

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Upon presentation of this Security redeemed in part only, the Company shall execute and deliver to or on the order of the Holder, a new Security in a principal amount equal to the unredeemed portion of this Security so presented.

1.4 Mandatory Sinking Fund. As and for a mandatory sinking fund for the retirement of this Security, the Company will, except as hereinafter provided, redeem on each March 31, June 30, September 30 and

December 31 of each year, commencing March 31, 2002, 1.25% of the principal amount of this Security outstanding as of the immediately preceding January 1, plus accrued interest, if any, to the redemption date at a redemption price equal to 100% of the principal amount to be so redeemed. In lieu of making all or any part of any mandatory sinking fund payment in cash, the Company may, at its option, credit against such payment any portion of this Security previously redeemed (other than pursuant to a mandatory sinking fund payment) or repaid or retired. Each redemption of this Security pursuant to a mandatory sinking fund payment shall be effected in a manner substantially similar to the manner in which an optional redemption of this Security is made pursuant to Sections 1.2 and 1.3 hereof.

2.

OTHER INDEBTEDNESS

The Company, for itself and its successors, agrees that it shall not, for so long as principal or interest on this Security remains outstanding, incur any Indebtedness which expressly ranks senior in right of payment of principal and interest on this Security.

3.

REMEDIES

3.1 Events of Default. "Event of Default," wherever used herein, means any one of the following events:

(a) default in the payment of any interest upon this Security when it becomes due and payable, and continuance of such default for a period of 30 days; or

(b) default in the payment of the principal of, or premium, if any, on this Security, or any portion thereof, as and when the same shall become due and payable, either at maturity upon any redemption or otherwise; or

(c) failure by the Company or any of its Subsidiaries to make any payment or payments in respect of Indebtedness of the Company or any of its Subsidiaries having a principal amount of \$2 million or more, individually or in the aggregate, when such

3

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payment is due and payable (after giving effect to any applicable

grace period set forth in the documents governing such Indebtedness); or

(d) the occurrence of any event that results in the acceleration of any Indebtedness of the Company or any of its Subsidiaries having a principal amount of \$1 million or more, individually or in the aggregate, when such payment is due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness); or

(e) a final nonappealable judgment or judgments involving liability for the payment of money in excess of \$2 million in the aggregate are entered by a court or courts of competent jurisdiction against the Company or any Subsidiary and such judgment or judgments have not been discharged, satisfied, stayed, annulled or rescinded within 60 days of being entered; or

(f) the entry by a court of competent jurisdiction of any order or decree under any Bankruptcy Law (as defined below) (i) for relief against the Company or any Subsidiary in an involuntary case or proceeding, (ii) appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Subsidiary or any substantial part of their respective properties, or (iii) ordering the liquidation of the Company's or any Subsidiary's affairs, and the continuance of any order or decree unstayed and in effect for a period of 60 consecutive days; or

(g) the commencement by the Company or any Subsidiary of a voluntary case or proceeding under any applicable Bankruptcy Law, or the consent by the Company or any Subsidiary to the entry of a decree or order for relief in respect of the Company or any Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law, or the consent by the Company or any Material Subsidiary to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company of any substantial part of its properties, or the making by it of a general assignment for the benefit of creditors.

For the purposes of this Section 3.1, "Bankruptcy Law" means Title 11, United States Code, or any similar federal or state law for the relief of debtors.

3.2 Acceleration of Maturity; Rescission. If an Event of Default (other than an Event of Default specified in Section 3.1(f) or 3.1(g) relating to the Company) occurs and is continuing, the Holder by notice to the Company may declare the principal of, premium, if any, and accrued and unpaid interest on, this Security to be due and payable immediately. If an Event of Default specified in Section 3.1(f) or 3.1(g) relating to the Company occurs and is continuing, the principal of, premium, if any, and accrued and unpaid interest on, this Security shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the

Holder. The Holder may rescind and annul any such acceleration and its consequences if (a) all existing Events of Default, other than the non-payment of the principal of this Security that has become due solely by such declaration of acceleration have been cured or waived, (b) to the extent the payment of such interest is lawful, interest on overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid, and (c) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

3.3 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

3.4 Delay or Omission Not Waiver. No delay or omission of the Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any acquiescence therein. Every right and remedy given by this ARTICLE III or by law to the Holder may be exercised from time to time, and as often as may be deemed expedient, by the Holder.

4.

DEFINITIONS

4.1 Definitions.

(a) "Business Day" means each Monday, Tuesday, Wednesday, Thursday, and Friday that is not a day on which banking institutions in New York, New York are authorized or obligated by or pursuant to law, regulation or executive order to close.

(b) "Capitalized Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under a lease of property, real or personal, that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligation shall be the capitalized amount thereof determined in accordance with GAAP.

(c) "Event of Default" has the meaning specified in Section 3.1.

(d) "GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial

5

6

Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect from time to time.

(e) "Guarantee" means, as applied to any obligation, (i) a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner, of any part or all of such obligation, and (ii) an agreement, direct or indirect, contingent or otherwise, the practical effect of which is to assure the payment or performance (or payment of damages in the event of nonperformance) of any part or all of such obligation, including, without limiting the foregoing, any credit support and the payment of amounts drawn down by letters of credit.

(f) "Indebtedness" of any Person at any date means, without duplication, (i) all indebtedness of such Person for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof), (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person in respect of letters of credit (other than standby letters of credit incurred by such Person in the ordinary course of business) or other similar instruments (or reimbursement obligations with respect thereto), (iv) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except trade payables and accrued expenses incurred in the ordinary course of business, (v) all Capitalized Lease Obligations of such Person, (vi) all Indebtedness of others secured by a Lien on any assets of such Person, whether or not such Indebtedness is assumed by such Person, and (vii) all Indebtedness of others Guaranteed by such Person to the extent of such Guarantee. The amount of Indebtedness of any Person at any date shall be the outstanding principal amount at such date of all unconditional obligations described above, as such amounts would be reflected on a balance sheet prepared in accordance with GAAP, the maximum liability at such date of such Person for any contingent obligations described

above and, in the case of clause (vi), the lesser of (A) the fair value (as determined in good faith by the Company's Board of Directors) of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (B) the principal amount of the Indebtedness secured as such amount would be reflected on a balance sheet prepared in accordance with GAAP.

(g) "Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or other similar encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, and any lease in the nature thereof, any option or other agreement to sell, and any filing of or agreement to give, any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction).

6

7

(h) "Officer's Certificate" means a certificate signed by the Chairman of the Board of Directors, any Vice Chairman of the Board of Directors, the President or any Vice President and delivered to the Holder.

(i) "Person" or "person" means any individual, corporation, partnership, joint venture, unincorporated association, joint stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

(j) "Security" means this 10% Discount Note Due 2021.

(k) "Subsidiary" of any Person means (i) any corporation of which at least a majority of the aggregate voting power of all classes of common equity generally entitled to vote in the election of directors is owned by such Person directly or through one or more of the Subsidiaries of such Person, and (ii) any entity other than a corporation in which such Person, directly or indirectly, owns at least a majority of the common equity generally entitled to vote in the election of directors or other similar Persons that will control the management and policies of such entity.

5.

MISCELLANEOUS

5.1 Effect of Headings. The ARTICLE and Section headings

herein are for convenience only and shall not affect the construction hereof.

5.2 Successors and Assigns. All covenants and agreements in this Security by the Company shall bind its successors and assigns, whether so expressed or not.

5.3 Separability Clause. In case any provision in this Security shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

5.4 GOVERNING LAW. THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5.5 No Recourse Against Others. A past, present or future director, officer, employee or shareholder, as such, of the Company shall not have any liability for any obligations of the Company under this Security for any claim based on, in respect of or by reason of, such

7

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obligations or their creation. The Holder, by accepting this Security, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of this Security.

5.6 Notices. Any notice or other communication given pursuant to this Security must be in writing and (a) delivered personally, (b) sent by telefacsimile or other facsimile transmission, (c) delivered by overnight express, or (d) sent by registered or certified mail, postage prepaid, as follows:

(x) If to the Company:

American-Amicable Holdings Corporation
745 Fifth Avenue, Suite 500
New York, New York 10151
Attention: Chief Financial Officer
Facsimile Number: (212) 758-5442

(y) If to the Holder:

PennCorp Financial Group, Inc.
745 Fifth Avenue, Suite 500
New York, New York 10151

All notices and communications required or permitted under this Security that are addressed as provided in this Section, will (a) if delivered personally or by overnight express, be deemed given upon delivery; (b) if delivered by telefacsimile or similar facsimile transmission, be deemed given when electronically confirmed; and (c) if sent by registered or certified mail, be deemed given when received. The Company or the Holder from time to time may change its address for the purpose of notices to such Person by giving a similar notice specifying a new address, but no such notice will be deemed to have been given until it is actually received by the party sought to be charged with the contents thereof.

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IN WITNESS WHEREOF, the Company has caused this Security to be executed on the 1st day of July, 1996, on its behalf by a duly authorized officer.

AMERICAN-AMICABLE HOLDINGS CORPORATION

By: /s/ SCOTT D. SILVERMAN

Name: Scott D. Silverman
Title: Senior Vice President,
Secretary and General Counsel

9

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 7th day of June, 1996 by and between PennCorp Financial Group, Inc., a Delaware corporation (together with its successors and assigns permitted under this Agreement, the "Company"), and David J. Stone (the "Executive").

WITNESSETH:

WHEREAS, the Executive is the Chairman of the Board and Chief Executive Officer of the Company; and

WHEREAS, the Company desires to continue to employ the Executive and to enter into an employment agreement embodying the terms of such employment (the "Agreement"); and

WHEREAS, the Executive desires to enter into the Agreement and to accept such employment, subject to the terms and provisions of the Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (individually a "Party" and together the "Parties") agree as follows:

1. Definitions.

(a) "Annual Incentive Plan" shall mean the Company's 1996 Senior Executive Annual Incentive Award Plan.

(b) "Approved Medical Doctor" shall mean a medical doctor selected by the Company and the Executive for the purposes of determining Disability. In the event that the Company and the Executive cannot agree on a medical doctor, then each Party shall select a medical doctor and the two medical doctors shall select a third medical doctor who shall be the Approved Medical Doctor.

(c) "Base Salary" shall mean the salary provided for in Section 4 below or any increased salary granted to the Executive pursuant to Section 4.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Cause" shall mean:

(1) the Executive (i) is convicted of or (ii) pleads guilty or nolo contendere to (a) a felony or (b) a crime against the Company that causes or is reasonably likely to cause material economic harm to the Company; or

(2) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under the Agreement, resulting, in either case, in material economic harm to the Company.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(g) "Company Target" shall mean any entity with which the Company has actively engaged in discussions to acquire, merge or enter into any joint venture during the 12-month period ending on the date of the Executive's termination of employment.

(h) A "Change in Control" shall mean the first to occur of the following events:

(1) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Exchange Act) becomes a "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act) of more than 25 percent of the Voting Stock of the Company;

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2

(2) the majority of the Board consists of individuals other than Incumbent Directors;

(3) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets;

(4) all or substantially all of the assets or business of the Company are disposed of pursuant to a merger, consolidation or other transaction, unless (i) the shareholders of the Company immediately prior to such merger, consolidation or other transaction beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company, at least 60 percent of the Voting Stock or other ownership interests of the entity or entities, if any, that succeed to the business of the Company and (ii) the successor entity (or entities) has assumed all obligations under the Agreement; or

(5) the Company combines with another company and is the surviving corporation; provided, however, that immediately after the combination, the shareholders of the Company immediately prior to the combination hold, directly or indirectly, less than 60 percent of the Voting Stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the Voting Stock of the combined company, any shares received by affiliates (as such term is defined in Rule 12b-2 of

the Exchange Act) of such other company in exchange for stock of such other company).

(i) "Competitive Activity" shall mean any activity engaged in by the Executive, whether as an employee, consultant, principal, agent, officer, director, partner or shareholder (except as a less than one percent shareholder of a publicly traded company or a less than five percent shareholder of a privately held company), which is competitive with the Company. For this purpose, an activity which is competitive with the Company shall mean a business that is primarily involved in the acquisition of life insurance companies. Notwithstanding anything to the contrary in this Section 1(i), an activity shall not be deemed to be a Competitive Activity solely as a result of the Executive's being employed by or otherwise associated with a business of which a unit is in competition with the Company or any Subsidiary but as to which unit the Executive does not have direct or indirect responsibilities.

(j) "Disability" shall mean the Executive's inability to substantially perform his duties and responsibilities under the Agreement for a period of 180 days during any 240-day period as determined by an Approved Medical Doctor.

(k) "Effective Date" shall mean April 15, 1996.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(m) "Good Reason" shall mean the occurrence of any of the following events within the 60-day period preceding the termination of employment by the Executive:

(1) a reduction in the Executive's Base Salary or any material failure by the Company to honor its obligations under Sections 7, 8, 9 or 10 hereof, in any such case, without the Executive's prior written consent;

(2) a material change in the Executive's position, duties or responsibilities with respect to his employment by the Company under the Agreement without the Executive's prior written consent;

(3) the failure to elect or reelect the Executive to any of the positions described in Section 3 below (including his position as a member of the Board) or the removal of him from any such position (other than a removal resulting from the termination of the Executive's employment for Cause pursuant to Section 11(c) below);

(4) a reduction in the Executive's annual target bonus opportunity below \$800,000 or any material change in the Executive's participation in the Annual Incentive Plan without the Executive's prior written consent;

(5) an actual change by the Board in the Executive's principal work location by more than 25 miles and more than 25 miles from the Executive's principal place of abode as of the date hereof without the Executive's prior written consent;

(6) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction; or

(7) a Change in Control.

(n) "Incumbent Directors" shall mean the members of the Board as of the Effective Date; provided, however, that any person becoming a director subsequent to such date whose election or nomination for election was supported by 75 percent of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director.

(o) "Stock" shall mean the Common Stock of the Company.

(p) "Stock Plan" shall mean the Company's 1996 Stock Award and Stock Option Plan.

(q) "Subsidiary" of the Company shall mean any corporation of which the Company owns, directly or indirectly, more than 50 percent of the Voting Stock or any other business entity in which the Company directly or indirectly has an ownership interest of more than 50 percent.

(r) "Term of Employment" shall mean the period specified in Section 2 below.

(s) "Voting Stock" shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

2. Term of Employment.

The Company hereby employs the Executive, and the Executive hereby accepts such employment, for the period commencing on the Effective Date and ending on the fifth anniversary of the Effective Date, subject to earlier termination of the Term of Employment in accordance with the terms of the Agreement; provided, however, this Agreement shall become null and void ab initio and of no further force and effect unless (i) prior to January 1, 1997 (or such other date to which the Executive and the Company may agree), the Company and the Executive (or affiliates of the Executive) enter into a definitive agreement (the "Knightsbridge Agreement") providing for the sale (the "Sale") by the Executive (or such affiliates) to the Company of the interests of the Executive (or such affiliates) in Knightsbridge Capital Fund I, L.P. ("Knightsbridge") and Knightsbridge Management, L.L.C., (ii) the stockholders of the Company approve

the Sale no later than at the Company's 1997 annual meeting of stockholders, and (iii) the Company's stockholders approve the Annual Incentive Plan and the Stock Plan at the Company's 1996 annual meeting of stockholders.

3. Position, Duties and Responsibilities.

(a) On the Effective Date and continuing for the remainder of the Term of Employment, the Executive shall be employed as the Chief Executive Officer of the Company and be responsible for the general management of the affairs of the Company. The Executive, in carrying out his duties under the Agreement, shall report to the Board.

(b) It is the intention of the Parties that as of the Effective Date and continuing for the remainder of the Term of Employment, the Executive shall serve as a member of the Board and of the Executive Committee thereof.

(c) Notwithstanding anything herein to the contrary, nothing shall preclude the Executive from:

- (1) serving on the boards of directors of other corporations if the Board consents in writing to such service; provided, however, that consent by the Board is not required for serving on the boards of directors of corporations in which Knightsbridge had an investment at the time at which the Executive originally undertook such position and so long as all directors' fees and any other

3

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compensation paid by such corporation in respect of the Executive's services as a member of such board while he is an employee of the Company are paid to the Company;

(2) serving on the boards of a reasonable number of trade associations and/or charitable organizations;

(3) engaging in charitable activities and community affairs; and

(4) managing his personal investments and affairs.

4. Base Salary.

The Executive shall be paid an annualized Base Salary, payable in accordance with the regular payroll practices of the Company, of \$750,000. The Base Salary shall be reviewed no less frequently than annually for increase in the discretion of the Board and/or the Compensation Committee thereof.

5. Annual Incentive Award.

Provided that the Annual Incentive Plan is approved by the Company's shareholders, the Executive shall participate in the Annual Incentive Plan and shall have a minimum annual target bonus opportunity under such Plan of \$800,000 and a maximum bonus opportunity of 2 times such minimum. Payment of annual incentive awards shall be made at the same time that other senior level executives of the Company receive their incentive awards unless otherwise agreed to by the Executive.

6. Long-Term Incentive Award.

Provided that the Stock Plan is approved by the Company's shareholders, the Executive shall participate in the Stock Plan and shall be granted under the Stock Plan, as of the Effective Date, an option to purchase 559,000 shares of Stock. The option shall be divided into four tranches as set forth below:

<TABLE>

<CAPTION>

TRANCHE		NUMBER OF SHARES OF STOCK UNDERLYING TRANCHE	EXERCISE PRICE PER SHARE
-----		-----	-----
<S>	<C>	<C>	<C>
1.....		250,000	\$29.50
2.....		103,000	\$32.45
3.....		103,000	\$ 35.695
4.....		103,000	\$ 39.325

</TABLE>

Twenty-five percent of each tranche shall become exercisable (vest) on the first four anniversaries of the Effective Date and the option shall expire on the fifth anniversary of the Effective Date.

7. Employee Benefit Programs.

a. During the Term of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available to the senior-level executives of the Company or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension, profit sharing, savings and other retirement plans or programs, medical, dental, hospitalization, short-term and long-term disability and life insurance plans, accidental death and dismemberment protection, travel accident insurance, and any other pension or retirement plans or programs and any other employee welfare benefit plans or programs that may be sponsored by the Company from time to time, including any plans that supplement the above-listed types of plans or programs, whether funded or unfunded.

b. In addition, the Company shall immediately cause one of its life insurance subsidiaries acceptable to the Executive to issue the Executive a life insurance policy having a death benefit equal to \$5,000,000 (the "Policy") with the beneficiary as designated by the Executive. Amounts due under the policy will be payable in accordance with the terms thereof notwithstanding any other

provision of this Agreement. The Company shall incur the first \$15,000 of the annual cost of the Policy, and the Executive shall pay the portion of the annual cost of the Policy that exceeds \$15,000 (if any).

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8. Reimbursement of Business and Other Expenses.

The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under the Agreement and the Company shall promptly reimburse him for all business expenses incurred in connection with carrying out the business of the Company, subject to documentation in accordance with the Company's policy.

9. Perquisites.

a. During the Term of Employment, the Executive shall be entitled to participate in any of the Company's executive fringe benefits in accordance with the terms and conditions of such arrangements as are in effect from time to time for the senior-level executives of the Company.

b. In addition, the Company shall:

(1) provide the Executive with a luxury automobile and pay the reasonable expenses of such automobile; and

(2) reimburse the Executive for any expenses incurred by the Executive relating to personal financial and/or tax counselling; provided, however, that such reimbursement shall not exceed \$10,000 per year.

10. Vacation.

The Executive shall be entitled to 6 weeks paid vacation each year. In the event that the Executive does not use all of his vacation time during an applicable calendar year, he shall be entitled to carry forward such unused vacation time; provided, however, that only four weeks of unused vacation time (including all previously carried forward unused vacation time) may be carried forward from any one calendar year to the next calendar year.

11. Termination of Employment.

a. Termination of Employment Due to Death. In the event the Executive's employment is terminated due to his death, his estate or his beneficiaries as the case may be, shall be entitled to:

(1) Base Salary earned but not paid prior to the date of death;

(2) have all unexercisable stock options granted under Section 6 above

and held by the Executive on the date of death become immediately exercisable;

(3) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of death remain exercisable until the end of the earlier of (i) the one-year period following the date of death or (ii) the date the option would otherwise expire;

(4) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(5) other or additional benefits in accordance with applicable plans and programs of the Company.

b. Termination of Employment Due to Disability. In the event the Executive's employment is terminated due to his Disability, he shall be entitled to the following (but in no event less than the benefits due him under the then current disability program of the Company):

(1) Base Salary earned but not paid prior to the date of the termination of employment;

(2) an amount equal to the sum of 60% percent of Base Salary, at the annual rate in effect on the date of the termination of employment, for a period ending on the last day of the month in which he becomes 65, less the amount of any disability benefits provided to the Executive by the Company (other than benefits attributable to the Executive's own contributions) under any disability plan;

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(3) an amount equal to the product of (a) the average percentage of Base Salary paid to the Executive as annual incentive bonuses for the two calendar years immediately preceding the year of the termination of employment multiplied by (b) the Base Salary in effect on the date of the Executive's termination of employment multiplied by (c) a fraction, the numerator of which is the number of days in the current calendar year prior to the date of the termination of employment and the denominator of which is 365;

(4) have all unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment become immediately exercisable;

(5) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment remain exercisable until the end of the earlier of (i) the

one-year period following the date of the termination of employment or (ii) the date the option otherwise expires;

(6) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(7) continued participation in medical, dental, hospitalization and life insurance coverage and in all other employee plans and programs in which he was participating on the date of the termination of employment until he attains age 65 as if he were an employee; and

(8) other or additional benefits in accordance with applicable plans and programs of the Company.

If the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in Section 11(b)(7) above, he shall be provided the after-tax economic equivalent of the benefits provided under the plan or program in which he is unable to participate. The economic equivalent of any benefit foregone shall be deemed to be the competitive cost that would reasonably be incurred by the Executive in obtaining such benefit himself on an individual basis.

In no event shall a termination of the Executive's employment for Disability occur unless the Party terminating his employment gives written notice to the other Party in accordance with Section 24 below.

(c) Termination of Employment by the Company for Cause.

(1) A termination of employment for Cause shall not take effect unless the provisions of this Section 11(c)(1) are complied with. The Executive shall be given written notice by the Board of the intention to terminate him for Cause, and such notice:

i) to state in reasonable detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination of employment for Cause is based, and

ii) to be given within six months of the Board learning of such act or acts or failure or failures to act.

Unless the termination of employment for Cause is pursuant to Section 1(e)(1) hereof, the Executive shall have 20 days after the date that such written notice has been given to the Executive in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct or such termination of employment for Cause is pursuant to Section 1(e)(1) hereof, the Executive shall then be entitled to a hearing before the Board. Such hearing shall be held within 20 days of such notice to the Executive, provided he requests such hearing within 10 days of the written notice from the Board of the intention to terminate him for Cause. If, within 5 days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on

the basis of the original notice exist, he shall thereupon be terminated for Cause.

(2) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to:

i) Base Salary earned but not paid prior to the date of the termination of employment;

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ii) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

iii) other or additional benefits in accordance with applicable plans or programs of the Company.

(3) In addition, in the event of a termination of employment for Cause, the Executive shall immediately forfeit all stock options granted under Section 6 above and held by the Executive on the date of the termination of employment.

(4) Notwithstanding anything herein to the contrary, if following a termination of the Executive's employment by the Company for Cause based upon the conviction of the Executive for a felony or any crime against the Company such conviction is overturned in a final determination on appeal, the Executive shall be entitled to the payments and the economic equivalent of the benefits the Executive would have received under Section 11(d) hereof if his employment had been terminated by the Company without Cause.

(d) Termination of Employment by the Company Without Cause. In the event the Executive's employment is terminated without Cause, other than due to Disability or death, the Executive shall be entitled to:

(1) Base Salary earned but not paid prior to the date of the termination of employment;

(2) Base Salary, at the annualized rate in effect on the date of the termination of the Executive's employment for the longer of (i) the end of the Term of Employment or (ii) 24 months, payable as a lump sum using as a discount rate the long-term applicable federal rate compounded annually as published by the Internal Revenue Service for the month in which the termination of employment occurs;

(3) an amount equal to the product of (a) the average percentage of Base Salary paid to the Executive as annual incentive bonuses for the two calendar years immediately preceding the year of the termination of employment multiplied by (b) the Base Salary in effect on the date of the

Executive's termination of employment;

(4) have all unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment become immediately exercisable;

(5) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment remain exercisable until the date the option would otherwise expire;

(6) the Company continue its payment of the Policy's annual premium pursuant to Section 7 above;

(7) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(8) continued participation in all medical, dental, hospitalization and life insurance coverage and in other employee benefit plans or programs in which he was participating on the date of the termination of employment until the earlier of:

i) the end of the period in respect of which a lump-sum severance payment is made;

ii) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

provided, however, that (i) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in Section 11(d)(8)(A) above, he shall be provided with the after-tax economic equivalent of the benefits provided under the plan or program in which he is unable to participate for the period specified in this Section 11(d)(8), (ii) the economic equivalent of

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any benefit foregone shall be deemed to be the competitive cost that would reasonably be incurred by the Executive in obtaining such benefit himself on an individual basis, and (iii) payment of such after-tax economic equivalent shall be made quarterly in advance; and

(9) other or additional benefits in accordance with applicable plans and programs of the Company.

e. Termination of Employment by the Executive For Good Reason. The

Executive may terminate his employment for Good Reason. Upon a termination of employment for Good Reason, the Executive shall be entitled to the payments and benefits provided in Section 11(d) above; provided, however, that if the Executive terminates his employment for Good Reason based on a reduction in Base Salary as provided in Section 1(l)(1) above, then the Base Salary to be used pursuant to Section 11(d)(2) above for the determination of the lump sum payment shall be the Base Salary in effect immediately prior to such reduction.

f. Termination of Employment Following a Change in Control. If, following a Change in Control, the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to the payments and benefits provided in Section 11(d); provided, however, that the amount calculated under Section 11(d)(2) shall be payable as a lump sum without discounting. Also, immediately following a Change in Control, all amounts, entitlements or benefits in which the Executive is not yet vested shall become fully vested except to the extent such vesting would be inconsistent with the terms of the relevant plan; provided, however, that this sentence shall be inapplicable to the options granted under Section 6 above.

g. Voluntary Termination of Employment by the Executive. In the event of a termination of employment by the Executive on his own initiative, other than a termination of employment due to death or Disability or a termination of employment for Good Reason, the Executive shall have the same entitlements as provided in Section 11(c)(2) above for a termination of employment for Cause, except that all exercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment shall remain exercisable until the earlier of (i) the end of the six-month period following the date of the termination of employment or (ii) the date the option would expire. A termination of employment under this Section 11(g) shall be effective upon 30 days prior written notice to the Company and shall not be deemed a breach of this Agreement.

h. Payment Following a Change in Control. In the event that the termination of the Executive's employment follows a Change in Control and the aggregate of all payments or benefits made or provided to the Executive under Section 11(f) above and under all other plans and programs of the Company (the "Aggregate Payment") is determined to constitute a "parachute payment" (as such term is defined in Code Section 280G(b)(2)), the Company shall pay to the Executive, prior to the time any excise tax imposed by Code Section 4999 ("Excise Tax") is payable with respect to such Aggregate Payment, an additional amount which, after the imposition of all income and excise taxes thereon, is equal to the Excise Tax on the Aggregate Payment. The determination of whether the Aggregate Payment constitutes a parachute payment and, if so, the amount to be paid to the Executive and the time of payment pursuant to this Section 11(h) shall be made by an independent auditor (the "Auditor") jointly selected by the Company and the Executive and paid by the Company. The Auditor shall be a nationally recognized United States public accounting firm which has not, during the two years preceding the date of its selection, acted in any way on behalf of the Company or any affiliate thereof. If the Executive and the Company cannot agree on the firm to serve as the Auditor, then the Executive and the Company shall each select one accounting firm and those two firms shall jointly select the

accounting firm to serve as the Auditor.

i. No Mitigation; No Offset. In the event of any termination of employment under this Section 11, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain except as specifically provided in this Section 11.

j. Nature of Payments. Any amounts due under this Section 11 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

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12. Confidentiality: Assignment of Rights.

a. During the Term of Employment and thereafter, the Executive shall not disclose to anyone or make use of any trade secret or proprietary or confidential information of the Company, including such trade secret or proprietary or confidential information of any customer or other entity to which the Company owes an obligation not to disclose such information, which he acquires during the Term of Employment, including but not limited to records kept in the ordinary course of business (collectively, the "Confidential Information"), except (i) as such disclosure or use may be required or appropriate in connection with his work as an employee of the Company, (ii) when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order him to divulge, disclose or make accessible such information or (iii) any such disclosure after such Confidential Information has become public knowledge (other than by acts of the Executive or his representatives in violation of this Agreement).

b. The Executive hereby sells, assigns and transfers to the Company all of his right, title and interest in and to all inventions, discoveries, improvements and copyrightable subject matter (the "rights") which during the Term of Employment are made or conceived by him, alone or with others and which are within or arise out of any general field of the Company's business or arise out of any work he performs or information he receives regarding the business of the Company while employed by the Company. The Executive shall fully disclose to the Company as promptly as available all information known or possessed by him concerning the rights referred to in the preceding sentence, and upon request by the Company and without any further remuneration in any form to him by the Company, but at the expense of the Company, execute all applications for patents and for copyright registration, assignments thereof and other instruments and do all things which the Company may deem necessary to vest and maintain in it the entire right, title and interest in and to all such rights.

13. Noncompetition; Nonsolicitation.

a. The Executive covenants and agrees that he shall not directly or indirectly engage in a Competitive Activity during (i) the Term of Employment and (ii) in the event of a voluntary termination of employment described in Section 11(g) above, the six-month period following the date of the termination of employment. In addition, the Executive shall not directly or indirectly solicit, negotiate with or enter into discussion with the shareholders or representatives of any Company Target during (i) the Term of Employment and (ii) in the event of a voluntary termination of employment pursuant to Section 11(g) above, the one-year period following the date of the termination of employment. The Executive covenants and agrees that he shall not directly or indirectly solicit the Company's (or any subsidiary's) (i) employees during the 18-month period following the date of termination of employment or (ii) agents, brokers and/or policyholders during the 36-month period following the date of termination of employment.

b. The Parties acknowledge that in the event of a breach or threatened breach of Section 13(a) above, the Company shall not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of Section 13(a) above, the Company shall be entitled to such equitable and injunctive relief as may be available to restrain the Executive and any business, firm, partnership, individual, corporation or entity participating in the breach or threatened breach from the violation of the provisions of Section 13(a) above. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available at law or in equity for breach or threatened breach of Section 13(a) above, including the recovery of damages.

c. The Company and the Executive intend that the Knightsbridge Agreement will provide, among other things, for the potential forfeiture by the Executive of the consideration paid to him thereunder in the event of a breach by the Executive of any of the provisions of Section 13(a) above.

14. Indemnification.

a. The Company agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or is or was serving at the request of

the Company as a director, officer, member, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while

serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board of Directors or, if greater, by the laws of the State of Delaware, against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. The Company shall advance to the Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance accompanied by such supporting documentation as the Company may reasonably request. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

b. Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by the Executive under Section 14(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met the applicable standard of conduct.

c. The Company agrees to continue and maintain a directors and officers' liability insurance policy covering the Executive to the extent the Company provides such coverage for its other executive officers.

15. Effect of Agreement on Other Benefits.

Except as specifically provided in this Agreement, the existence of this Agreement shall not prohibit or restrict the Executive's entitlement to full participation in the employee benefit and other plans or programs in which senior executives of the Company are eligible to participate.

16. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of the Company; provided, however, that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities,

obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale of assets or liquidation as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 21 below. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto, and nothing in this Agreement, express or implied, is intended to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

17. Representation.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement

10

11

between it and any other person, firm or organization. The Executive represents that he knows of no agreement between him and any other person, firm or organization that would be violated by the performance of his obligations under this Agreement.

18. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

19. Severability.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

20. Survivorship.

The respective rights and obligations of the Parties hereunder shall

survive any termination of the Executive's employment to the extent necessary to the intended preservation of such rights and obligations.

21. Beneficiaries/References.

The Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

22. Governing Law/Jurisdiction.

Except as provided in Section 14 above, this Agreement shall be governed by and construed and interpreted in accordance with the laws of New York without reference to principles of conflict of laws.

23. Resolution of Disputes.

Any disputes arising under or in connection with this Agreement shall, at the election of the Executive or the Company, be resolved by binding arbitration, to be held in New York City in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Costs of the arbitration or litigation, including, without limitation, reasonable attorneys' fees of both Parties, shall be borne by the Party who does not prevail. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts due the Executive under this Agreement and all benefits to which the Executive is entitled at the time the dispute arises.

11

12

24. Notices.

Any notice given to a Party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of:

<TABLE>

<S>	<C>
If to the Company:	PennCorp Financial Group, Inc. 745 Fifth Avenue New York, NY 10151

Attention: General Counsel

With a copy to:

Jeremy W. Dickens, Esq.
Weil, Gotshal & Manges LLP
100 Crescent Court
Suite 1300
Dallas, Texas 75201-6950

If to the Executive:

David J. Stone
745 Fifth Avenue
New York, NY 10151

</TABLE>

25. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

26. Counterparts.

This Agreement may be executed in two or more counterparts.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

PENNCORP FINANCIAL GROUP, INC.

By: /s/ SCOTT D. SILVERMAN

Scott D. Silverman
Senior Vice President,
General Counsel

By: /s/ KENNETH ROMAN

Kenneth Roman
Chairman Compensation
Committee

/s/ DAVID J. STONE

David J. Stone

EMPLOYMENT AGREEMENT

AGREEMENT, made and entered into as of the 7th day of June, 1996 by and between PennCorp Financial Group, Inc., a Delaware corporation (together with its successors and assigns permitted under this Agreement, the "Company"), and Steven W. Fickes (the "Executive").

WITNESSETH:

WHEREAS, the Executive is the President and Chief Financial Officer of the Company; and

WHEREAS, the Company desires to continue to employ the Executive and to enter into an employment agreement embodying the terms of such employment (the "Agreement"); and

WHEREAS, the Executive desires to enter into the Agreement and to accept such employment, subject to the terms and provisions of the Agreement;

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (individually a "Party" and together the "Parties") agree as follows:

1. Definitions.

(a) "Annual Incentive Plan" shall mean the Company's 1996 Senior Executive Annual Incentive Award Plan.

(b) "Approved Medical Doctor" shall mean a medical doctor selected by the Company and the Executive for the purposes of determining Disability. In the event that the Company and the Executive cannot agree on a medical doctor, then each Party shall select a medical doctor and the two medical doctors shall select a third medical doctor who shall be the Approved Medical Doctor.

(c) "Base Salary" shall mean the salary provided for in Section 4 below or any increased salary granted to the Executive pursuant to Section 4.

(d) "Board" shall mean the Board of Directors of the Company.

(e) "Cause" shall mean:

(1) the Executive (i) is convicted of or (ii) pleads guilty or nolo contendere to (a) a felony or (b) a crime against the Company that causes or is reasonably likely to cause material economic harm to the Company; or

(2) the Executive engages in conduct that constitutes willful gross neglect or willful gross misconduct in carrying out his duties under the Agreement, resulting, in either case, in material economic harm to the Company.

(f) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(g) "Company Target" shall mean any entity with which the Company has actively engaged in discussions to acquire, merge or enter into any joint venture during the 12-month period ending on the date of the Executive's termination of employment.

(h) A "Change in Control" shall mean the first to occur of the following events:

(1) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Exchange Act) becomes a "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act) of more than 25 percent of the Voting Stock of the Company;

1

2

(2) the majority of the Board consists of individuals other than Incumbent Directors;

(3) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets;

(4) all or substantially all of the assets or business of the Company are disposed of pursuant to a merger, consolidation or other transaction, unless (i) the shareholders of the Company immediately prior to such merger, consolidation or other transaction beneficially own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company, at least 60 percent of the Voting Stock or other ownership interests of the entity or entities, if any, that succeed to the business of the Company and (ii) the successor entity (or entities) has assumed all obligations under the Agreement; or

(5) the Company combines with another company and is the surviving corporation; provided, however, that immediately after the combination, the shareholders of the Company immediately prior to the combination hold, directly or indirectly, less than 60 percent of the Voting Stock of the combined company (there being excluded from the number of shares held by such shareholders, but not from the Voting Stock of the combined company, any shares received by affiliates (as such term is defined in Rule 12b-2 of the Exchange Act) of such other company in exchange for stock of such other

company).

(i) "Competitive Activity" shall mean any activity engaged in by the Executive, whether as an employee, consultant, principal, agent, officer, director, partner or shareholder (except as a less than one percent shareholder of a publicly traded company or a less than five percent shareholder of a privately held company), which is competitive with the Company. For this purpose, an activity which is competitive with the Company shall mean a business that is primarily involved in the acquisition of life insurance companies. Notwithstanding anything to the contrary in this Section 1(i), an activity shall not be deemed to be a Competitive Activity solely as a result of the Executive's being employed by or otherwise associated with a business of which a unit is in competition with the Company or any Subsidiary but as to which unit the Executive does not have direct or indirect responsibilities.

(j) "Disability" shall mean the Executive's inability to substantially perform his duties and responsibilities under the Agreement for a period of 180 days during any 240-day period as determined by an Approved Medical Doctor.

(k) "Effective Date" shall mean April 15, 1996.

(l) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(m) "Good Reason" shall mean the occurrence of any of the following events within the 60-day period preceding the termination of employment by the Executive:

(1) a reduction in the Executive's Base Salary or any material failure by the Company to honor its obligations under Sections 7, 8, 9 or 10 hereof, in any such case, without the Executive's prior written consent;

(2) a material change in the Executive's position, duties or responsibilities with respect to his employment by the Company under the Agreement without the Executive's prior written consent;

(3) the failure to elect or reelect the Executive to any of the positions described in Section 3 below (including his position as a member of the Board) or the removal of him from any such position (other than a removal resulting from the termination of the Executive's employment for Cause pursuant to Section 11(c) below);

(4) a reduction in the Executive's annual target bonus opportunity below \$800,000 or any material change in the Executive's participation in the Annual Incentive Plan without the Executive's prior written consent;

(5) an actual change by the Board in the Executive's principal work location by more than 25 miles and more than 25 miles from the Executive's principal place of abode as of the date hereof without the Executive's prior written consent;

(6) the failure of the Company to obtain the assumption in writing of its obligation to perform this Agreement by any successor to all or substantially all of the assets of the Company within 45 days after a merger, consolidation, sale or similar transaction;

(7) David J. Stone shall cease to serve as the Chief Executive Officer of the Company, unless the Executive shall approve his successor; or

(8) a Change in Control.

(n) "Incumbent Directors" shall mean the members of the Board as of the Effective Date; provided, however, that any person becoming a director subsequent to such date whose election or nomination for election was supported by 75 percent of the directors who then comprised the Incumbent Directors shall be considered to be an Incumbent Director.

(o) "Stock" shall mean the Common Stock of the Company.

(p) "Stock Plan" shall mean the Company's 1996 Stock Award and Stock Option Plan.

(q) "Subsidiary" of the Company shall mean any corporation of which the Company owns, directly or indirectly, more than 50 percent of the Voting Stock or any other business entity in which the Company directly or indirectly has an ownership interest of more than 50 percent.

(r) "Term of Employment" shall mean the period specified in Section 2 below.

(s) "Voting Stock" shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

2. Term of Employment.

The Company hereby employs the Executive, and the Executive hereby accepts such employment, for the period commencing on the Effective Date and ending on the fifth anniversary of the Effective Date, subject to earlier termination of the Term of Employment in accordance with the terms of the Agreement; provided, however, this Agreement shall become null and void ab initio and of no further force and effect unless (i) prior to January 1, 1997 (or such other date to which the Executive and the Company may agree), the Company and the Executive (or affiliates of the Executive) enter into a definitive agreement (the "Knightsbridge Agreement") providing for the sale (the "Sale") by the Executive

(or such affiliates) to the Company of the interests of the Executive (or such affiliates) in Knightsbridge Capital Fund I, L.P. ("Knightsbridge") and Knightsbridge Management, L.L.C., (ii) the stockholders of the Company approve the Sale no later than at the Company's 1997 annual meeting of stockholders, and (iii) the Company's stockholders approve the Annual Incentive Plan and the Stock Plan at the Company's 1996 annual meeting of stockholders.

3. Position, Duties and Responsibilities.

(a) On the Effective Date and continuing for the remainder of the Term of Employment, the Executive shall be employed as the President and Chief Financial Officer of the Company and be responsible for the management of the financial affairs of the Company and such other functions as shall be determined by the Chief Executive Officer of the Company. The Executive, in carrying out his duties under the Agreement, shall report to the Chief Executive Officer of the Company and to the Board.

(b) It is the intention of the Parties that as of the Effective Date and continuing for the remainder of the Term of Employment, the Executive shall serve as a member of the Board and of the Executive Committee thereof.

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(c) Notwithstanding anything herein to the contrary, nothing shall preclude the Executive from:

(1) serving on the boards of directors of other corporations if the Board consents in writing to such service; provided, however, that consent by the Board is not required for serving on the boards of directors of corporations in which Knightsbridge had an investment at the time at which the Executive originally undertook such position and so long as all directors' fees and any other compensation paid by such corporation in respect of the Executive's services as a member of such board while he is an employee of the Company are paid to the Company;

(2) serving on the boards of a reasonable number of trade associations and/or charitable organizations;

(3) engaging in charitable activities and community affairs; and

(4) managing his personal investments and affairs.

4. Base Salary.

The Executive shall be paid an annualized Base Salary, payable in accordance with the regular payroll practices of the Company, of \$750,000. The Base Salary shall be reviewed no less frequently than annually for increase in the discretion of the Board and/or the Compensation Committee thereof.

5. Annual Incentive Award.

Provided that the Annual Incentive Plan is approved by the Company's shareholders, the Executive shall participate in the Annual Incentive Plan and shall have a minimum annual target bonus opportunity under such Plan of \$800,000 and a maximum bonus opportunity of 2 times such minimum. Payment of annual incentive awards shall be made at the same time that other senior level executives of the Company receive their incentive awards unless otherwise agreed to by the Executive.

6. Long-Term Incentive Award.

Provided that the Stock Plan is approved by the Company's shareholders, the Executive shall participate in the Stock Plan and shall be granted under the Stock Plan, as of the Effective Date, an option to purchase 559,000 shares of Stock. The option shall be divided into four tranches as set forth below:

<TABLE>

<CAPTION>

TRANCHE	NUMBER OF SHARES OF STOCK UNDERLYING TRANCHE	EXERCISE PRICE PER SHARE
-----	-----	-----
<S> <C>	<C>	<C>
1.....	250,000	\$ 29.50
2.....	103,000	\$ 32.45
3.....	103,000	\$ 35.695
4.....	103,000	\$ 39.325

</TABLE>

Twenty-five percent of each tranche shall become exercisable (vest) on the first four anniversaries of the Effective Date and the option shall expire on the fifth anniversary of the Effective Date.

7. Employee Benefit Programs.

(a) During the Term of Employment, the Executive shall be entitled to participate in all employee pension and welfare benefit plans and programs made available to the senior-level executives of the Company or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, pension, profit sharing, savings and other retirement plans or programs, medical, dental, hospitalization, short-term and long-term disability and life insurance plans, accidental death and dismemberment protection, travel accident insurance, and any other pension or retirement plans or programs and any other employee welfare benefit plans or programs that may be sponsored by the Company from time to time, including any plans that supplement the above-listed types of plans or programs, whether funded or unfunded.

(b) In addition, the Company shall immediately cause one of its life insurance subsidiaries acceptable to the Executive to issue the Executive a life

insurance policy having a death benefit equal to \$5,000,000 (the "Policy") with the beneficiary as designated by the Executive. Amounts due under the policy will be payable

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in accordance with the terms thereof notwithstanding any other provision of this Agreement. The Company shall incur the first \$10,000 of the annual cost of the Policy, and the Executive shall pay the portion of the annual cost of the Policy that exceeds \$10,000 (if any).

8. Reimbursement of Business and Other Expenses.

The Executive is authorized to incur reasonable expenses in carrying out his duties and responsibilities under the Agreement and the Company shall promptly reimburse him for all business expenses incurred in connection with carrying out the business of the Company, subject to documentation in accordance with the Company's policy.

9. Perquisites.

(a) During the Term of Employment, the Executive shall be entitled to participate in any of the Company's executive fringe benefits in accordance with the terms and conditions of such arrangements as are in effect from time to time for the senior-level executives of the Company.

(b) In addition, the Company shall:

(1) provide the Executive with a luxury automobile and pay the reasonable expenses of such automobile; and

(2) reimburse the Executive for any expenses incurred by the Executive relating to personal financial and/or tax counselling; provided, however, that such reimbursement shall not exceed \$10,000 per year.

10. Vacation.

The Executive shall be entitled to 6 weeks paid vacation each year. In the event that the Executive does not use all of his vacation time during an applicable calendar year, he shall be entitled to carry forward such unused vacation time; provided, however, that only four weeks of unused vacation time (including all previously carried forward unused vacation time) may be carried forward from any one calendar year to the next calendar year.

11. Termination of Employment.

(a) Termination of Employment Due to Death. In the event the Executive's employment is terminated due to his death, his estate or his beneficiaries as

the case may be, shall be entitled to:

(1) Base Salary earned but not paid prior to the date of death;

(2) have all unexercisable stock options granted under Section 6 above and held by the Executive on the date of death become immediately exercisable;

(3) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of death remain exercisable until the end of the earlier of (i) the one-year period following the date of death or (ii) the date the option would otherwise expire;

(4) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(5) other or additional benefits in accordance with applicable plans and programs of the Company.

(b) Termination of Employment Due to Disability. In the event the Executive's employment is terminated due to his Disability, he shall be entitled to the following (but in no event less than the benefits due him under the then current disability program of the Company):

(1) Base Salary earned but not paid prior to the date of the termination of employment;

(2) an amount equal to the sum of 60% percent of Base Salary, at the annual rate in effect on the date of the termination of employment, for a period ending on the last day of the month in which he

becomes 65, less the amount of any disability benefits provided to the Executive by the Company (other than benefits attributable to the Executive's own contributions) under any disability plan;

(3) an amount equal to the product of (a) the average percentage of Base Salary paid to the Executive as annual incentive bonuses for the two calendar years immediately preceding the year of the termination of employment multiplied by (b) the Base Salary in effect on the date of the Executive's termination of employment multiplied by (c) a fraction, the numerator of which is the number of days in the current calendar year prior to the date of the termination of employment and the denominator of which is 365;

(4) have all unexercisable stock options granted under Section 6 above

and held by the Executive on the date of the termination of employment become immediately exercisable;

(5) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment remain exercisable until the end of the earlier of (i) the one-year period following the date of the termination of employment or (ii) the date the option otherwise expires;

(6) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(7) continued participation in medical, dental, hospitalization and life insurance coverage and in all other employee plans and programs in which he was participating on the date of the termination of employment until he attains age 65 as if he were an employee; and

(8) other or additional benefits in accordance with applicable plans and programs of the Company.

If the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in Section 11(b)(7) above, he shall be provided the after-tax economic equivalent of the benefits provided under the plan or program in which he is unable to participate. The economic equivalent of any benefit foregone shall be deemed to be the competitive cost that would reasonably be incurred by the Executive in obtaining such benefit himself on an individual basis.

In no event shall a termination of the Executive's employment for Disability occur unless the Party terminating his employment gives written notice to the other Party in accordance with Section 24 below.

(c) Termination of Employment by the Company for Cause.

(1) A termination of employment for Cause shall not take effect unless the provisions of this Section 11(c)(1) are complied with. The Executive shall be given written notice by the Board of the intention to terminate him for Cause, and such notice:

(A) to state in reasonable detail the particular act or acts or failure or failures to act that constitute the grounds on which the proposed termination of employment for Cause is based, and

(B) to be given within six months of the Board learning of such act or acts or failure or failures to act.

Unless the termination of employment for Cause is pursuant to Section 1(e)(1) hereof, the Executive shall have 20 days after the date that such written notice has been given to the Executive in which to cure such conduct, to the extent such cure is possible. If he fails to cure such conduct or such termination of employment for Cause is pursuant to Section

1(e)(1) hereof, the Executive shall then be entitled to a hearing before the Board. Such hearing shall be held within 20 days of such notice to the Executive, provided he requests such hearing within 10 days of the written notice from the Board of the intention to terminate him for Cause. If, within 5 days following such hearing, the Executive is furnished written notice by the Board confirming that, in its judgment, grounds for Cause on the basis of the original notice exist, he shall thereupon be terminated for Cause.

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(2) In the event the Company terminates the Executive's employment for Cause, he shall be entitled to:

(A) Base Salary earned but not paid prior to the date of the termination of employment;

(B) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(C) other or additional benefits in accordance with applicable plans or programs of the Company.

(3) In addition, in the event of a termination of employment for Cause, the Executive shall immediately forfeit all stock options granted under Section 6 above and held by the Executive on the date of the termination of employment.

(4) Notwithstanding anything herein to the contrary, if following a termination of the Executive's employment by the Company for Cause based upon the conviction of the Executive for a felony or any crime against the Company such conviction is overturned in a final determination on appeal, the Executive shall be entitled to the payments and the economic equivalent of the benefits the Executive would have received under Section 11(d) hereof if his employment had been terminated by the Company without Cause.

(d) Termination of Employment by the Company Without Cause. In the event the Executive's employment is terminated without Cause, other than due to Disability or death, the Executive shall be entitled to:

(1) Base Salary earned but not paid prior to the date of the termination of employment;

(2) Base Salary, at the annualized rate in effect on the date of the termination of the Executive's employment for the longer of (i) the end of the Term of Employment or (ii) 24 months, payable as a lump sum using as a discount rate the long-term applicable federal rate compounded annually as published by the Internal Revenue Service for the month in which the

termination of employment occurs;

(3) an amount equal to the product of (a) the average percentage of Base Salary paid to the Executive as annual incentive bonuses for the two calendar years immediately preceding the year of the termination of employment multiplied by (b) the Base Salary in effect on the date of the Executive's termination of employment;

(4) have all unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment become immediately exercisable;

(5) have all exercisable and unexercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment remain exercisable until the date the option would otherwise expire;

(6) the Company continue its payment of the Policy's annual premium pursuant to Section 7 above;

(7) any amounts earned, accrued or owing to the Executive but not yet paid under Section 7, 8, or 9 above; and

(8) continued participation in all medical, dental, hospitalization and life insurance coverage and in other employee benefit plans or programs in which he was participating on the date of the termination of employment until the earlier of:

(A) the end of the period in respect of which a lump-sum severance payment is made;

(B) the date, or dates, he receives equivalent coverage and benefits under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage, or benefit-by-benefit, basis);

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provided, however, that (i) if the Executive is precluded from continuing his participation in any employee benefit plan or program as provided in Section 11(d)(8)(A) above, he shall be provided with the after-tax economic equivalent of the benefits provided under the plan or program in which he is unable to participate for the period specified in this Section 11(d)(8), (ii) the economic equivalent of any benefit foregone shall be deemed to be the competitive cost that would reasonably be incurred by the Executive in obtaining such benefit himself on an individual basis, and (iii) payment of such after-tax economic equivalent shall be made quarterly in advance; and

(9) other or additional benefits in accordance with applicable plans and programs of the Company.

(e) Termination of Employment by the Executive For Good Reason. The Executive may terminate his employment for Good Reason. Upon a termination of employment for Good Reason, the Executive shall be entitled to the payments and benefits provided in Section 11(d) above; provided, however, that if the Executive terminates his employment for Good Reason based on a reduction in Base Salary as provided in Section 1(1)(1) above, then the Base Salary to be used pursuant to Section 11(d)(2) above for the determination of the lump sum payment shall be the Base Salary in effect immediately prior to such reduction.

(f) Termination of Employment Following a Change in Control. If, following a Change in Control, the Executive's employment is terminated by the Company without Cause or by the Executive for Good Reason, the Executive shall be entitled to the payments and benefits provided in Section 11(d); provided, however, that the amount calculated under Section 11(d)(2) shall be payable as a lump sum without discounting. Also, immediately following a Change in Control, all amounts, entitlements or benefits in which the Executive is not yet vested shall become fully vested except to the extent such vesting would be inconsistent with the terms of the relevant plan; provided, however, that this sentence shall be inapplicable to the options granted under Section 6 above.

(g) Voluntary Termination of Employment by the Executive. In the event of a termination of employment by the Executive on his own initiative, other than a termination of employment due to death or Disability or a termination of employment for Good Reason, the Executive shall have the same entitlements as provided in Section 11(c)(2) above for a termination of employment for Cause, except that all exercisable stock options granted under Section 6 above and held by the Executive on the date of the termination of employment shall remain exercisable until the earlier of (i) the end of the six-month period following the date of the termination of employment or (ii) the date the option would expire. A termination of employment under this Section 11(g) shall be effective upon 30 days prior written notice to the Company and shall not be deemed a breach of this Agreement.

(h) Payment Following a Change in Control. In the event that the termination of the Executive's employment follows a Change in Control and the aggregate of all payments or benefits made or provided to the Executive under Section 11(f) above and under all other plans and programs of the Company (the "Aggregate Payment") is determined to constitute a "parachute payment" (as such term is defined in Code Section 280G(b)(2)), the Company shall pay to the Executive, prior to the time any excise tax imposed by Code Section 4999 ("Excise Tax") is payable with respect to such Aggregate Payment, an additional amount which, after the imposition of all income and excise taxes thereon, is equal to the Excise Tax on the Aggregate Payment. The determination of whether the Aggregate Payment constitutes a parachute payment and, if so, the amount to be paid to the Executive and the time of payment pursuant to this Section 11(h) shall be made by an independent auditor (the "Auditor") jointly selected by the Company and the Executive and paid by the Company. The Auditor shall be a nationally recognized United States public accounting firm which has not, during

the two years preceding the date of its selection, acted in any way on behalf of the Company or any affiliate thereof. If the Executive and the Company cannot agree on the firm to serve as the Auditor, then the Executive and the Company shall each select one accounting firm and those two firms shall jointly select the accounting firm to serve as the Auditor.

(i) No Mitigation; No Offset. In the event of any termination of employment under this Section 11, the Executive shall be under no obligation to seek other employment and there shall be no offset against amounts

8

9

due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain except as specifically provided in this Section 11.

(j) Nature of Payments. Any amounts due under this Section 11 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty.

12. Confidentiality: Assignment of Rights.

(a) During the Term of Employment and thereafter, the Executive shall not disclose to anyone or make use of any trade secret or proprietary or confidential information of the Company, including such trade secret or proprietary or confidential information of any customer or other entity to which the Company owes an obligation not to disclose such information, which he acquires during the Term of Employment, including but not limited to records kept in the ordinary course of business (collectively, the "Confidential Information"), except (i) as such disclosure or use may be required or appropriate in connection with his work as an employee of the Company, (ii) when required to do so by a court of law, by any governmental agency having supervisory authority over the business of the Company or by any administrative or legislative body (including a committee thereof) with apparent jurisdiction to order him to divulge, disclose or make accessible such information or (iii) any such disclosure after such Confidential Information has become public knowledge (other than by acts of the Executive or his representatives in violation of this Agreement).

(b) The Executive hereby sells, assigns and transfers to the Company all of his right, title and interest in and to all inventions, discoveries, improvements and copyrightable subject matter (the "rights") which during the Term of Employment are made or conceived by him, alone or with others and which are within or arise out of any general field of the Company's business or arise out of any work he performs or information he receives regarding the business of the Company while employed by the Company. The Executive shall fully disclose to the Company as promptly as available all information known or possessed by him concerning the rights referred to in the preceding sentence, and upon request by

the Company and without any further remuneration in any form to him by the Company, but at the expense of the Company, execute all applications for patents and for copyright registration, assignments thereof and other instruments and do all things which the Company may deem necessary to vest and maintain in it the entire right, title and interest in and to all such rights.

13. Noncompetition; Nonsolicitation.

(a) The Executive covenants and agrees that he shall not directly or indirectly engage in a Competitive Activity during (i) the Term of Employment and (ii) in the event of a voluntary termination of employment described in Section 11(g) above, the six-month period following the date of the termination of employment. In addition, the Executive shall not directly or indirectly solicit, negotiate with or enter into discussion with the shareholders or representatives of any Company Target during (i) the Term of Employment and (ii) in the event of a voluntary termination of employment pursuant to Section 11(g) above, the one-year period following the date of the termination of employment. The Executive covenants and agrees that he shall not directly or indirectly solicit the Company's (or any subsidiary's) (i) employees during the 18-month period following the date of termination of employment or (ii) agents, brokers and/or policyholders during the 36-month period following the date of termination of employment.

(b) The Parties acknowledge that in the event of a breach or threatened breach of Section 13(a) above, the Company shall not have an adequate remedy at law. Accordingly, in the event of any breach or threatened breach of Section 13(a) above, the Company shall be entitled to such equitable and injunctive relief as may be available to restrain the Executive and any business, firm, partnership, individual, corporation or entity participating in the breach or threatened breach from the violation of the provisions of Section 13(a) above. Nothing in this Agreement shall be construed as prohibiting the Company from pursuing any other remedies available at law or in equity for breach or threatened breach of Section 13(a) above, including the recovery of damages.

(c) The Company and the Executive intend that the Knightsbridge Agreement will provide, among other things, for the potential forfeiture by the Executive of the consideration paid to him thereunder in the event of a breach by the Executive of any of the provisions of Section 13(a) above.

14. Indemnification.

(a) The Company agrees that if the Executive is made a party, or is threatened to be made a party, to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that he is or was a director, officer or employee of the Company or is or was serving at the request of the Company as a director, officer, member,

employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether or not the basis of such Proceeding is the Executive's alleged action in an official capacity while serving as a director, officer, member, employee or agent, the Executive shall be indemnified and held harmless by the Company to the fullest extent legally permitted or authorized by the Company's certificate of incorporation or bylaws or resolutions of the Company's Board of Directors or, if greater, by the laws of the State of Delaware, against all cost, expense, liability and loss (including, without limitation, attorney's fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by the Executive in connection therewith, and such indemnification shall continue as to the Executive even if he has ceased to be a director, member, employee or agent of the Company or other entity and shall inure to the benefit of the Executive's heirs, executors and administrators. The Company shall advance to the Executive all reasonable costs and expenses incurred by him in connection with a Proceeding within 20 days after receipt by the Company of a written request for such advance accompanied by such supporting documentation as the Company may reasonably request. Such request shall include an undertaking by the Executive to repay the amount of such advance if it shall ultimately be determined that he is not entitled to be indemnified against such costs and expenses.

(b) Neither the failure of the Company (including its board of directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of any proceeding concerning payment of amounts claimed by the Executive under Section 14(a) above that indemnification of the Executive is proper because he has met the applicable standard of conduct, nor a determination by the Company (including its board of directors, independent legal counsel or stockholders) that the Executive has not met such applicable standard of conduct, shall create a presumption that the Executive has not met the applicable standard of conduct.

(c) The Company agrees to continue and maintain a directors and officers' liability insurance policy covering the Executive to the extent the Company provides such coverage for its other executive officers.

15. Effect of Agreement on Other Benefits.

Except as specifically provided in this Agreement, the existence of this Agreement shall not prohibit or restrict the Executive's entitlement to full participation in the employee benefit and other plans or programs in which senior executives of the Company are eligible to participate.

16. Assignability; Binding Nature.

This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or the sale or liquidation of all or

substantially all of the assets of the Company; provided, however, that the assignee or transferee is the successor to all or substantially all of the assets of the Company and such assignee or transferee assumes the liabilities, obligations and duties of the Company, as contained in this Agreement, either contractually or as a matter of law. The Company further agrees that, in the event of a sale of assets or liquidation as described in the preceding sentence, it shall take whatever action it legally can in order to cause such assignee or transferee to expressly assume the liabilities, obligations and duties of the Company hereunder. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or operation of law, except as provided in Section 21 below. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto, and nothing in this Agreement, express or implied, is intended

10

11

to confer upon any other person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

17. Representation.

The Company represents and warrants that it is fully authorized and empowered to enter into this Agreement and that the performance of its obligations under this Agreement will not violate any agreement between it and any other person, firm or organization. The Executive represents that he knows of no agreement between him and any other person, firm or organization that would be violated by the performance of his obligations under this Agreement.

18. Amendment or Waiver.

No provision in this Agreement may be amended unless such amendment is agreed to in writing and signed by the Executive and an authorized officer of the Company. No waiver by either Party of any breach by the other Party of any condition or provision contained in this Agreement to be performed by such other Party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of the Company, as the case may be.

19. Severability.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

20. Survivorship.

The respective rights and obligations of the Parties hereunder shall survive any termination of the Executive's employment to the extent necessary to the intended preservation of such rights and obligations.

21. Beneficiaries/References.

The Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable hereunder following the Executive's death by giving the Company written notice thereof. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his beneficiary, estate or other legal representative.

22. Governing Law/Jurisdiction.

Except as provided in Section 14 above, this Agreement shall be governed by and construed and interpreted in accordance with the laws of New York without reference to principles of conflict of laws.

23. Resolution of Disputes.

Any disputes arising under or in connection with this Agreement shall, at the election of the Executive or the Company, be resolved by binding arbitration, to be held in New York City in accordance with the rules and procedures of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Costs of the arbitration or litigation, including, without limitation, reasonable attorneys' fees of both Parties, shall be borne by the Party who does not prevail. Pending the resolution of any arbitration or court proceeding, the Company shall continue payment of all amounts due the Executive under this Agreement and all benefits to which the Executive is entitled at the time the dispute arises.

12

24. Notices.

Any notice given to a Party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the Party concerned at the address indicated below or to such changed address as such Party may subsequently give such notice of:

<TABLE>

<S>	<C>
If to the Company:	PennCorp Financial Group, Inc.

745 Fifth Avenue
New York, NY 10151
Attention: General Counsel

With a copy to: Jeremy W. Dickens, Esq.
Weil, Gotshal & Manges LLP
100 Crescent Court
Suite 1300
Dallas, Texas 75201-6950

If to the Executive: Steven W. Fickes
3 Metro Center
Suite 1600
Bethesda, MD 20817

</TABLE>

25. Headings.

The headings of the sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

26. Counterparts.

This Agreement may be executed in two or more counterparts.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

PENNCORP FINANCIAL GROUP, INC.

By: /s/ SCOTT D. SILVERMAN

Scott D. Silverman
Senior Vice President,
General Counsel

By: /s/ KENNETH ROMAN

Kenneth Roman
Chairman Compensation
Committee

/s/ STEVEN W. FICKES

Steven W. Fickes

PENNCORP FINANCIAL GROUP, INC.
1996 STOCK AWARD AND STOCK OPTION PLAN

1. DEFINITIONS

The following terms shall have the following meanings unless the context indicates otherwise:

1.1 "Award" shall mean either a Stock Award or a Stock Option.

1.2 "Board" shall mean the Board of Directors of the Company.

1.3 "Cause" shall mean the Participant:

(A) is convicted of a felony;

(B) engages in conduct that constitutes gross neglect or gross misconduct in carrying out his or her duties as an Employee;

(C) engages in fraud, embezzlement, theft or dishonesty against the Company or any Subsidiary;

(D) commits a willful or grossly negligent material violation of law in connection with or in the course of the Participant's duties or employment with the Company or any Subsidiary; or

(E) commits a willful or grossly negligent breach of any stated material employment policy of the Company.

1.4 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.5 "Committee" shall mean the Stock Award and Stock Option Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; provided, however, that such committee shall be comprised solely of not less than two Nonemployee Directors each of whom qualifies as (i) a "disinterested person" (as such term is used in Rule 16b-3 under the Exchange Act) and (ii) an "outside director" (as such term is used in Treasury Regulation Section 1.162-27(e)(3)).

1.6 "Common Stock" shall mean the common stock, \$.01 par value per share, of the Company.

1.7 "Company" shall mean PennCorp Financial Group, Inc., a Delaware corporation.

1.8 "Disability" shall mean a disability as determined under the Company's then existing long-term disability plan or program.

1.9 "Employee" shall mean a salaried employee of the Company or any Subsidiary as described in Treasury Regulation Section 1.421-7(h).

1.10 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

1.11 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

1.12 "Executive Committee" shall mean the Executive Committee of the Board.

1.13 "Fair Market Value" shall mean:

(A) the closing price of the Common Stock on the date of calculation (or on the last preceding trading date if Common Stock was not traded on the date of calculation) if Common Stock is readily tradeable on a national securities exchange or other market system; or

1

2

(B) an amount determined in good faith by the Committee as the fair market value of the Common Stock on the date of determination if Common Stock is not readily tradeable on a national securities exchange or other market system.

1.14 "ISO" shall mean an "incentive stock option" as such term is used in Code Section 422.

1.15 "Nonemployee Director" shall mean a member of the Board who is not an Employee.

1.16 "Nonqualified Stock Option" shall mean a Stock Option that does not qualify as an ISO.

1.17 "Participant" shall mean any Employee to whom an Award has been granted by the Committee under the Plan.

1.18 "Pecuniary Interest" shall mean "pecuniary interest" as such term is used in Rule 16a-1(a)(2)(i) under the Exchange Act.

1.19 "Plan" shall mean the PennCorp Financial Group, Inc. 1996 Stock Award and Stock Option Plan.

1.20 "Retirement" shall mean a termination of employment from the Company or any Subsidiary which constitutes a retirement under any defined-benefit pension plan or defined-contribution pension plan maintained by the Company or any Subsidiary which is either a tax-qualified plan under Code Section 401(a) or is identified in writing by the Committee as a defined-benefit pension plan or defined-contribution benefit plan.

1.21 "SEC" shall mean the Securities and Exchange Commission.

1.22 "Stock Award" shall mean the grant of Common Stock by the Company to a Participant pursuant to Section 8 below or the grant of Common Stock by the Company to a Nonemployee Director pursuant to Sections 10 and/or 11 below.

1.23 "Stock Award Agreement" shall mean a written agreement between the Company and the Participant that establishes the terms, conditions, restrictions and/or limitations applicable to a Stock Award in addition to those established by the Plan and by the Committee's exercise of its administrative powers.

1.24 "Stock Option" shall mean the grant by the Company of an option to purchase Common Stock to a Participant pursuant to Section 9 below.

1.25 "Stock Option Agreement" shall mean a written agreement between the Company and the Participant that establishes the terms, conditions, restrictions and/or limitations applicable to a Stock Option in addition to those established by the Plan and by the Committee's exercise of its administrative powers.

1.26 "Subsidiary" shall mean a corporation of which the Company directly or indirectly owns more than 50 percent of the Voting Stock or any other business entity in which the Company directly or indirectly has an ownership interest of more than 50 percent.

1.27 "Treasury Regulations" shall mean the regulations promulgated under the Code by the United States Department of Treasury, as amended from time to time.

1.28 "Voting Stock" shall mean capital stock of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation.

2. PURPOSE

The purpose of the Plan is:

(a) to provide incentives which will attract, retain and motivate key officers, Employees and Nonemployee Directors whose present and potential contributions are important to the success of the Company and its Subsidiaries;

(b) to align the interests of key officers, Employees and Nonemployee Directors with that of shareholders by providing incentives to such key officers, Employees and Nonemployee Directors to enhance the performance of the Common Stock through equity ownership in the Company; and

(c) to ensure that compensation paid under the Plan (other than compensation attributable to ISOs) will be fully deductible for federal income tax purposes.

3. TERM OF PLAN

The Plan shall be effective as of January 1, 1996, subject to approval by the Company's shareholders at the 1996 annual meeting of shareholders. The Plan shall terminate at the close of business on December 31, 2005, unless terminated earlier by the Board pursuant to Section 16.

4. ADMINISTRATION

(a) The Plan shall be administered by the Committee. The Committee is authorized, subject to the provisions of the Plan, to establish such rules and regulations as it deems necessary for the proper administration of the Plan and to make such determinations and interpretations and to take such actions in connection with the Plan and any Awards granted hereunder as it deems necessary or advisable. All determinations and interpretations made by the Committee shall be binding and conclusive on all Participants and their legal representatives. No member of the Board, no member of the Committee and no Employee shall be liable for any act or failure to act hereunder, except in circumstances involving his or her bad faith, gross negligence or willful misconduct, or for any act or failure to act hereunder by any other Board or Committee member or Employee or by any agent to whom duties in connection with the administration of the Plan have been delegated. The Company shall indemnify members of the Committee and any agent of the Committee against any and all liabilities or expenses to which they may be subjected by reason of any act or failure to act with respect to their duties on behalf of the Plan, except in circumstances involving such person's bad faith, gross negligence or willful misconduct.

(b) The Committee may delegate to one or more of its members, or to one or more agents, such administrative duties as it may deem advisable, and the Committee, or any person to whom it has delegated duties as aforesaid, may employ one or more persons to render advice with respect to any responsibility the Committee or such person may have under the Plan. The Committee may employ such legal or other counsel, consultants and agents as it deems desirable for the administration of the Plan and may rely upon any opinion or computation received from any such counsel, consultant or agent. Expenses incurred by the Committee in the engagement of such counsel, consultant or agent shall be paid

by the Company or the Subsidiary whose Employees have benefitted from the Plan, as determined by the Committee.

5. ELIGIBILITY

Participants shall consist of such officers and Employees of the Company and its Subsidiaries as the Committee in its sole discretion determines to be significantly responsible for the success and future growth and profitability of the Company and whom the Committee may designate from time to time to receive Awards under the Plan. In addition, all Nonemployee Directors of the Company shall participate in the Plan, but only to the extent provided in Sections 10 and 11 below. Designation of a Participant in any year shall not require the Committee to designate such person as a Participant in any other year or, once designated, to receive the same type or amount of Award as granted to the Participant in any other year.

6. SHARES SUBJECT TO PLAN

(a) Available Shares. The aggregate number of shares of Common Stock which shall be available for grants of Awards under the Plan during its term shall be 2,800,000. Such shares of Common Stock available for issuance under the Plan may be either authorized but unissued shares, shares of issued stock held in the Company's treasury, or both, at the discretion of the Company, and subject to any adjustments made in accordance with Section 6(c) below. Shares of Common Stock underlying Stock Awards or Stock Options which terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such shares shall

3

4

again be available for grants of Stock Awards and Stock Options under the Plan, to the extent permitted by Rule 16b-3 under the Exchange Act. The number of shares of Common Stock available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional shares of Common Stock.

(b) Maximum Aggregate Number of Shares Underlying Stock Awards and Stock Options Granted Under the Plan to Any Single Participant. The maximum aggregate number of shares of Common Stock underlying Stock Awards that may be granted to any single Participant during the life of the Plan shall be 1,500,000, subject to adjustment as provided in Section 6(c) below. The maximum aggregate number of shares of Common Stock underlying Stock Options that may be granted to any single Participant during the life of the Plan shall be 1,500,000, subject to adjustment as provided in Section 6(c) below. For purposes of the preceding sentence, shares of Common Stock underlying Stock Options that are cancelled shall continue to be counted in determining the maximum aggregate number of shares of Common Stock that may be granted to any single Participant.

(c) Adjustment to Shares. If there is any change in the number of

outstanding shares of Common Stock through the declaration of stock dividends, stock splits or the like, the number of shares of Common Stock underlying Stock Awards and the number of shares of Common Stock underlying Stock Options and the exercise prices of such Stock Options shall be automatically adjusted. If there is any change in the number of outstanding shares of Common Stock through any change in the capital account of the Company, or through a merger, consolidation, separation (including a spinoff or other distribution of stock or property), reorganization (whether or not such reorganization comes within the meaning of such term in Code Section 368(a)) or partial or complete liquidation, the Committee shall make appropriate adjustments in the number of shares of Common Stock which may be issued under the Plan and to any single Participant, and any adjustments and/or modifications to outstanding Stock Awards and Stock Options as it deems appropriate. In the event of any other change in the capital structure of the Company or in the Common Stock, the Committee shall also be authorized to make such appropriate adjustments in the number of shares of Common Stock available for issuance under the Plan and to any single Participant, and any adjustments and/or modifications to outstanding Stock Awards and Stock Options as it deems appropriate; provided, however, that (i) each such adjustment with respect to an ISO shall comply with the rules of Code Section 424(a) (or any successor provision) and (ii) in no event shall any adjustment be made which would render any ISO granted hereunder other than an ISO. In addition, the number of shares of Common Stock available for issuance under the Plan shall be automatically adjusted to the extent necessary to reflect any dividend equivalents paid in the form of Common Stock.

7. PERFORMANCE-BASED COMPENSATION

The Committee may condition the grant of any Award under the Plan to the achievement of preestablished performance goals, and the Committee may subject the vesting of any Award under the Plan to the achievement of preestablished performance goals, in order to comply with the requirements of Code Section 162(m). In addition, the Committee may take whatever other actions shall be necessary in order to qualify compensation attributable to Awards as "performance-based compensation" under Code Section 162(m). Performance goals shall be based on (i) any one or combination of the following financial measures or (ii) growth in any one or combination of the following financial measures:

- (a) revenue;
- (b) cash flow;
- (c) EBITDA;
- (d) net income;
- (e) earnings per share;
- (f) return on assets; and/or
- (g) return on equity.

8. STOCK AWARDS

(a) Terms and Conditions. The Committee is authorized to grant Stock Awards to Employees, subject to such terms, conditions, restrictions and/or limitations, if any, as the Committee deems appropriate, including, but not limited to, restrictions on transferability and continued employment; provided, however, that such terms, conditions, restrictions and/or limitations are not inconsistent with the Plan. The Committee may require the Participant to deliver a duly signed stock power, endorsed in blank, relating to the Common Stock underlying such Stock Award, and may also require that the stock certificates evidencing such shares be held in custody or bear restrictive legends until the restrictions thereon, if any, shall have lapsed. The Committee may accelerate the date a Stock Award becomes transferable under such circumstances as it deems appropriate.

(b) Limited Rights as Shareholders. During the period in which any shares of Common Stock are subject to the restrictions imposed under Section 8(a) above, a Participant to whom such restricted shares have been awarded shall not have the right (i) to vote such shares and (ii) to receive dividends thereon.

(c) Stock Award Agreement. Any Stock Award granted under the Plan shall be evidenced by a Stock Award Agreement which shall be signed by the Company and the Participant.

9. STOCK OPTIONS

(a) Terms and Conditions. The Committee is authorized to grant Stock Options to Employees. Stock Options may be ISOs or Nonqualified Stock Options, or a combination of both. The Committee shall, in its sole discretion but after having taken into account the recommendations of the Executive Committee with respect to the granting of Stock Options to Employees (other than to an Employee who is a member of the Executive Committee), determine the Employees who will receive Stock Options and the number of shares of Common Stock underlying each Stock Option. In addition, the Committee shall determine the following terms and conditions:

(1) Exercise Price. The Committee, in its sole discretion, shall determine the exercise price of the Stock Option; provided, however, that the exercise price of any Stock Option shall not be less than 100 percent of Fair Market Value on the date of grant.

(2) Expiration Date. The Committee, in its sole discretion, shall determine the expiration date of the Stock Option; provided, however, that no ISO shall be exercised after the 10th anniversary of the date of grant.

(3) Exercisability. The Committee, in its sole discretion, shall

determine a vesting schedule upon which the Stock Option shall become exercisable and remain exercisable; provided, however, that if the Committee does not determine such vesting schedule, which shall be included in the Stock Option Agreement pursuant to Section 9(c) below, the Stock Option shall become exercisable and remain exercisable in accordance with the vesting schedule set forth below:

(A) 33 1/3 percent of the Stock Option shall become exercisable on the first anniversary of the date of grant and remain exercisable until the Stock Option expires;

(B) 33 1/3 percent of the Stock Option shall become exercisable on the second anniversary of the date of grant and remain exercisable until the Stock Option expires; and

(C) 33 1/3 percent of the Stock Option shall become exercisable on the third anniversary of the date of grant and remain exercisable until the Stock Option expires.

(b) Restrictions Relating to ISOs. In addition to being subject to the terms and conditions of Section 9(a) above, ISOs shall comply with all other requirements under Code Section 422. Accordingly, ISOs may be granted only to Participants who are Employees of the Company or one of its "subsidiary corporations" (as defined in Code Section 424(f)) on the date of grant. The aggregate market value (determined as of the time the option is granted) of the Common Stock with respect to which ISOs are exercisable for the first time by a Participant during any calendar year (under all option plans of the Company

and of any "parent corporation" (as defined in Code Section 424(e)) or any "subsidiary corporation" (as defined in Code Section 424(f)) shall not exceed \$100,000. For purposes of the preceding sentence, (i) ISOs shall be taken into account in the order in which they are granted and (ii) ISOs granted before 1987 shall not be taken into account. ISOs shall not be transferable by the Participant otherwise than by will or the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by such Participant. The Committee shall not grant ISOs to any Employee who, at the time the ISO is granted, owns stock possessing (after the application of the attribution rules of Code Section 424(d)) more than 10 percent of the total combined voting power of all classes of stock of the Company or of any "parent corporation" (as defined in Code Section 424(e)) or any "subsidiary corporation" (as defined in Code Section 424(f)) unless the exercise price of the ISO is fixed at not less than 110 percent of the Fair Market Value of the Common Stock on the date of grant and the exercise of such ISO is prohibited by its terms after the fifth anniversary of the ISO's date of grant. In addition, no ISO shall be issued to a Participant in tandem with a Nonqualified Stock Option issued to such Participant.

(c) Stock Options Agreements. Any Stock Option granted under the Plan shall be evidenced by a Stock Option Agreement which shall be signed by the Company and the Participant.

(d) Additional Terms and Conditions. The Committee may, by way of the Stock Option Agreements or otherwise, establish such other terms, conditions, restrictions and/or limitations, if any, of any Stock Option, provided they are not inconsistent with the Plan.

(e) Exercise. Upon exercise, the exercise price of a Stock Option may be paid in cash, shares of Common Stock, a combination of the foregoing, or such other consideration as the Committee may deem appropriate. The Committee shall establish appropriate methods for accepting Common Stock, whether restricted or unrestricted, and may impose such conditions as it deems appropriate on the use of such Common Stock to exercise a Stock Option. The Committee may permit a Participant to satisfy any amounts required to be withheld under applicable federal, state and local tax laws, in effect from time to time, by electing to have the Company withhold a portion of the shares of Common Stock to be delivered for the payment of such taxes.

10. NONEMPLOYEE DIRECTOR FORMULA STOCK AWARDS

(a) Initial Grants. On the date the Plan is approved by the Company's shareholders, the following five Nonemployee Directors shall each automatically be granted a Stock Award of 1,000 shares of Common Stock, which shall be fully transferable and subject to no restrictions:

- (1) Thomas A. Player;
- (2) Kenneth Roman;
- (3) Bruce W. Schnitzer;
- (4) Maurice W. Slayton; and
- (5) David C. Smith.

(b) Election Grants. Each Nonemployee Director who (i) becomes a member of the Board for the first time after the date on which the Plan is approved by the Company's shareholders and (ii) does not, at the time he or she first becomes a member of the Board, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have or share a direct or indirect Pecuniary Interest in more than 100,000 shares of Common Stock, shall be automatically granted a Stock Award of 1,000 shares of Common Stock, which shall be fully transferable and subject to no restrictions.

(c) Annual Grants. Each Nonemployee Director who (i) does not, on the date of each annual meeting of the Company's shareholders that occurs after January 1, 1997, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have or share a direct or indirect

Pecuniary Interest in more than 100,000 shares of Common Stock and (ii) has not received a grant pursuant to Section 10(b) above during the 12-month period ending on the date of the applicable annual meeting of the Company's shareholders, shall automatically be granted on the date of such annual meeting of shareholders a

6

7

Stock Award of 1,000 shares of Common Stock, which shall be fully transferable and subject to no restrictions.

11. NONEMPLOYEE DIRECTOR ANNUAL RETAINER FEES PAID IN STOCK

(a) A Nonemployee Director who does not, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have or share a direct or indirect Pecuniary Interest in more than 100,000 shares of Common Stock, may elect to forgo 50 percent of the cash compensation attributable to the Nonemployee Director's annual retainer fees and to receive in lieu thereof a Stock Award as determined pursuant to Section 11(b) below. Any such election shall be in writing and must be made at least six months before the services are rendered giving rise to such compensation. Such election may not be revoked or changed thereafter except as to compensation for services rendered at least six months after any such election to revoke or change is made in writing.

(b) A Nonemployee Director whose cash compensation attributable to his or her annual retainer fees is reduced pursuant to Section 11(a) above shall receive a Stock Award of which the number of shares of Common Stock underlying such Stock Award shall be determined by dividing (x) amount of the cash compensation so reduced by (y) the product of (A) the Fair Market Value of the Common Stock on the last business day of the month in which the cash compensation would have been paid in the absence of such reduction multiplied by (B) 90 percent. For purposes of determining the number of shares of Common Stock underlying Stock Awards under this Section 11(b), fractional shares shall be disregarded.

12. AWARDS SUBJECT TO FOREIGN LAWS

The Committee may grant Awards to individual Participants who are subject to the tax laws of nations other than the United States, which Awards may have terms and conditions as determined by the Committee as necessary to comply with applicable foreign laws. The Committee may take any action which it deems advisable to obtain approval of such Awards by the appropriate foreign governmental entity; provided, however, that no such Awards may be granted pursuant to this Section 12 and no action may be taken which would result in a violation of the Exchange Act, the Code or any other applicable law.

13. CHANGE IN CONTROL OR OWNERSHIP

(a) Subject to the provisions contained in Sections 13(b) and 13(c) below, in the event there is a change in control or a change in ownership of the Company, the Committee may, in its sole discretion, provide that:

(1) any or all nontransferable Stock Awards held by any Participant on the date of the change in control or change of ownership shall become immediately transferable as of the date of such change in control or change in ownership and shall remain transferable after such date;

(2) any or all unexercisable Stock Options held by the Participant on the date of the change in control or change of ownership shall immediately become exercisable as of the date of the change of control or change of ownership and to remain exercisable until a date that occurs on or prior to the date the Stock Option expires; and/or

(3) any or all exercisable Stock Options held by the Participant on the date of the change in control or change of ownership shall remain exercisable until a date that occurs on or prior to the date the Stock Option expires.

(b) Six-Month Holding Period. Notwithstanding anything herein to the contrary, the provisions contained in Section 13(a) above shall be inapplicable to an Award granted within six months before the occurrence of such change in control or change in ownership if the Participant who holds such Award is subject to the reporting requirements of Section 16(a) of the Exchange Act and no exception from liability under Section 16(b) of the Exchange Act is otherwise available to such Participant.

7

8

(c) ISOs. Notwithstanding anything herein to the contrary, the provisions contained in Section 13(a) above shall not be applied to an ISO if the application of such provision would render any ISO granted hereunder other than an ISO, including, but not limited to extending the exercise period of an ISO in the event of a Participant's termination of employment.

14. TERMINATION OF EMPLOYMENT

(a) Death of Participant; Termination of Participant's Employment Other Than For Cause. In the event of the death of the Participant, or if the Participant's employment is terminated due to Disability or Retirement, by the Company or any Subsidiary without Cause, or by the Participant for any reason:

(1) all nontransferable Stock Awards held by the Participant on the date of death or termination of employment, as the case may be, shall be immediately forfeited by the Participant;

(2) all unexercisable Stock Options held by the Participant on the date of death or termination of employment, as the case may be, shall be immediately forfeited by the Participant; and

(3) all exercisable Stock Options held by the Participant on the date of death or termination of employment, as the case may be, shall remain exercisable until the earlier of (i) the end of the 90-day period following the Participant's death or termination of employment, as the case may be, or (ii) the date the Stock Option expires.

(b) Termination of Participant's Employment by the Company or Any Subsidiary for Cause. In the event the Participant's employment is terminated by the Company or any Subsidiary for Cause:

(1) all nontransferable Stock Awards held by the Participant at the time of termination of employment shall be immediately forfeited by the Participant; and

(2) all exercisable and unexercisable Stock Options held by the Participant at the time of termination of employment shall be immediately forfeited by the Participant.

(c) Committee Discretion. Notwithstanding anything herein to the contrary but subject to the provisions contained in Section 14(d) below, in the event of a termination of a Participant's employment for any reason, the Committee may, in its sole discretion, provide that:

(1) any or all nontransferable Stock Awards held by the Participant on the date of termination of employment to become immediately transferable as of such date and to remain transferable after such date;

(2) any or all unexercisable Stock Options held by the Participant on the date of termination of employment to become exercisable and to remain exercisable until a date that occurs on or prior to the date the Stock Option expires; and/or

(3) any or all exercisable Stock Options held by the Participant on the date of termination of employment to remain exercisable until a date that occurs on or prior to the date the Stock Option expires.

In addition, the Option Committee shall have discretion to adopt a different definition of Cause, Retirement or Disability in connection with any particular Award under the Plan.

(d) ISOs. Notwithstanding anything herein to the contrary, (i) the provisions contained in Section 14(c) above shall not be applied to an ISO if the application of such provision would render any ISO granted hereunder other than an ISO and (ii) for purposes of extending the exercise period of an ISO in the event of a termination due to Disability pursuant to Section 14(a) (3) above, the Participant's disability shall also satisfy the requirement of "permanent and total disability" as defined in Code Section 22(e) (3).

15. OTHER TERMS AND CONDITIONS

Any Award made under the Plan may also be subject to such other provisions (whether or not applicable to the Award awarded to any other Participant) as the Committee determines to be appropriate, including, without limitation:

- (a) for the installment purchase of Common Stock under Stock Options;
- (b) to assist the Participant in financing the acquisition of Common Stock;
- (c) for the forfeiture of, or restrictions on resale or other disposition of, Common Stock acquired under any form of Award;
- (d) for the payment of the value of Awards to Participants in the event of a change in control or a change in ownership of the Company; or
- (e) to comply with federal and state securities laws, or understandings or conditions as to the Participant's employment in addition to those specifically provided for under the Plan.

16. AMENDMENT AND TERMINATION

(a) The Board may amend the Plan from time to time or suspend or terminate the Plan at any time; provided, however, that Section 10 above, relating to Nonemployee Director formula awards, shall not be amended more than once every six months, other than to comport with changes in the Code or ERISA. In addition, no amendment of the Plan shall, without approval of the shareholders of the Company, (i) materially increase the benefits accruing to Participants under the Plan, (ii) increase the number of securities which may be issued under the Plan, (iii) materially modify the requirements as to eligibility for participation in the Plan, (iv) modify the specified employees or class of employees eligible to receive Stock Options, or (v) increase the maximum aggregate number of shares of Common Stock underlying Stock Awards and/or Stock Options that may be granted to any single Participant during the life of the Plan. Termination or amendment of the Plan by the Board shall not adversely affect any Stock Award Agreement and/or Stock Option Agreement without the Participant's prior written consent.

(b) Notwithstanding anything contained in the Plan to the contrary, the Board may amend the Plan without shareholder approval in order to comply with the amendments to Rule 16b-3 under the Exchange Act adopted by the SEC on May 31, 1996.

(c) Subject to the terms and conditions of the Plan, the Company may amend

or modify any Stock Award Agreement or any Stock Option Agreement by mutual agreement between the Company and the Participant or such other persons as may then have an interest therein.

17. WITHHOLDING TAXES

The Company, or the applicable Subsidiary, may require a Participant who vests in a Stock Award or who exercises a Nonqualified Stock Option granted hereunder, or disposes of shares acquired pursuant to the exercise of an ISO in a disqualifying disposition (within the meaning of Code Section 421(b)), to reimburse the corporation which employs such Participant for any taxes required by any governmental regulatory authority to be withheld or otherwise deducted and paid by such corporation in respect of the issuance or disposition of such shares. In lieu thereof, the corporation which employs such Participant shall have the right to withhold the amount of such taxes from any other sums due or to become due from such corporation to the Participant upon such terms and conditions as the Committee shall prescribe. The corporation that employs such Participant may, in its discretion, hold the stock certificate to which such Participant is otherwise entitled upon the vesting of a Stock Award or the exercise of a Nonqualified Stock Option as security for the payment of such withholding tax liability, until cash sufficient to pay that liability has been accumulated. In addition, at any time that the Company becomes subject to a withholding obligation under applicable law with respect to the vesting of a Stock Award or the exercise of a Nonqualified Stock Option (the "Tax Date"), except as set forth below, a holder of a Stock Award or Nonqualified Stock Option may elect to satisfy, in whole or in part, the holder's related personal tax liabilities (an "Election") by (a) directing the Company to withhold from

shares of Common Stock issuable in the related vesting or exercise either a specified number of shares or shares having a specified value (in each case not in excess of the related personal tax liabilities), (b) tendering shares of Common Stock previously issued pursuant to the exercise of a Nonqualified Stock Option or other shares of Common Stock owned by the holder or (c) combining any or all of the foregoing Elections in any fashion. An Election shall be irrevocable. The withheld shares and other shares of Common Stock tendered in payment shall be valued at their Fair Market Value on the Tax Date. The Committee may disapprove of any Election, suspend or terminate the right to make Elections or provide that the right to make Elections shall not apply to particular shares or exercises. The Committee may impose any additional conditions or restrictions on the right to make an Election as it shall deem appropriate. The Committee may prescribe such rules as it determines with respect to Participants subject to the reporting requirements of Section 16(a) of the Exchange Act to effect such tax withholding in compliance with the rules established by the SEC under Section 16 of the Exchange Act and the positions of the staff of the SEC thereunder expressed in no-action letters exempting such tax withholding from liability under Section 16(b) of the Exchange Act.

18. NONTRANSFERABILITY AND NONASSIGNABILITY

No nontransferable Stock Award nor Stock Option granted under the Plan shall be subject in any manner to alienation, anticipation, sale, assignment, pledge, or encumbrance. Stock Options granted under the Plan shall not be transferable otherwise than by will or the laws of descent and distribution. Stock Options shall be exercisable, during the Participant's lifetime, only by the Participant. In the event of the death of a Participant, each Stock Option theretofore granted to him or her shall be exercisable during such period after his or her death as the Committee shall, in its sole discretion, determine, subject to the Plan and then only by the executor or administrator of the estate of the deceased Participant or the person or persons to whom the deceased Participant's rights under the Stock Option shall pass by will or the laws of descent and distribution.

19. UNFUNDED PLAN

Participants shall have no right, title, or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. Any and all payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not intended to be subject to ERISA.

20. NO FRACTIONAL SHARES

No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, or Awards, or other property shall be issued or paid in lieu of fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

21. GOVERNING LAW

The Plan and all Awards granted hereunder and actions taken in connection herewith shall be governed and construed in accordance with the laws of the State of New York without reference to principles of conflict of laws and except as superseded by applicable federal law.

22. COMPLIANCE WITH RULE 16B-3

With respect to persons subject to Section 16 of the Exchange Act, transactions under the Plan are intended to comply with all applicable

11

Exchange Act. To the extent any provision of the Plan or action by the Committee fails to comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

23. REGULATORY APPROVALS AND LISTINGS

Notwithstanding anything herein to the contrary, the Company shall have no obligation to issue or deliver certificates of Common Stock evidencing Stock Awards or Stock Options resulting in the payment of Common Stock prior to (i) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed, and (iii) the completion of any registration or other qualification of said shares under any state or Federal law or ruling of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

24. NO RIGHT TO CONTINUED EMPLOYMENT OR GRANTS

A Participant's right, if any, to continue to serve the Company or any Subsidiary as an officer, employee, or otherwise, shall not be enlarged or otherwise affected by his or her designation as a Participant under the Plan. The Company or the Subsidiary reserves the right to terminate any Employee at any time. In addition, other than as provided in Section 10 above, the adoption of this Plan shall not be deemed to give any Employee or any other individual any right to be selected as a Participant or to be granted an Award.

25. NO GUARANTEE OF TAX CONSEQUENCES

No person connected with the Plan in any capacity, including, but not limited to, the Company and its Subsidiaries and their directors, officers, agents and employees makes any representation, commitment, or guarantee that any tax treatment, including, but not limited to, federal, state and local income, estate and gift tax treatment, will be applicable with respect to amounts deferred under the Plan, or paid to or for the benefit of a Participant under the Plan, or that such tax treatment will apply to or be available to a Participant on account of participation in the Plan.

26. OTHER BENEFITS

No Award granted under the Plan shall be considered compensation for purposes of computing benefits under any retirement plan of the Company nor affect any benefits or compensation under any other benefit or compensation plan of the Company now or subsequently in effect.

PENNCORP FINANCIAL GROUP, INC.

1996 SENIOR EXECUTIVE ANNUAL INCENTIVE AWARD PLAN

I. PLAN OBJECTIVES

The objectives of the 1996 Executive Annual Incentive Award Plan (the "Plan") are to advance the interests of PennCorp Financial Group, Inc. (the "Company") and its shareholders by providing key executives with incentive opportunities that:

- provide compensation opportunities which are competitive with those of comparable institutions
- focus these executives' attention on the accomplishment of specifically identified Company goals
- recognize different levels and types of individual contributions by providing for adjustment of the incentive payout on the basis of individual performance

II. DEFINITIONS

"Annual Incentive Award" or "Award" means the compensation payable under the Plan to a Participant by the Committee pursuant to such terms, conditions, restrictions and limitations established by the Committee and the Plan.

"Board" means the Board of Directors of the Company.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the Compensation Committee of the Board, or such other committee designated by the Board to administer the Plan, provided that the Committee shall consist of three or more persons each of whom is an "outside director" within the meaning of Section 162(m) and a "disinterested person" within the meaning of Rule 16b-3 under the Exchange Act.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Plan" means the PennCorp Financial Group, Inc. 1996 Senior Executive Annual Incentive Award Plan.

"Performance Goals" shall be defined as the performance criterion or criteria established by the Committee, pursuant to Section V hereof, for the

purpose of determining Awards under the Plan.

"Performance Period" means the consecutive 12 month period that constitutes the Company's fiscal year, unless otherwise specified by the Committee.

"Section 162(m)" means Section 162(m) of the Code and the regulations promulgated thereunder.

III. ADMINISTRATION OF THE PLAN

The plan will be administered by the Committee. The Committee is authorized to interpret the Plan and to establish and amend rules and regulations necessary for Plan administration. Decisions of the Committee shall be binding on all persons claiming rights under the Plan.

IV. ELIGIBILITY

Participants will be selected by the Committee annually not later than 90 days after the approval of the Plan at the 1996 Annual Meeting of Stockholders and thereafter not later than 90 days after the commencement of Performance Periods commencing on and after January 1, 1997. The Chief Executive Officer and the President of the Company are hereby designated as the initial Participants under the Plan.

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Notwithstanding the foregoing, at any time during a Performance Period the Committee may designate new Participants or remove Participants, in its sole discretion. Participation in the Plan in any prior year or years shall not give one the right to be a Participant in any subsequent year.

V. PERFORMANCE GOALS AND MEASURES

Performance Goals shall be established by the Committee not later than 90 days after commencement of the Performance Period relating to a specific Award (or, in the case of the Performance Period covering the 1996 fiscal year, not later than June 11, 1996, the date of the Proxy Statement relating to the 1996 annual meeting of shareholders). The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of performance. The criterion or criteria used in establishing Performance Goals may, at the discretion of the Committee, include a targeted growth rate in annual compounded earnings per share or any other appropriate measure such as revenue, cash flow, EBITDA, net income, return on assets or return on equity. The Performance Goals established by the Committee shall include a threshold level below which no Award will be payable and a maximum Award level for each Participant. The determination of attainment of the Performance Goals shall be determined in accordance with generally accepted accounting principles and certified in writing by the Committee.

The Committee shall be authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (i) extraordinary or non-recurring items, (ii) changes in tax laws, (iii) changes in generally accepted accounting principles or changes in accounting policies, (iv) charges related to restructured or discontinued operations, (v) dispositions or acquisitions of businesses or business units, (vi) restatement of prior period financial results, and (vii) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company's financial statements. Notwithstanding the foregoing, the Committee may, at its sole discretion, (x) reduce the Awards under the Plan to offset any results not anticipated when the Performance Goals were established or (y) increase or reduce the Awards under the Plan, but in neither event by more than 25%, to reflect the Committee's evaluation of the individual performance of any Participant under the Plan; provided that no such adjustment shall be made if such adjustment would affect the tax deductibility of the Award under Section 162(m) of the Code.

VI. AWARDS

Awards under the Plan shall be paid in cash as soon as practicable following the close of that Performance Period.

At the first meeting of the Committee after the expiration of the Performance Period, the Committee shall review the prior year's performance in relation to the Performance Goals and determine the level of achievement of the Performance Goals. Payment of Annual Incentive Awards to Participants under the Plan shall occur only after the Committee has certified in writing that the Performance Goals have been achieved for the relevant Performance Period. The maximum Annual Incentive Award that may be granted to a Participant under the Plan for any Performance Period shall be twice the Participant's target bonus opportunity.

VII. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION OF THE PLAN

The Board may amend, modify, suspend or terminate this Plan for any purpose except that no amendment or alteration shall be effective prior to approval by the Company's shareholders to the extent such approval is then required pursuant to Section 162(m) or otherwise required as a matter of law. Further, no amendment to the Plan shall be effective that would (i) increase the maximum amount that can be paid to a Participant under the Plan in a Performance Period; (ii) change the performance criterion or criteria set forth in Section V hereof for payment of Awards; or (iii) modify the eligibility requirement for Participants in the Plan unless first approved by the Company's shareholders.

VIII. EFFECTIVE DATE OF THE PLAN

This Plan shall be effective as of January 1, 1996. Notwithstanding the foregoing, the adoption of this Plan is expressly conditioned upon the approval by the Company's shareholders at the annual meeting of the Company's shareholders held in 1996. If the shareholders of the Company shall fail to approve this Plan, this Plan shall terminate and cease to be of any further force or effect. Subject to earlier termination pursuant to Section VII, the Plan shall remain in effect through the conclusion of the 2001 fiscal year of the Company. After termination of the Plan, no future Awards may be granted.

IX. INTERPRETATION

The Plan is designed to comply with Section 162(m) of the Code, and all provisions hereof shall be construed in manner consistent with that intent.

X. GOVERNING LAW

The Plan and all determinations made and actions taken pursuant thereto shall be governed by the laws of the State of New York and applicable federal law and construed in accordance therewith.

CONVERSION, STANDSTILL AND REGISTRATION RIGHTS AGREEMENT

THIS AGREEMENT dated as of July 24, 1996 between United Companies Financial Corporation, a Louisiana corporation ("UCFC") and PennCorp Financial Group, Inc., a Delaware corporation ("PennCorp").

Preliminary Statement

UCFC and PennCorp (as assignee of UC Life Holding Corp.) are parties to that certain Amended and Restated Stock Purchase Agreement dated as of January 30, 1996 (as amended or restated from time to time, the "Agreement"). Pursuant to the Agreement, PennCorp is today issuing to UCFC a convertible promissory note in the principal amount of \$14,999,000 (the "Note").

NOW, THEREFORE, in consideration of the premises and the mutual agreements set forth herein, UCFC and PennCorp hereby agree as follows:

1. UCFC shall, immediately upon receipt of the Note, and pursuant to the procedures set forth therein, convert the Note into 483,839 shares of common stock, par value \$0.01 per share, of PennCorp (the "Common Stock"), and PennCorp shall deliver or cause to be delivered one or more certificates for such 483,839 shares of Common Stock (the "Shares"), registered in the name of UCFC, and in such denominations as UCFC shall have provided in writing to PennCorp.

2. The certificates evidencing the Shares shall bear a legend substantially identical to the following:

"THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. IN ADDITION, TRANSFER OF THIS SECURITY IS RESTRICTED AS SET FORTH IN THAT CERTAIN CONVERSION, STANDSTILL AND REGIS-

TRATION RIGHTS AGREEMENT DATED JULY 24, 1996 BETWEEN PENNCORP FINANCIAL GROUP, INC. AND UNITED COMPANIES FINANCIAL CORPORATION, A COPY OF WHICH IS AVAILABLE FROM THE SECRETARY

Upon a sale of any of the Shares under the Shelf Registration Statement (as defined below) as permitted by this Agreement, PennCorp agrees to instruct its stock transfer agent to issue certificate(s) evidencing the number of Shares being sold without the foregoing legend.

Except for sales of the Shares pursuant to the Shelf Registration Statement, the Shares shall not be transferable unless and until PennCorp has received such opinions of counsel as to compliance with all applicable federal and state securities laws, and other certificate and documentation, as it may reasonably request.

3. PennCorp represents and warrants to UCFC that the Shares, upon issuance upon conversion of the Note as contemplated by Paragraph 1 above, will be (a) duly authorized, validly issued, fully paid and nonassessable and (b) free and clear of all liens, claims and encumbrances other than those created by any action or inaction of UCFC. PennCorp shall use commercially reasonable efforts to cause the Shares to be listed on the New York Stock Exchange, subject to notice of issuance, as promptly as practicable, but in no event later than the end of the Lock-Up Period (as hereinafter defined). PennCorp further represents and warrants to UCFC that as of July 23, 1996 it had issued and outstanding 28,099,745 shares of Common Stock.

4. PennCorp and UCFC each represent and warrant to the other that (a) it has the corporate power and authority to enter into and perform its obligations under this Agreement, (b) this Agreement has been duly and validly authorized by all necessary action, corporate or otherwise, (c) this Agreement has been duly executed and delivered by it, and (d) this Agreement constitutes the valid and legally binding obligation of it, enforceable against it in accordance with its terms, except that (i) the enforceability hereof may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereinafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which proceedings therefor may be brought.

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5. UCFC agrees that it will not sell, offer to sell, contract to sell or otherwise transfer or dispose of any of the Shares (or any securities convertible into or exercisable or exchangeable for the Shares), or grant any options or warrants to purchase the Shares, pursuant to which the sale or transaction will occur during the period of 180 days after the date of original issuance of the Shares (the "Lock-Up Period") without the prior written consent of PennCorp.

6. For so long as UCFC shall own at least 1% of PennCorp's outstanding Common Stock, or, if shorter, until the first anniversary of the date hereof, UCFC will not, and will cause each of its subsidiaries not to, singly or as part of a partnership, limited partnership, syndicate or other group (as those terms are used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended) (the "Securities Exchange Act"), directly or indirectly, without the approval of the Board of Directors of PennCorp:

(a) acquire, offer to acquire, or agree to acquire, by purchase, gift or otherwise, any Voting Securities (as hereinafter defined) except pursuant to a stock split, stock dividend, rights offering, recapitalization, reclassification or similar transaction; provided, however, that nothing in this clause (a) shall prevent UCFC from acquiring any Voting Securities (i) solely for the purposes of hedging the Shares, (ii) solely for the purpose of covering short positions or (iii) so long as after any such acquisition, UCFC owns less than or equal to 2% of the outstanding Common Stock;

(b) make, or in any way participate in, any solicitation of proxies to vote, solicit any consent or communicate with or seek to advise or influence any person or entity with respect to the voting of, any Voting Securities or become a participant in an election contest (as such terms are defined or used in Rule 14a-11 under the Securities Exchange Act) with respect to the Company;

(c) form, join or encourage the formation of, any person (within the meaning of Section 13(d)(3) of the Securities Exchange Act) with respect to any Voting Securities;

(d) deposit any Voting Securities into a voting trust or subject any Voting Securities to any arrangement or agreement with respect to the voting thereof;

(e) initiate, propose or otherwise solicit stockholders for the approval of one or more stockholder proposals with respect to PennCorp as described in Rule 14a-8 under the Securities Exchange Act, or induce or

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attempt to induce any other person to initiate any stockholder proposal;

(f) vote any Voting Securities in favor of the election to the Board of Directors of PennCorp of, or otherwise seek to elect to the Board of Directors of PennCorp, any person not recommended by the Board of

Directors of PennCorp;

(g) call or seek to have called any meeting of the stockholders of PennCorp;

(h) act to seek to control, disrupt or influence the management, policies or affairs of PennCorp;

(i) sell or otherwise transfer in any manner any Voting Securities to any person (within the meaning of Section 13(d)(3) of the Securities Exchange Act) who has filed prior thereto a disclosure with the Commission under the Securities Exchange Act stating that such person owns more than ten percent (10%) of any class of Voting Securities or who, to UCFC's actual knowledge, owns more than ten percent (10%) of any class of Voting Securities; or who, without the approval of the Board of Directors of PennCorp, has publicly proposed a business combination or similar transaction with, or a change of control of, PennCorp or who has publicly proposed a tender offer for Voting Securities or who has discussed the possibility of proposing a business combination or similar transaction with, or a change in control of, PennCorp with UCFC or any of its affiliates;

(j) solicit, seek to effect, negotiate with or provide any information to any other party with respect to, or make any statement or proposal, whether written or oral, to the Board of Directors of PennCorp or any director or officer of PennCorp or otherwise make any public announcement or proposal whatsoever with respect to, any form of business combination transaction involving PennCorp, including, without limitation, a merger, exchange offer or liquidation of PennCorp's assets, or any restructuring, recapitalization or similar transaction with respect to PennCorp; or

(k) instigate or encourage any third party to do any of the foregoing.

7. For purposes of Paragraph 6 above, "Voting Securities" shall mean any securities of PennCorp entitled to vote or take action by written consent, or securities convertible into or exchangeable or exercisable for such securities.

8.(a) PennCorp shall cause to be filed with the Securities and Exchange Commission (the "Commission") on or prior to 120 days after the date hereof, a shelf registration statement pursuant to Rule 415 under the Securities Act (as may then be amended) (the "Shelf Registration Statement") on Form S-1 or Form S-3, as determined by PennCorp, to cover resales of Transfer Restricted Securities (as hereinafter defined). UCFC shall have provided the

information required pursuant to Section 8(b) hereof. PennCorp shall use its reasonable best efforts to cause such Shelf Registration Statement to be declared effective by the Commission on or prior to 180 days after the Closing Date. PennCorp shall use its commercially reasonable efforts to keep such Shelf Registration Statement continuously effective for a period ending two years from the effective date thereof or such shorter period that will terminate when each of the Transfer Restricted Securities covered by the Shelf Registration Statement shall cease to be a Transfer Restricted Security.

If there shall occur any event that would cause the Shelf Registration Statement (i) to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) to be not effective and usable for resale of Transfer Restricted Securities during the period that such Shelf Registration Statement is required to be effective and usable, PennCorp shall as promptly as practicable file an amendment to the Shelf Registration Statement, in the case of clause (i), correcting any such misstatement or omission, and in the case of either clause (i) or (ii), use its reasonable best efforts to cause such amendment to be declared effective and such Shelf Registration Statement to become usable as soon as practicable thereafter, and the foregoing two year period during which such Shelf Registration Statement is to be kept effective shall be extended by a period equal to the period it was not effective.

Notwithstanding anything to the contrary in this Section 8, PennCorp may prohibit offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement at any time if (A) (i) it is in possession of material non-public information, (ii) the Board of Directors of PennCorp determines (based on advice of counsel) that such prohibition is necessary in order to avoid a requirement to disclose such material non-public information and (iii) the Board of Directors of PennCorp determines in good faith that disclosure of such material non-public information would not be in the best interests of PennCorp and its shareholders or (B) PennCorp has made a public announcement relating to an acquisition or business combination transaction including PennCorp and/or one or

more of its subsidiaries (i) that is material to PennCorp and its subsidiaries taken as a whole and (ii) the Board of Directors of PennCorp determines in good faith that offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement prior to the consummation of such transaction (or such earlier date as the Board of Directors shall determine) is not in the best interests of PennCorp and its shareholders or (C) (i) disclosure is required in the Shelf Registration Statement of financial information of any person or entity other than PennCorp or its subsidiaries and affiliates pursuant to

Article 3 or Article 11 of Regulation S-X under the Securities Act and (ii) any of such required financial information (including related audit reports and consents of independent accountants) is not available to PennCorp after use of commercially reasonable efforts to obtain such financial information) (the period during which any such prohibition of offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement is in effect pursuant to clause (A) or (B) of this subparagraph (a) is referred to herein as a "Suspension Period"). A Suspension Period shall commence on and include the date on which PennCorp provides written notice to UCFC that offers and sales of Transfer Restricted Securities cannot be made thereunder in accordance with this Section 8 and shall end on the date on which UCFC is advised in writing by PennCorp that offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement and use of the prospectus constituting a part of the Shelf Registration Statement may be resumed; provided, however, that the aggregate number of days in all Suspension Periods during any calendar year shall not exceed 90.

(b) UCFC may not include any of its Transfer Restricted Securities in any Shelf Registration Statement pursuant to this Agreement unless UCFC furnishes to PennCorp in writing, within 10 business days after receipt of a request therefor, such public information concerning UCFC as PennCorp may reasonably request for use in connection with any Shelf Registration Statement or prospectus or preliminary prospectus included therein.

(c) All expenses incident to PennCorp's performance of or compliance with its obligations to register and list the Shares, and maintain the effectiveness thereof, as set forth in this Agreement will be borne by UCFC (and, if applicable, reimbursed to PennCorp promptly following receipt by UCFC of appropriate documentation); provided, however, that UCFC's obligation to pay expenses pursuant to this Section 8(c) shall not exceed 50% of the first \$50,000 of expenses, with all other expenses being borne by PennCorp. Such expenses shall include, without limitation, (i) all registration and filing fees (including

those of the Commission and the National Association of Securities Dealers, Inc.)), (ii) fees and expenses of compliance with all applicable state securities or "blue sky" laws, (iii) printing and engraving expenses, (iv) fees and disbursements of counsel and independent accountants for PennCorp, (v) listing fees on any applicable stock exchange or trading system, and (vi) rating agency fees.

(d) For purposes of this Section 8, "Transfer Restricted Securities" shall mean each Share, until each such Share (A) has been

effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement covering it, (B) is distributed to the public pursuant to Rule 144, (C) is sold or is available to be sold pursuant to Rule 144(k) (or any similar provisions then in force) under the Securities Act or otherwise or (D) is sold pursuant to Rule 904 of Regulation S under the Securities Act.

9. If, after the end of the Lock-Up Period and on or prior to the first anniversary of the date hereof (the "Payment Period"), UCFC desires to sell any or all of the Shares in one or more transactions, then in each case UCFC shall promptly so notify PennCorp, and request PennCorp's assistance in such sale, and PennCorp shall provide such assistance. As consideration for such assistance, UCFC shall pay to PennCorp, with respect to each such sale consummated during the Payment Period, promptly following the consummation of any such sale, \$600,000 (or, if less than all of the Shares are sold, then a percentage of \$600,000 calculated by multiplying \$600,000 by a fraction, the numerator of which is the number of Shares so sold, and the denominator of which is 483,839, appropriately adjusted for stock splits, stock dividends, and other similar transactions) (such \$600,000, or any portion thereof, the "Specified Fee"); provided, however, that no portion of the Specified Fee shall be paid unless the net amount received by UCFC in any such sale (net of brokerage commissions, fees and expenses contemplated by Section 8(c) hereof and other direct selling expenses, and net of the Specified Fee) is greater than \$31.00 per Share.

10.(a) All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail (registered or certified, return receipt requested), telex, telecopier or air courier guaranteeing overnight delivery:

7

8

If to UCFC:

United Companies Financial Corporation
P.O. Box 1591 (70821)
4041 Essen Lane
Baton Rouge, Louisiana 70809
Telephone: (504) 924-6007 (ext. 2282)
Telecopy: (504) 924-4324
Attention: Dale E. Redman

If to PennCorp:

c/o PennCorp Financial, Inc.
3 Bethesda Metro Center

Suite 1600
Bethesda, Maryland 20814
Telephone: (301) 656-1777
Telecopy: (301) 657-4770
Attention: General Counsel

11. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts executed in and to be performed entirely within that state.

8

9

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

UNITED COMPANIES FINANCIAL
CORPORATION

By: /s/ DALE E. REDMAN

Name: Dale E. Redman
Title: Executive Vice President
and Chief Financial
Officer

PENNCORP FINANCIAL GROUP, INC.

By: /s/ SCOTT SILVERMAN

Name: Scott Silverman
Title: Senior Vice President,
General Counsel and
Secretary

9

REGISTRATION RIGHTS AGREEMENT

Dated as of August 2, 1996

relating to up to
2,875,000 shares of \$ 3.50 Series II
Convertible Preferred Securities

by and among

PennCorp Financial Group, Inc.

and

Smith Barney Inc.,

Donaldson, Lufkin & Jenrette
Securities Corporation

and

Merrill Lynch, Pierce, Fenner &
Smith Incorporated

This Registration Rights Agreement (this "Agreement") is made and entered into as of August 2, 1996 by and between PennCorp Financial Group, Inc., a Delaware corporation (the "Company"), and Smith Barney Inc., Donaldson, Lufkin & Jenrette Securities Corporation and Merrill Lynch, Pierce, Fenner &

Smith Incorporated and (the "Initial Purchasers"), who will purchase 2,500,000 shares (the "Firm Shares") of \$3.50 Series II Convertible Preferred Securities with a liquidation preference of \$50.00 per shares (the "Preferred Stock") of the Company pursuant to the Purchase Agreement dated August 2, 1996 (the "Purchase Agreement") between the Company and the Initial Purchasers. The Initial Purchasers may also purchase, upon the terms and conditions set forth in the Purchase Agreement, up to an additional 375,000 shares (the "Additional Shares") of Preferred Stock. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement. The execution and delivery of this Agreement is a condition to the obligations of the Initial Purchasers set forth in the Purchase Agreement. All defined terms used but not defined herein shall have the meanings ascribed to them in the Purchase Agreement (as defined herein).

The parties hereby agree as follows:

SECTION 1. DEFINITIONS

As used in this Agreement, the following capitalized terms shall have the following meanings:

Act: The Securities Act of 1933, as amended.

Closing Date: The date on which the Shares are first sold by the Company to the Initial Purchasers pursuant to the Purchase Agreement.

Commission: The Securities and Exchange Commission.

Common Stock: The Common Stock, par value \$.01 per share, of the Company.

Damages Payment Date: With respect to the Shares or the Common Stock, as applicable, each Dividend Payment Date.

Dividend Payment Date: The record date for each dividend payment with respect to the Shares or the Common Stock, as applicable, fixed by the Board of Directors.

Effectiveness Date: The date on which the Shelf Registration Statement is declared effective by the Commission under the Act.

Effectiveness Target Date: As defined in Section 4.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Exempt Resales: Offers and sales of the Shares purchased by the Purchasers pursuant to the Purchase Agreement on the terms and in the manner set forth in the Offering Memorandum and Section 2 of the Underwriting

Agreement (i) to persons whom the Initial Purchasers reasonably believe to be qualified institutional buyers as defined under Rule 144A under the Act, as such rule may be amended from time to time ("Rule 144A"), in transactions under Rule 144A, (ii) to a limited number of "accredited investors" (as defined in Rule 501(a)(1), (2), (3), or (7) under the Act that are institutional investors and (iii) to certain persons in offshore transactions in reliance upon Regulation S under the Act.

Holders: As defined in Section 2(b) hereof.

3

Latest Issuance Date: The latest date on which any of the Shares are originally issued by the Company pursuant to the terms of the Purchase Agreement.

NASD: The National Association of Securities Dealers, Inc.

Offering Memorandum: The Offering Memorandum, dated August 2, 1996, and all supplements thereto, relating to the Shares and prepared by the Company pursuant to the Purchase Agreement.

Person: An individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

Preliminary Prospectus: As defined in Section 3(f).

Prospectus: The prospectus included in the Shelf Registration Statement, as amended or supplemented by any Prospectus Supplement with respect to the terms of the offering of any portion of the Transfer Restricted Securities (as defined herein) covered by the Shelf Registration Statement and by all other amendments and supplements to such prospectus, including any prospectus included in any post-effective amendments to the Shelf Registration Statement, and all material which may be incorporated by reference into such prospectus.

Prospectus Supplement: As defined in Section 5(b).

Record Holder: (i) With respect to any Damages Payment Date relating to the Shares constituting Transfer Restricted Securities, each Person who is registered on the books of the Transfer Agent as the holder of Shares on the record date with respect to the Dividend Payment Date on which such Damages Payment Date shall occur and (ii) with respect to any Damages Payment Date relating to the Common Stock constituting Transfer Restricted Securities, each Person who is a holder of record of such Common Stock on the record date with respect to the Dividend Payment Date on which such Damages Payment Date shall

occur.

Registration Expenses: As defined in Section 6(a).

Shares: The Firm Shares and the Additional Shares, collectively.

Shelf Registration Statement: As defined in Section 3(a) hereof.

Suspension Period: As defined in Section 3(a).

Transfer Restricted Securities: Each Share and share of Common Stock of the Company issuable upon conversion of a Share, until each such Share or share (i) has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement covering it, (ii) is distributed to the public pursuant to Rule 144 or (iii) sold or transferred pursuant to Rule 144(k) (or any similar provisions then in force) under the Securities Act or otherwise.

Underwriter: Any underwriter, placement agent, selling broker, dealer manager, qualified independent underwriter or similar securities industry professional.

Underwritten Registration or Underwritten Offering: An offering in which securities of the Company are sold to an Underwriter or with the assistance of such Underwriter for reoffering to the public on a firm commitment basis.

SECTION 2. SECURITIES SUBJECT TO THIS AGREEMENT

(a) Transfer Restricted Securities. The securities entitled to the benefits of this Agreement are the Transfer Restricted Securities.

(b) Holders of Transfer Restricted Securities. A Person is deemed to be a holder of Transfer Restricted Securities (each, a "Holder") whenever such Person owns Transfer Restricted Securities.

SECTION 3. SHELF REGISTRATION

(a) The Company shall cause to be filed with the Commission on or prior to 60 days after the Closing Date, a shelf registration statement

pursuant to Rule 415 under the Act (as may then be amended) (the "Shelf Registration Statement") on Form S-1 or Form S-3, if the use of such form is then available and as determined by the Company, to cover resales of Transfer Restricted Securities by the Holders thereof who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement. The Holders of such Transfer Restricted Securities shall have provided the representations required pursuant to Section 3(f) hereof. The Company shall use its commercially reasonable efforts to cause such Shelf Registration Statement to be declared effective by the Commission on or prior to 150 days after the Closing Date. The Company shall use its commercially reasonable efforts to keep such Shelf Registration Statement continuously effective for a period ending three years from the effective date thereof or such shorter period that will terminate when each of the Transfer Restricted Securities covered by the Shelf Registration Statement shall cease to be a Transfer Restricted Security. The Company further agrees to use its commercially reasonable efforts to cause the Shelf Registration Statement to be effective and usable for resale of the Transfer Restricted Securities during the period that such Shelf Registration Statement is required to be effective and usable.

Subject to the immediately following paragraph, upon the occurrence of any event that would cause the Shelf Registration Statement (i) to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made or (ii) to be not effective and usable for resale of Transfer Restricted Securities during the period that such Shelf Registration Statement is required to be effective and usable, the Company shall as promptly as practicable file an amendment to the Shelf Registration Statement, in the case of clause (i), correcting any such misstatement or omission, and in the case of either clause (i) or (ii), use its commercially reasonable efforts to cause such amendment to be declared effective and such Shelf Registration Statement to become usable as soon as practicable thereafter.

Notwithstanding anything to the contrary in this Section 3, subject to compliance with Sections 4 and 5(b), if applicable, the Company may prohibit offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement at any time if (A) (i) it is in possession of material non-public information, (ii) the Board of Directors of the Company determines (based on advice of counsel) that such prohibition is necessary in order to avoid a requirement to disclose such material non-public information and (iii) the Board of Directors of the Company determines in good faith that disclosure of such material non-public information would not be in the best interests of the Company and its shareholders or (B) the Company has made a public announcement relating to an acquisition or business combination transaction including the Company and/or one or more of its subsidiaries (i) that is material to the Company and its subsidiaries taken as a whole and (ii) the Board of Directors of the Company determines in good faith that offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement prior to the consummation of such transaction (or such earlier date as the Board of Directors shall determine) is not in the best interests of the

Company and its shareholders or that it would be impracticable at the time to obtain any financial statements relating to such acquisition or business

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combination transaction that would be required to be set forth in the Shelf Registration Statement (the period during which any such prohibition of offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement is in effect pursuant to clause (A) or (B) of this subparagraph (a) is referred to herein as a "Suspension Period"). A Suspension Period shall commence on and include the date on which the Company provides written notice to Holders of Transfer Restricted Securities covered by the Shelf Registration Statement that offers and sales of Transfer Restricted Securities cannot be made thereunder in accordance with this Section 3 and shall end on the date on which each Holder of Transfer Restricted Securities covered by the Shelf Registration Statement either receives copies of a Prospectus Supplement contemplated by Section 5(b) or is advised in writing by the Company that offers and sales of Transfer Restricted Securities pursuant to the Shelf Registration Statement and use of the Prospectus may be resumed; provided, however, that the Suspension Period shall in no event be longer than 60 days in the aggregate in any of the one-year periods ending on the first, second or third anniversaries of the Closing Date, or longer than 30 days in the aggregate in any calendar quarter within any one-year period.

(b) None of the Company nor any of its security holders (other than the Holders of Transfer Restricted Securities in such capacity and other shareholders having registration rights permitting them to participate therein, as disclosed in the Offering Memorandum) shall have the right to include any of the Company's securities in the Shelf Registration Statement.

(c) If the Holders of a majority of the Transfer Restricted Securities outstanding as of the Closing Date so elect (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the number of Shares converted by them into such Common Stock for purposes of such calculation), an offering of Transfer Restricted Securities pursuant to the Shelf Registration Statement may be effected in the form of an Underwritten Offering; provided, however, that notwithstanding anything contained in this Agreement to the contrary, the Company shall not be required to undertake more than one such Underwritten Offering during any consecutive 12-month period. The Holders of the Transfer Restricted Securities to be registered shall pay all underwriting discounts and commissions of such Underwriters and the fees and expenses of any counsel for the Holders.

(d) If any of the Transfer Restricted Securities covered by the Shelf Registration Statement are to be sold in an Underwritten Offering, the Underwriter(s) that will administer the offering will be selected by the

Company and shall be a nationally recognized investment bank(s) reasonably satisfactory to the Holders of a majority of the outstanding Transfer Restricted Securities (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the number of Shares converted by them into such Common Stock for purposes of such calculation); provided, however, that such Underwriter(s) shall be reasonably satisfactory to the Company.

(e) No Holder of Transfer Restricted Securities may include any of its Transfer Restricted Securities in any Shelf Registration Statement pursuant to this Agreement unless such Holder furnishes to the Company in writing, within 10 business days after receipt of a request therefor, such information as the Company may reasonably request for use in connection with any Shelf Registration Statement or Prospectus or preliminary Prospectus (a "Preliminary Prospectus") included therein, including the identity of the beneficial owner for whom any Holder may be acting as nominee.

SECTION 4. LIQUIDATED DAMAGES

(a) If (i) the Shelf Registration Statement is not filed with the Commission on or prior to 60 days after the Closing Date, (ii) the Shelf Registration Statement has not been declared effective by the Commission within 150 days after the Closing Date (the "Effectiveness Target Date"), or (iii) the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective (without being succeeded immediately by an additional registration statement filed and declared effective) or usable for resale for a period of time (including any Suspension Period) which shall exceed 60 days in the

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aggregate in any of the one-year periods ending on the first, second or third anniversaries of the Closing Date, or which shall exceed 30 days in the aggregate in any calendar quarter within any of such one-year periods (each such event referred to in clauses (i) through (iii), a "Registration Default"), the Company will pay liquidated damages to each Holder of Transfer Restricted Securities who has complied with such Holder's obligations under this Agreement. The amount of liquidated damages payable during any period during which a Registration Default shall have occurred and be continuing is that amount which is equal to \$0.05 per week per \$1,000.00 in liquidation preference of Preferred Stock, or \$0.05 per week per 28.6533 shares of Common Stock (subject to adjustment in the event of stock splits, stock recombinations, stock dividends and the like) constituting Transfer Restricted Securities, for each 90 day period or part thereof until the applicable registration statement covering such Transfer Restricted Securities is filed and the applicable

registration statement is declared effective, or the Shelf Registration Statement again becomes effective or usable, as the case may be, up to a maximum amount of liquidated damages of \$0.50 per week per \$1,000.00 in liquidation preference of Preferred Stock or \$0.50 per week per 28.6533 shares of Common Stock (subject to adjustment as set forth above) constituting Transfer Restricted Securities. All accrued liquidated damages shall be paid to Record Holders by wire transfer of immediately available funds or by federal funds check by the Company on the next succeeding Damages Payment Date. Following the cure of a Registration Default, liquidated damages will cease to accrue with respect to such Registration Default.

All of the Company's obligations set forth in the preceding paragraph which are outstanding with respect to any Transfer Restricted Security shall cease at the time such security ceases to be a Transfer Restricted Security.

The parties hereto agree that the liquidated damages provided in this Section 4 constitute a reasonable estimate of the damages that will be incurred by Holders of Transfer Restricted Securities by reason of the failure of the Shelf Registration Statement to be filed, declared effective or to remain effective, as the case may be.

SECTION 5. REGISTRATION PROCEDURES

In connection with the Shelf Registration Statement, the Company will use its commercially reasonable efforts to effect such registration to permit the sale of the Transfer Restricted Securities being sold in accordance with the intended method or methods of distribution or disposition thereof, and pursuant thereto the Company will as expeditiously as possible after the Closing Date:

(a) on or prior to the date 60 days after the Closing Date, prepare and file with the Commission a Shelf Registration Statement relating to the registration on Form S-1 or Form S-3, if the use of such form is then available and as determined by the Company, for the sale of the Transfer Restricted Securities in accordance with the intended method or methods of distribution thereof and shall include all financial statements required to be included or incorporated by reference therein; cooperate and assist in any filings required to be made with the NASD and use its commercially reasonable efforts to cause such Shelf Registration Statement to become effective and approved by such governmental agencies or authorities as may be necessary to enable the selling Holders to consummate the disposition of such Transfer Restricted Securities in the manner specified in the Shelf Registration Statement; provided, however, that before filing a Shelf Registration Statement or any Prospectus, or any amendments or supplements thereto, the Company will furnish to the Initial Purchasers and the Underwriter(s), if any, copies of all such documents proposed to be filed (except that the Company shall not be required to furnish any exhibits to such documents including those incorporated by reference, unless so requested by an Initial Purchaser or Underwriter in writing), and the Company will not file

any Shelf Registration Statement or amendment thereto or any Prospectus or any supplement thereto to which (i) the Underwriter(s), if any, shall reasonably object or (ii) if there are no Underwriters, the Holders of a majority of the outstanding Transfer Restricted Securities shall reasonably object (with holders of Common Stock constituting Transfer

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Restricted Securities being deemed to be Holders of the number of Shares converted by them into such Common Stock for purposes of such calculation), in each such case within five business days after the receipt thereof by the Underwriter(s) or Initial Purchaser(s). A Holder or Underwriter, if any, shall be deemed to have reasonably objected to such filing if the Shelf Registration Statement, amendment, Prospectus or supplement, as applicable, as proposed to be filed contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading which misstatement or omission is specifically identified to the Company in writing within such five business days;

(b) prepare and file with the Commission such amendments and post-effective amendments to the Shelf Registration Statement as may be necessary to keep the Shelf Registration Statement effective for the applicable period set forth in Section 3(a) hereof; cause the Prospectus to be supplemented by any required supplement thereto (a "Prospectus Supplement"), and as so supplemented to be filed pursuant to Rule 424(b) under the Act, and to comply fully with the applicable provisions of Rules 424(b) under the Act in a timely manner; and comply with the provisions of the Act with respect to the disposition of all securities covered by such Shelf Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Shelf Registration Statement, Prospectus or Prospectus Supplement;

(c) if requested by the Holders of Transfer Restricted Securities, or, if the Transfer Restricted Securities are being sold in an Underwritten Offering, the Underwriter(s) of such Underwritten Offering, promptly incorporate in the Prospectus, any Prospectus Supplement or post-effective amendment to the Shelf Registration Statement such information as the Underwriters and/or the Holders of Transfer Restricted Securities being sold agree should be included therein relating to the plan of distribution of the Transfer Restricted Securities, including, without limitation, information with respect to the number of Shares and/or the number of shares of Common Stock being sold by the Holders, the purchase price being paid therefor and any other terms with respect to the offering of the Transfer Restricted Securities to be sold in such offering; and make all required filings of such Prospectus, Prospectus Supplement or post-effective amendment as soon as practicable after the Company is notified of the matters to be incorporated in such Prospectus,

(d) advise the Underwriter(s), if any, and selling Holders promptly and, if requested by such Persons, confirm such advice in writing, (i) when the Prospectus or any Prospectus Supplement or post-effective amendment to the Shelf Registration Statement has been filed, and, with respect to the Shelf Registration Statement or any post-effective amendment thereto, when the same has become effective, (ii) of any request by the Commission for an amendment of or supplement to the Shelf Registration Statement, any Preliminary Prospectus, or the Prospectus or for additional information, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement or of the suspension of qualification of the Transfer Restricted Securities for offering or sale in any jurisdiction, or the initiation of any proceeding for such purposes, (iv) if at any time the representations and warranties of the Company contemplated by paragraph (m)(i) below cease to be true and correct in all material respects, and (v) or of the happening of any event, including the filing of any information, documents or reports pursuant to the Exchange Act, that makes any statement made in the Shelf Registration Statement or the Prospectus (as then amended or supplemented) untrue or which requires the making of any additions to or changes in the Registration Statement or the Prospectus (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectus (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Shelf Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Transfer Restricted Securities under state securities or Blue Sky laws, the Company shall use its commercially reasonable efforts to obtain the withdrawal or lifting of such order at the earliest possible time.

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(e) promptly following the filing of any document that is to be incorporated by reference into the Shelf Registration Statement or the Prospectus subsequent to the initial filing of the Shelf Registration Statement, provide copies of such document (excluding exhibits, unless requested by a Holder in writing) to the Holders;

(f) furnish to each Holder and each of the Underwriter(s), if any, without charge, at least one copy of the Shelf Registration Statement, as first filed with the Commission, and of each amendment thereto, including all documents incorporated by reference therein and all exhibits (excluding exhibits to documents incorporated by reference

therein unless requested by such Holder or Underwriter);

(g) deliver to each selling Holder and each of the Underwriter(s), if any, without charge, as many copies of any Preliminary Prospectus and the Prospectus and any amendments or supplements thereto as such Persons may reasonably request; the Company consents to the use of any Preliminary Prospectus and the Prospectus and any amendments or supplements thereto by each of the selling Holders and each of the Underwriter(s), if any, in connection with the public offering and the sale of the Transfer Restricted Securities covered by any Preliminary Prospectus and the Prospectus or any amendments or supplements thereto in the manner specified therein;

(h) prior to any public offering of Transfer Restricted Securities, cooperate with the selling Holders, the Underwriter(s), if any, and their respective counsel in connection with the registration and qualification of the Transfer Restricted Securities under the securities or Blue Sky laws of such jurisdictions as the selling Holders or Underwriter(s) may reasonably request and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdiction of the Transfer Restricted Securities in the manner specified in the Shelf Registration Statement; provided, however, that the Company shall not be required (i) to register or qualify as a foreign corporation where it is not now so qualified or (ii) to take any action that would subject it to the service of process in suits, other than as to matters and transactions relating to the Shelf Registration Statement, in any jurisdiction where it is not now so subject;

(i) cooperate with the selling Holders and the Underwriter(s), if any, to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Securities to be sold and not bearing any restrictive legends; and enable such Transfer Restricted Securities to be in such denominations and registered in such names as the Holders or the Underwriter(s), if any, may request at least two business days prior to any sale of Transfer Restricted Securities;

(j) use its commercially reasonable efforts to cause the Transfer Restricted Securities covered by the Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be reasonably necessary to enable the seller or sellers thereof or the Underwriter(s), if any, to consummate the disposition of such Transfer Restricted Securities, subject to the provisos contained in clause (h) above;

(k) if any fact or event contemplated by clause (d) (v) above shall exist or have occurred, prepare a post-effective amendment or supplement to the Shelf Registration Statement or related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of Transfer Restricted Securities, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, in light of the circumstances under which they are made;

(l) provide a CUSIP number for all Transfer Restricted Securities not later than the effective date of the Shelf Registration Statement and provide the transfer agent for the Common Stock with printed certificates for the Transfer Restricted Securities which are in a form eligible for deposit with The Depository Trust Company;

7

9

(m) enter into such agreements (including an underwriting agreement reasonably acceptable to the Company) and take all such other actions in connection therewith as may reasonably be required in order to expedite or facilitate the disposition of the Transfer Restricted Securities pursuant to the Shelf Registration Agreement, in connection with an Underwritten Registration, and (i) make such representations and warranties to the Holders and the Underwriter(s), in form, substance and scope as they may reasonably request and as are customarily made by issuers to Underwriters in primary Underwritten Offerings and covering matters, including, but not limited to, those set forth in the Purchase Agreement; (ii) obtain opinions of counsel for the Company and updates thereof in customary form and covering matters reasonably requested by the Underwriter(s) of the type customarily covered in legal opinions to Underwriters in connection with primary Underwritten Offerings addressed to the Underwriter requesting the same and covering the matters as may be reasonably requested by such Holders and Underwriters; (iii) obtain "cold comfort" letters and updates thereof from the Company's independent certified public accountants, and the independent certified public accountants of any other corporation or person ("Other Companies") with respect to which audited financial statements are required to be included or incorporated by reference in the Shelf Registration Statement, addressed to the Underwriters requesting the same, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters to Underwriters in connection with primary Underwritten Offerings; and (iv) deliver such documents and certificates as may be reasonably requested by the Holders of the Transfer Restricted Securities being sold or the Underwriter(s) of such Underwritten Offering to evidence compliance with clause (i) above and with any customary conditions contained in the underwriting agreement entered into by the Company pursuant to this clause (m). The above shall be done at or prior to each closing under such underwriting agreement, as and to the extent required thereunder;

(n) make available at reasonable times and in a reasonable manner for inspection by a representative of the Holders of the Transfer Restricted Securities, any Underwriter participating in any disposition pursuant to such Shelf Registration Statement and any attorney or accountant retained by such selling Holders or any of the Underwriters all relevant financial and other records, pertinent corporate documents and

properties of the Company and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Holder, Underwriter, attorney or accountant in connection with such Shelf Registration Statement prior to its effectiveness; provided, however, that such representatives, attorneys or accountants shall agree to keep confidential (which agreement shall be confirmed in writing in advance to the Company if the Company shall so request) all information, records or documents made available to such persons which are not otherwise available to the general public unless disclosure of such records, information or documents is required by court or administrative order (of which the Company shall have been given prior notice and an opportunity to defend) after the exhaustion of all appeals therefrom, and to use such information obtained pursuant to this provision only in connection with the transaction for which such information was obtained, and not for any other purpose;

(o) otherwise use its commercially reasonable efforts to comply with all applicable rules and regulations of the Commission, and make generally available to its security holders, as soon as practicable, a consolidated earnings statement, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act, for the twelve-month period (i) commencing at the end of any fiscal quarter in which Transfer Restricted Securities are sold to Underwriters in a firm commitment Underwritten Offering or (ii) if not sold to Underwriters in such an offering, beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Shelf Registration Statement;

(p) use its commercially reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of the Shelf Registration Statement at the earliest practicable time;

(q) cause all Common Stock issuable upon conversion of the Preferred Stock to be accepted for listing, subject to official notice of issuance, on each securities exchange or quotation system on which similar securities issued by the Company are then listed; and

8

10

(r) cooperate and assist in any filings required to be made with the NASD and in the performance of any due diligence investigation by any Underwriter (including any "qualified independent underwriter" that is required to be retained in accordance with the rules and regulations of the NASD).

Each Holder whose securities are covered by any Shelf Registration Statement agrees to furnish promptly to the Company all information required to be disclosed in order to make the information

previously furnished to the Company by such Holder not materially misleading or necessary to cause such Shelf Registration Statement not to omit a material fact with respect to such Holder necessary in order to make the statements therein not misleading.

Each Holder agrees by acquisition of such Transfer Restricted Securities that, upon receipt of any notice from the Company of the existence of any fact of the kind described in Section 5(d)(v) hereof, such Holder will forthwith discontinue disposition of Transfer Restricted Securities until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Company that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings with respect to the Prospectus. If so directed by the Company, each Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the Prospectus covering such Transfer Restricted Securities current at the time of receipt of such notice. In the event the Company shall give any such notice, the time period regarding the effectiveness of the Shelf Registration Statement set forth in Section 3(a) hereof shall be extended by the number of days during the period from and including the date of the giving of such notice pursuant to Section 5(d)(v) hereof to and including the date when each selling Holder covered by such Shelf Registration Statement shall have received the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof or shall have received the Advice.

SECTION 6. REGISTRATION EXPENSES

(a) Except as set forth in Section 6(b) hereof, all expenses incident to the Company's performance of or compliance with this Agreement (the "Registration Expenses") will be borne by the Company, regardless of whether a Shelf Registration Statement becomes effective, including without limitation:

(i) all registration and filing fees and expenses (including filings made with the NASD);

(ii) reasonable fees and expenses of compliance with federal securities or state blue sky laws;

(iii) expenses of printing (including, without limitation, expenses of printing or engraving certificates for the Transfer Restricted Securities in a form eligible for deposit with Depository Trust Company and of printing the Prospectus and any Preliminary Prospectus), messenger and delivery services and telephone;

(iv) fees and disbursements of counsel for the Company;

(v) fees and disbursements of all independent certified public accountants of the Company (including the expenses of any

special audit and "cold comfort" letters required by or incidental to the preparation and filing of a Shelf Registration Statement and Prospectus and the disposition of Transfer Restricted Securities); and

11

(vi) fees and expenses of listing the Transfer Restricted Securities on any securities exchange or quotation system in accordance with Section 5(r) hereof.

The Company will, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, rating agency fees and the fees and expenses of any Person, including special experts, retained by the Company.

(b) The Holders of Transfer Restricted Securities shall bear the expense of any broker's commission or Underwriter's discount or commission and the fees and expenses of any counsel for the Holders. In addition, each Holder of Transfer Restricted Securities shall pay all Registration Expenses to the extent required by applicable law. Notwithstanding anything herein to the contrary, the Company shall not be responsible for fees and expenses of counsel to any Underwriter(s), whether in connection with the Shelf Registration Statement, NASD matters or otherwise, except to the extent specifically agreed in any underwriting agreement for an Underwritten Offering.

SECTION 7. INDEMNIFICATION

(a) (i) The Company agrees to indemnify and hold harmless (i) each of the Initial Purchasers, (ii) each Holder, and (iii) each person, if any, who controls any of the Initial Purchasers or any Holder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (any person referred to in clause (i), (ii) or (iii) may hereinafter be referred to as a Non-Company Indemnitee), from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus or in the Shelf Registration Statement or the Prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of any Preliminary Prospectus or the Prospectus, in light of the circumstances in which such statements were made) not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or

alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to any Non-Company Indemnatee furnished in writing to the Company by or on behalf of such Non-Company Indemnatee expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Non-Company Indemnatee on account of any such loss, claim, damage, liability or expense arising from the sale of the Transfer Restricted Securities by such Non-Company Indemnatee to any person, at or prior to the written confirmation of such sale, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus; provided that the Company has delivered the Prospectus to such Non-Company Indemnatee in requisite quantity on a timely basis to permit such delivery or sending. The foregoing indemnity agreement shall be in addition to any liability which the Company may otherwise have.

(b) If any action, suit or proceeding shall be brought against any Non-Company Indemnatee, such Non- Company Indemnatee shall promptly notify the parties against whom indemnification is being sought (the "indemnifying parties"), and such indemnifying parties shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such Non-Company Indemnatee shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Non-Company Indemnatee unless (i) the indemnifying parties have agreed in writing to pay such fees and expenses, (ii) the indemnifying parties have failed to assume the defense and employ counsel, or (iii) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Non-Company Indemnatee and the indemnifying parties and such Non-Company Indemnatee shall have been

advised by its counsel that representation of such indemnified party and any indemnifying parties by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the indemnifying parties shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Non-Company Indemnatee). It is understood, however, that the indemnifying parties shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local

counsel) at any time for all such Non-Company Indemnitees not having actual or potential differing interests with you or among themselves, which firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed on a monthly basis. The indemnifying parties shall not be liable for any settlement of any such action, suit or proceeding effected without their written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the indemnifying parties agree to indemnify and hold harmless any Non-Company Indemnitee, to the extent provided in paragraph (a) hereof, from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each Holder agrees to indemnify and hold harmless (i) the Company, (ii) each of the Initial Purchasers, (iii) each other Holder, (iv) any person controlling (within the meaning of Section 15 of the Act or Section 20 of the Exchange Act) the Company, the Initial Purchasers and each other Holder and (v) the respective directors, officers, employees, representatives, and agents of each of the parties referred to in clauses (i), (ii), (iii) and (iv), to the same extent as the foregoing indemnity from the Company to each Non-Company Indemnitee set forth in paragraph (a) hereof, but only with respect to information relating to such Holder furnished in writing by or on behalf of such Holder expressly for use in the Registration Statement, the Prospectus or any Preliminary Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the Registration Statement, the Prospectus or any Preliminary Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Holder pursuant to this paragraph (c), such Holder shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such Holder shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Holder's expense), and the Company, its directors, any such officer, and any such controlling person, shall have the rights and duties given to the Holders by paragraph (b) above. The foregoing indemnity agreement shall be in addition to any liability which the Holders may otherwise have.

(d) If the indemnification provided for in this Section 7 is unenforceable although available by its terms to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party, on the one hand, and the indemnified party, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as other relevant equitable considerations. The relative fault of the indemnifying party, on the one hand, and the indemnified party, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the

omission or alleged omission to state a material fact relates to information supplied by the indemnifying party, on the one hand, or the indemnified party, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) The Company, each of the Initial Purchasers and each Holder of Transfer Restricted Securities agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by a pro rata allocation or by any other method of allocation that does not take account of the

11

13

equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 7, no Holder shall be required to contribute any amount in excess of the amount by which the total amount received by such Holder with respect to the sale of Transfer Restricted Securities exceeds the sum of (A) the amount paid by such Holder for such Shares plus (B) the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations to contribute pursuant to this Section 7 are several in proportion to the respective principal amount of Shares held by each of the Holders hereunder and not joint.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 7 shall be paid by the indemnifying party to the indemnified party on a monthly basis. The indemnity and contribution agreements contained in this Section 7 and any representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect,

regardless of (i) any investigation made by or on behalf of any Initial Purchaser or any person controlling any Initial Purchaser, any Holder, the Company, its directors or officers or any person controlling the Company, and (ii) any termination of this Agreement. A successor to any Initial Purchaser, or any person controlling any Initial Purchaser, or to any Holder, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 7.

SECTION 8. RULE 144A

The Company hereby agrees with each Holder, for so long as any of the Shares or shares of Common Stock that are Transfer Restricted Securities remain outstanding and during any such period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act, to make available to any Initial Purchaser or any beneficial owner of the Shares or shares of such Common Stock in connection with any sale thereof and any prospective purchaser of such Shares or Common Stock from such Initial Purchaser or beneficial owner, the information required by Rule 144A(d)(4) under the Act in order to permit resales of such Transfer Restricted Securities pursuant to Rule 144A.

SECTION 9. PARTICIPATION IN UNDERWRITTEN REGISTRATIONS

No Holder may participate in any Underwritten Offering hereunder unless such Holder (a) agrees to sell such Holder's Transfer Restricted Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements, (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements and (c) furnishes the Company in writing information in accordance with Section 3(f) and agrees to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and any person controlling the Company within

the meaning of Section 15 of the Act or Section 20 of the Exchange Act to the extent contemplated by Section 7(c).

SECTION 10. MISCELLANEOUS

(a) Remedies. Each Holder of Transfer Restricted Securities, in addition to being entitled to exercise all rights provided

herein, and as provided in the Purchase Agreement and granted by law, including recovery of damages, will be entitled to specific performance of such Holder's rights under this Agreement. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

(b) No Inconsistent Agreements. The Company will not on or after the date of this Agreement enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders of Transfer Restricted Securities in this Agreement or otherwise conflicts in any material respect with the provisions hereof. The rights granted to the Holders of Transfer Restricted Securities hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's securities under any other agreements.

(c) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of a majority of the outstanding Transfer Restricted Securities affected by such amendment, modification, supplement, waiver or departure (with holders of Common Stock constituting Transfer Restricted Securities being deemed to be Holders of the number of Shares converted by them into such Common Stock for purposes of such calculation). Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof that relates exclusively to the rights of Holders of Transfer Restricted Securities whose securities are being sold pursuant to such Shelf Registration Statement and that does not directly or indirectly affect the rights of other Holders of Transfer Restricted Securities shall be valid only with the written consent of Holders of at least 66-2/3% of the Transfer Restricted Securities being sold, in each case calculated in accordance with the provisions of Section 3(c).

(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail (registered or certified, return receipt requested), telex, telecopier, or air courier guaranteeing overnight delivery:

(i) if to a Holder of Transfer Restricted Securities, at the address set forth on the records of the Transfer Agent, with a copy to the Registrar; and

(ii) if to the Company or an Initial Purchaser, initially at its address set forth in the Purchase Agreement and thereafter at such other address, notice of which is given in accordance with the provisions of this Section.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and

on the next business day, if timely delivered to an air courier guaranteeing overnight delivery.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including, without limitation, and without the need for an express assignment, subsequent Holders of Transfer Restricted Securities; provided, however, that this Agreement shall not inure to the benefit of or be binding upon a successor or assign of

13

15

a Holder of Transfer Restricted Securities unless and to the extent such successor or assign acquired Transfer Restricted Securities from such Holder; and provided, further, that nothing herein shall be deemed to permit any assignment, transfer or any disposition of Transfer Restricted Securities in violation of the terms of the Purchase Agreement or applicable law. If any transferee of any Holder shall acquire Transfer Restricted Securities, in any manner, whether by operation of law or otherwise, such Transfer Restricted Securities shall be held subject to all of the terms of this Agreement and by taking and holding such Transfer Restricted Securities such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such Person shall be entitled to receive the benefits hereof.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW RULES THEREOF.

(i) Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(j) Entire Agreement. This Agreement together with the

other Operative Documents (as defined in the Purchase Agreement) is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein with respect to the registration rights granted by the Company with respect to the securities sold pursuant to the Purchase Agreement. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

14

16

Please confirm that the foregoing correctly sets forth the agreement between the Company and the Initial Purchasers.

Very truly yours,

PENNCORP FINANCIAL GROUP, INC.

By: /s/ SCOTT D. SILVERMAN

Name: Scott D. Silverman
Title: Senior Vice President,
Secretary and General Counsel

Confirmed as of the date first
above mentioned.

SMITH BARNEY INC.
DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION
MERRILL LYNCH, PIERCE, FENNER
& SMITH INCORPORATED

by: SMITH BARNEY INC.

By: /s/ MICHAEL A.F. ROBERTS

Name: Michael A.F. Roberts
Title: Managing Director

STATEMENT REGARDING COMPUTATION OF EARNINGS PER SHARE
(AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

	For the year ended December 31, -----		
	1996 ----	1995 ----	1994 ----
<S>	<C>	<C>	<C>
Primary:			
Shares outstanding beginning of period	22,880	19,130	19,130
Issuance of 3,750 shares on March 16, 1995	--	3,010	--
Issuance of 5,131 shares on March 5, 1996	4,232	--	--
Issuance of convertible debentures on July 24, 1996	212	--	--
Issuance of shares under the Company's April 1992 Stock Option Plan	227	--	--
Incremental shares applicable to:			
Warrants issued pursuant to August 1990 employment agreement	498	457	433
Options granted pursuant to the Company's Stock Option Plan	95	266	275
Warrants issued pursuant to a Senior Management Stock Warrent Plan	508	215	10
Treasury shares	(190)	(93)	(18)
	=====	=====	=====
	28,462	22,985	19,830
	=====	=====	=====
Fully diluted:			
Shares outstanding beginning of period	22,880	19,130	n/a
Issuance of 3,750 shares on March 16, 1995	--	3,010	
Issuance of 5,131 shares on March 5, 1996	4,232	--	
Issuance of convertible debentures on July 24, 1996	212	--	
Issuance of shares under the Company's April 1992 Stock Option Plan	114	--	
Incremental shares applicable to:			
Warrants issued pursuant to August 1990 employment agreement	507	457	
Options granted pursuant to the Company's Stock Option Plan	108	266	
Warrants issued pursuant to a Senior Management Stock Warrent Plan	574	215	
Treasury shares	(190)	(93)	
Conversion of 2,300 shares of Convertible Preferred Stock at \$22.60 on July 25, 1995 at a rate of 2.2123 shares of common for 1 preferred share	5,088	2,581	
Conversion of 2,875 shares of Series II Convertible Preferred Stock at \$34.90 on August 7, 1996 at a rate of 1.4327 shares of common to 1 preferred share	1,704	--	
	=====	=====	=====
	35,229	25,566	n/a
	=====	=====	=====

</TABLE>

PENNCORP FINANCIAL GROUP, INC.
STATEMENT RE RATIO OF EARNINGS TO FIXED CHARGES AND
PREFERRED STOCK DIVIDEND REQUIREMENTS

For the Years Ended December 31, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	1996	1995	1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Income before income taxes, undistributed earnings in unconsolidated affiliates and extraordinary charge ...	\$123,699	\$ 90,277	\$ 58,581
Adjustments to earnings:			
Fixed charges	21,333	23,236	20,650
Interest capitalized	--	--	--
Preferred stock dividend requirements of majority owned subsidiaries	--	--	--
	-----	-----	-----
Total earnings and fixed charges	\$145,032	\$113,513	\$ 79,231
	=====	=====	=====
Fixed charges:			
Interest expensed	\$ 17,741	\$ 18,729	\$ 17,404
Amortization of deferred debt costs and original issue discount	1,238	1,051	870
Rental expense	2,354	3,456	2,376
	-----	-----	-----
Total fixed charges	\$ 21,333	\$ 23,236	\$ 20,650
	=====	=====	=====
Preferred Stock Requirements:			
Preferred stock dividends	\$ 14,646	\$ 6,540	\$ 1,151
Gross up for taxes	7,710	3,174	582
	-----	-----	-----
Total preferred stock requirements	\$ 22,356	\$ 9,714	\$ 1,733
	=====	=====	=====
Ratio of earnings to fixed charges	6.80x	4.89x	3.84x
	=====	=====	=====
Combined ratio of earnings to fixed charges and preferred stock dividend requirements	3.32x	3.45x	3.54x
	=====	=====	=====

</TABLE>

PENNCORP FINANCIAL GROUP, INC.
As of: December 31, 1996

<TABLE>

<S>	<C>
PENNCORP FINANCIAL GROUP, INC. (DELAWARE)	
PENNCORP SOUTHWEST, INC. (DELAWARE)	
SOUTHWESTERN FINANCIAL CORPORATION (DELAWARE)	
SOUTHWESTERN FINANCIAL SERVICES CORPORATION (DELAWARE)	
SOUTHWESTERN LIFE COMPANIES, INC. (DELAWARE)	
CONSTITUTION LIFE INSURANCE COMPANY (TEXAS)	
SOUTHWESTERN LIFE INSURANCE COMPANY (TEXAS)	
UNION BANKERS INSURANCE COMPANY (TEXAS)	
MARQUETTE NATIONAL LIFE INSURANCE COMPANY (TEXAS)	
PENNCORP FINANCIAL SERVICES, INC. (DELAWARE)	
KIVEX, INC. (DELAWARE)	
UC MORTGAGE CORPORATION (DELAWARE)	
AMERICAN-AMICABLE HOLDINGS CORPORATION (DELAWARE)	
PIONEER SECURITY LIFE INSURANCE COMPANY (TEXAS)	
AMERICAN-AMICABLE LIFE INSURANCE COMPANY OF TEXAS (TEXAS)	
ALICO MANAGEMENT COMPANY (TEXAS)	
PIONEER AMERICAN INSURANCE COMPANY (TEXAS)	
ILC CAPITAL ACQUISITION CORP. (DELAWARE)	
SALEM HOLDINGS CORPORATION (DELAWARE)	
SALEM LIFE INSURANCE CORPORATION (NORTH CAROLINA)	
OCCIDENTAL LIFE INSURANCE COMPANY OF NORTH CAROLINA (NORTH CAROLINA)	
INTEGON LIFE INSURANCE CORPORATION (NORTH CAROLINA)	
THE NETWORK AGENCY, INC. (OHIO)	
INTEGON LIFE NETWORK CORPORATION (NORTH CAROLINA)	
GEORGIA INTERNATIONAL LIFE INSURANCE COMPANY (NORTH CAROLINA)	
PIEDMONT LIFE INSURANCE COMPANY (GEORGIA)	
GROUP CONSULTANTS, INC. (GEORGIA)	
PENNCORP FINANCIAL, INC. (DELAWARE)	
CALIFORNIA SALES AGENCY, INC. (CALIFORNIA)	
MIDWEST REGION, INC. (IOWA)	
MIDWEST REGION, INC. OF COLORADO (COLORADO)	
MISSISSIPPI REGION ASSOCIATES, INC. (ALABAMA)	
SAFE DRIVERS AGENCY UNLIMITED (UNITED KINGDOM)	
SOUTHEASTERN REGION ASSOCIATES, INC. (ALABAMA)	
UNITED SILVER SPRING ASSOCIATES, INC. (CALIFORNIA)	
PACIFIC LIFE AND ACCIDENT INSURANCE COMPANY (TEXAS)	
PROFESSIONAL INSURANCE CORPORATION (FLORIDA)	
UNITED COMPANIES LIFE INSURANCE COMPANY (LOUISIANA)	
UNITED VARIABLE SERVICES, INC. (LOUISIANA)	
PENNSYLVANIA LIFE INSURANCE COMPANY (PENNSYLVANIA)	
PENINSULAR LIFE INSURANCE COMPANY (NORTH CAROLINA)	
MARKETING ONE FINANCIAL CORPORATION (DELAWARE)	
PREMIER ONE, INC. (NORTH CAROLINA)	
MARKETING ONE, INC. (NEVADA)	
ALTERNATIVE INVESTMENTS, INC. (INDIANA)	
FINESSE INVESTMENTS, INC. (HAWAII)	
FINESSE INVESTMENTS, INC. (MONTANA)	
MARKETING ONE INVESTMENT SERVICES CORPORATION (TEXAS)	
MARKETING ONE OF ALABAMA, INC. (ALABAMA)	
MARKETING ONE OF PUERTO RICO, INC. (PUERTO RICO)	
MARKETING ONE SECURITIES, INC. (CALIFORNIA)	

TAX SAVERS AGENCY, INC. (OHIO)

PENNCORP LIFE INSURANCE COMPANY (CANADA)

PENNCORP CANADA MARKETING, INC. (CANADA)

PENNCORP OCCIDENTAL, CORP. (DELAWARE)

PENN LA FRANCO CORPORATION (BRITISH VIRGIN ISLANDS)

LA FRANCO PENN LIFE COMPANIA DE SEGUROS DE VIDA S.A. (ARGENTINA)

</TABLE>

INDEPENDENT AUDITORS' CONSENT

The Shareholders and Board of Directors
PennCorp Financial Group, Inc.:

We consent to incorporation by reference in the registration statements (Nos. 333-2930 and 333-2928) on Form S-8 of PennCorp Financial Group, Inc. of our report dated February 28, 1997, relating to the consolidated balance sheets of PennCorp Financial Group, Inc. and subsidiaries as of December 31, 1996, and 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for the each of the years in the three-year period ended December 31, 1996, and all related schedules, which report appears in the December 31, 1996 annual report on Form 10-K of PennCorp Financial Group, Inc.

KPMG PEAT MARWICK LLP

Raleigh, North Carolina
March 26, 1997

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