

Primerica, Inc.
Form 10-Q
November 08, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34680

Primerica, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

27-1204330
(I.R.S. Employer Identification No.)

3120 Breckinridge Boulevard
Duluth, Georgia
(Address of principal executive offices)

30099
(ZIP Code)

(770) 381-1000
(Registrant's telephone number, including area code)

Not applicable.

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | As of October 31, 2012 |
|-------------------------------|------------------------|
| Common Stock, \$.01 Par Value | 57,569,453 shares |

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PART I – FINANCIAL INFORMATION
 ITEM 1. FINANCIAL STATEMENTS.
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 Condensed Consolidated Balance Sheets

| | September 30, 2012 (unaudited) (In thousands, except per-share amounts) | December 31, 2011 |
|---|---|----------------------|
| Assets | | |
| Investments: | | |
| Fixed-maturity securities available for sale, at fair value (amortized cost: \$1,728,636 in 2012 and \$1,811,359 in 2011) | \$ 1,912,456 | \$ 1,959,156 |
| Equity securities available for sale, at fair value (cost: \$28,908 in 2012 and \$21,329 in 2011) | 36,693 | 26,712 |
| Trading securities, at fair value (cost: \$17,271 in 2012 and \$9,793 in 2011) | 17,081 | 9,640 |
| Policy loans | 24,669 | 25,996 |
| Total investments | 1,990,899 | 2,021,504 |
| Cash and cash equivalents | 185,823 | 136,078 |
| Accrued investment income | 21,646 | 21,579 |
| Due from reinsurers | 3,993,603 | 3,855,318 |
| Deferred policy acquisition costs, net | 1,036,020 | 904,485 |
| Premiums and other receivables | 177,791 | 163,845 |
| Intangible assets, net (accumulated amortization: \$60,771 in 2012 and \$58,218 in 2011) | 69,376 | 71,928 |
| Other assets | 328,651 | 268,485 |
| Separate account assets | 2,630,630 | 2,408,598 |
| Total assets | \$ 10,434,439 | \$ 9,851,820 |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Future policy benefits | \$ 4,797,815 | \$ 4,614,860 |
| Unearned premiums | 6,765 | 7,022 |
| Policy claims and other benefits payable | 242,265 | 241,754 |
| Other policyholders' funds | 346,352 | 340,766 |
| Notes payable | 374,421 | 300,000 |
| Income taxes | 96,408 | 81,316 |
| Other liabilities | 424,706 | 381,496 |
| Payable under securities lending | 177,666 | 149,358 |
| Separate account liabilities | 2,630,630 | 2,408,598 |
| Total liabilities | 9,097,028 | 8,525,170 |
| Stockholders' equity: | | |
| Common stock of (\$.01 par value. Authorized 500,000 in 2012 and 2011 and issued 59,723 shares in 2012 and 64,883 shares in 2011) | 597 | 649 |
| Paid-in capital | 691,885 | 835,232 |
| Retained earnings | 468,223 | 344,104 |
| Accumulated other comprehensive income (loss), net of income tax: | | |
| Unrealized foreign currency translation gains (losses) | 58,234 | 51,248 |
| Net unrealized investment gains (losses): | | |
| Net unrealized investment gains not other-than-temporarily impaired | 119,836 | 97,082 |

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| | | | | |
|--|---------------|---|--------------|---|
| Net unrealized investment losses other-than-temporarily impaired | (1,364 |) | (1,665 |) |
| Total stockholders' equity | 1,337,411 | | 1,326,650 | |
| Total liabilities and stockholders' equity | \$ 10,434,439 | | \$ 9,851,820 | |

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income - Unaudited

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|------------|---------------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands, except per-share amounts) | | | |
| Revenues: | | | | |
| Direct premiums | \$567,273 | \$560,739 | \$1,698,383 | \$1,673,689 |
| Ceded premiums | (414,991) | (425,643) | (1,248,969) | (1,283,445) |
| Net premiums | 152,282 | 135,096 | 449,414 | 390,244 |
| Commissions and fees | 104,337 | 100,883 | 315,003 | 315,697 |
| Net investment income | 26,881 | 27,103 | 76,583 | 82,958 |
| Realized investment gains (losses), including other-than-temporary impairment losses | 3,872 | (178) | 10,324 | 2,184 |
| Other, net | 11,716 | 12,887 | 34,890 | 36,155 |
| Total revenues | 299,088 | 275,791 | 886,214 | 827,238 |
| Benefits and expenses: | | | | |
| Benefits and claims | 70,738 | 64,101 | 207,596 | 179,008 |
| Amortization of deferred policy acquisition costs, net | 29,234 | 26,645 | 83,970 | 73,849 |
| Sales commissions | 49,370 | 47,135 | 150,562 | 147,846 |
| Insurance expenses | 23,744 | 22,133 | 70,777 | 64,919 |
| Insurance commissions | 6,684 | 10,538 | 21,638 | 29,070 |
| Interest expense | 8,828 | 7,000 | 24,244 | 20,995 |
| Other operating expenses | 39,934 | 42,732 | 121,485 | 124,323 |
| Total benefits and expenses | 228,532 | 220,284 | 680,272 | 640,010 |
| Income before income taxes | 70,556 | 55,507 | 205,942 | 187,228 |
| Income taxes | 24,957 | 20,409 | 72,407 | 67,239 |
| Net income | \$45,599 | \$35,098 | \$133,535 | \$119,989 |
| Earnings per share: | | | | |
| Basic | \$0.74 | \$0.46 | \$2.09 | \$1.58 |
| Diluted | \$0.72 | \$0.46 | \$2.05 | \$1.57 |
| Weighted-average shares used in computing earnings per share: | | | | |
| Basic | 60,060 | 73,658 | 62,241 | 73,265 |
| Diluted | 61,563 | 74,199 | 63,519 | 74,095 |
| Supplemental disclosures: | | | | |
| Total impairment losses | \$(162) | \$(1,117) | \$(1,066) | \$(1,450) |
| Impairment losses recognized in other comprehensive income before income taxes | — | 136 | 563 | 136 |
| Net impairment losses recognized in earnings | (162) | (981) | (503) | (1,314) |
| Other net realized investment gains | 4,034 | 803 | 10,827 | 3,498 |
| Realized investment gains (losses), including other-than-temporary | \$3,872 | \$(178) | \$10,324 | \$2,184 |

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impairment losses

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Dividends declared per share | \$0.07 | \$0.03 | \$0.15 | \$0.07 |
|------------------------------|--------|--------|--------|--------|

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income - Unaudited

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Net income | \$45,599 | \$35,098 | \$133,535 | \$119,989 |
| Other comprehensive income (loss) before income taxes: | | | | |
| Unrealized investment gains (losses): | | | | |
| Change in unrealized holding gains (losses) on investment securities | 24,139 | (9,839) |) 45,584 | 2,604 |
| Reclassification adjustment for realized investment (gains) losses included in net income | (3,654) |) (126) |) (10,115) |) (2,419) |
| Foreign currency translation adjustments: | | | | |
| Change in unrealized foreign currency translation gains (losses) | 7,867 | (11,558) |) 6,998 | (7,911) |
| Total other comprehensive income (loss) before income taxes | 28,352 | (21,523) |) 42,467 | (7,726) |
| Income tax expense (benefit) related to items of other comprehensive income (loss) | 7,260 | (3,487) |) 12,426 | (662) |
| Other comprehensive income (loss), net of income taxes | 21,092 | (18,036) |) 30,041 | (7,064) |
| Total comprehensive income | \$66,691 | \$17,062 | \$163,576 | \$112,925 |

See accompanying notes to condensed consolidated financial statements.

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity - Unaudited

| | Nine months ended September 30, | |
|---|--|--------------|
| | 2012 | 2011 |
| | (In thousands, except per-share amounts) | |
| Common stock: | | |
| Balance, beginning of period | \$ 649 | \$ 728 |
| Repurchases of common stock | (65) | (2) |
| Net issuance of common stock | 13 | 11 |
| Balance, end of period | 597 | 737 |
| Paid-in capital: | | |
| Balance, beginning of period | 835,232 | 1,010,635 |
| Share-based compensation | 24,643 | 23,410 |
| Net issuance of common stock | (13) | (11) |
| Repurchases of common stock | (169,938) | (4,108) |
| Net capital contributed by (to) Citi | 1,961 | (3,662) |
| Balance, end of period | 691,885 | 1,026,264 |
| Retained earnings: | | |
| Balance, beginning of period | 344,104 | 194,225 |
| Net income | 133,535 | 119,989 |
| Dividends | (9,416) | (5,301) |
| Balance, end of period | 468,223 | 308,913 |
| Accumulated other comprehensive income (loss): | | |
| Balance, beginning of period | 146,665 | 150,940 |
| Change in foreign currency translation adjustment, net of income tax expense (benefit) of \$12 in 2012 and \$0 in 2011 | 6,986 | (7,911) |
| Change in net unrealized investment gains (losses) during the period, net of income taxes: | | |
| Change in net unrealized investment gains (losses) not-other-than temporarily impaired, net of income tax expense (benefit) of \$12,251 in 2012 and \$(614) in 2011 | 22,754 | 935 |
| Change in net unrealized investment gains (losses) other-than-temporarily impaired, net of income tax expense (benefit) of \$163 in 2012 and \$(48) in 2011 | 301 | (88) |
| Balance, end of period | 176,706 | 143,876 |
| Total stockholders' equity | \$ 1,337,411 | \$ 1,479,790 |
| See accompanying notes to condensed consolidated financial statements. | | |

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PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows - Unaudited

| | Nine months ended September 30, | |
|---|---------------------------------|------------|
| | 2012 | 2011 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 133,535 | \$ 119,989 |
| Adjustments to reconcile net income to cash provided by (used in) operating activities: | | |
| Change in future policy benefits and other policy liabilities | 174,134 | 63,336 |
| Deferral of policy acquisition costs | (209,623) | (204,114) |
| Amortization of deferred policy acquisition costs, net | 83,970 | 73,849 |
| Change in income taxes | 7,389 | (8,176) |
| Realized investment gains, including other-than-temporary impairments | (10,324) | (2,184) |
| Accretion and amortization of investments | (1,686) | (2,330) |
| Depreciation and amortization | 7,555 | 7,856 |
| Change in due from reinsurers | (138,285) | (624) |
| Change in premiums and other receivables | (11,208) | (13,882) |
| Trading securities sold (acquired), net | 26,434 | (6,388) |
| Share-based compensation | 19,921 | 18,667 |
| Other, net | 25,581 | (32,669) |
| Net cash provided by (used in) operating activities | 107,393 | 13,330 |
| Cash flows from investing activities: | | |
| Available-for-sale investments sold, matured or called: | | |
| Fixed-maturity securities - sold | 229,523 | 53,445 |
| Fixed-maturity securities - matured or called | 203,256 | 299,112 |
| Equity securities | 1,965 | 3,026 |
| Available-for-sale investments acquired: | | |
| Fixed-maturity securities | (370,141) | (329,145) |
| Equity securities | (5,632) | (110) |
| Other, net | (4,622) | (1,384) |
| Cash collateral received (returned) on loaned securities, net | 28,308 | 3,757 |
| Sales (purchases) of short-term investments using securities lending collateral, net | (28,308) | (3,757) |
| Net cash provided by (used in) investing activities | 54,349 | 24,944 |
| Cash flows from financing activities: | | |
| Dividends (\$0.15 per share in 2012 and \$0.07 per share in 2011) | (9,416) | (5,301) |
| Common stock repurchased | (170,003) | (4,110) |
| Proceeds from issuance of Senior Notes, net of discount | 374,411 | — |
| Payment of note issued to Citi | (300,000) | — |
| Payments of deferred financing costs | (7,729) | — |
| Net cash provided by (used in) financing activities | (112,737) | (9,411) |
| Effect of foreign exchange rate changes on cash | 740 | (874) |
| Change in cash and cash equivalents | 49,745 | 27,989 |
| Cash and cash equivalents, beginning of period | 136,078 | 126,038 |
| Cash and cash equivalents, end of period | \$ 185,823 | \$ 154,027 |
| See accompanying notes to condensed consolidated financial statements. | | |

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PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Unaudited

(1) Summary of Significant Accounting Policies

Description of Business. Primerica, Inc. (the "Parent Company") together with its subsidiaries (collectively, "we" or the "Company") is a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. Our primary subsidiaries include the following entities: Primerica Financial Services, Inc., a general agency and marketing company; Primerica Life Insurance Company ("Primerica Life"), our principal life insurance company; Primerica Financial Services (Canada) Ltd., a holding company for our Canadian operations, which includes Primerica Life Insurance Company of Canada ("Primerica Life Canada"); and PFS Investments, Inc., an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company ("NBLIC"), a New York life insurance company. Each of these entities was indirectly wholly owned by Citigroup Inc. (together with its non-Primerica affiliates, "Citi") through March 31, 2010.

On March 31, 2010, we entered into certain reinsurance transactions with affiliates of Citi (the "Citi reinsurers") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009. In April 2010, Citi transferred the legal entities that comprise our business to us, and we completed an initial public offering of our common stock by Citi pursuant to the Securities Act of 1933, as amended and also issued to Citi a \$300.0 million note payable (the "corporate reorganization").

We capitalized Peach Re, Inc. ("Peach Re"), a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life, and Primerica Life ceded to Peach Re certain level premium term life insurance policies pursuant to a coinsurance agreement (the "Peach Re Coinsurance Agreement"), effective March 31, 2012.

Basis of Presentation. We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect financial statement balances, revenues and expenses and cash flows as well as the disclosure of contingent assets and liabilities. Management considers available facts and knowledge of existing circumstances when establishing the estimates included in our financial statements.

The most significant items that involve a greater degree of accounting estimates and actuarial determinations subject to change in the future are the valuation of investments, deferred policy acquisition costs assets ("DAC"), future policy benefit reserves and income taxes. Estimates for these and other items are subject to change and are reassessed by management in accordance with GAAP. Actual results could differ from those estimates.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and those entities required to be consolidated under applicable accounting standards. All material intercompany profits, transactions, and balances among the consolidated entities have been eliminated.

The accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2012 and December 31, 2011, the statements of income and comprehensive income for the three and nine months ended September 30, 2012 and 2011, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2012 and 2011. Results of operations for interim periods are not necessarily indicative of results for the entire year or of the results to be expected in future periods.

These unaudited condensed consolidated financial statements have been prepared pursuant to the rules and the regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated and combined financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2011, as modified and updated by our Current Report on Form 8-K filed with the SEC on May 8, 2012 (together, the "2011 Annual Report").

Reclassifications. Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications. Concurrent with our January 1, 2012 adoption of ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26"), certain expenses were reclassified

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among sales commission, insurance expenses, insurance commissions and other operating expenses. These reclassifications had no impact on net income, total stockholders' equity or income before income taxes by segment. Significant Accounting Policies. All significant accounting policies remain unchanged from the 2011 Annual Report. New Accounting Principles.

We retrospectively adopted ASU 2010-26 in our fiscal year beginning January 1, 2012. The impact of adoption was as follows:

| | (In thousands, except per-share amounts) |
|--|---|
| Reduction as of January 1, 2011: | |
| Deferred policy acquisition costs, net | \$ 114,265 |
| Stockholders' equity | 74,964 |
| Reduction as of December 31, 2011: | |
| Deferred policy acquisition costs, net | \$ 146,152 |
| Stockholders' equity | 95,991 |
| Reduction for the three months ended September 30, 2011: | |
| Income before income taxes | \$ 8,344 |
| Net income | 5,503 |
| Basic earnings per share | 0.08 |
| Diluted earnings per share | 0.07 |
| Reduction for the nine months ended September 30, 2011: | |
| Income before income taxes | \$ 25,929 |
| Net income | 17,102 |
| Basic earnings per share | 0.23 |
| Diluted earnings per share | 0.22 |

The adoption of ASU 2010-26 had no impact on our cash flows or required capital.

In accordance with ASU 2010-26, we only defer the costs of acquiring new business to the extent that they result directly from and are essential to the contract transaction(s) and would not have been incurred had the contract transaction(s) not occurred. These deferred policy acquisition costs mainly include commissions and policy issuance expenses. The recovery of such costs is dependent on the future profitability of the related policies, which, in turn, is dependent principally upon mortality, persistency, investment returns, and the expense of administering the business, as well as upon certain economic variables, such as inflation. DAC is subject to recoverability testing annually and when impairment indicators exist. We make certain assumptions regarding persistency, expenses, interest rates and claims. These assumptions may not be modified, or unlocked, unless recoverability testing deems them to be inadequate. We update assumptions for new business to reflect the most recent experience. DAC is amortized over the premium-paying period of the related policies in proportion to annual premium income. Due to the inherent uncertainties in making assumptions about future events, materially different experience from expected results in persistency could result in a material increase or decrease of DAC amortization in a particular period. All other acquisition-related costs, including unsuccessful acquisition and renewal efforts, are charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and are charged to expense as incurred.

Deferrable acquisitions costs for Canadian segregated funds are amortized over the life of the policies in relation to historical and future estimated gross profits before amortization. The gross profits and resulting DAC amortization will vary with actual fund returns, redemptions and expenses. The adoption of ASU 2010-26 did not impact the accounting for acquisition costs related to Canadian segregated funds.

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The balances of and activity in DAC, which reflects the retrospective adoption of ASU 2010-26 for all periods presented, were as follows:

| | Nine months ended September 30, | |
|----------------------------------|---------------------------------|-----------|
| | 2012 | 2011 |
| | (In thousands) | |
| DAC balance, beginning of period | \$904,485 | \$738,946 |
| Capitalization | 209,623 | 204,114 |
| Amortization | (83,970) | (73,849) |
| Foreign exchange and other | 5,882 | (4,588) |
| DAC balance, end of period | \$1,036,020 | \$864,623 |

Fair Value Measurement Amendments. In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement ("ASU 2011-04"). The primary provisions of ASU 2011-04 result in common fair value measurement and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes the wording used to describe the requirements for measuring fair value and for disclosing information about fair value measurement, including requiring quantitative disclosures about the unobservable inputs used in fair value measurements. The amendments in the update were applied prospectively for our fiscal year beginning January 1, 2012. This update did not result in a significant impact on our financial position or results of operations.

(2) Segment Information

We have two primary operating segments – Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment. Assets by segment were as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| | (In thousands) | |
| Assets: | | |
| Term life insurance segment | \$6,420,765 | \$6,009,162 |
| Investment and savings products segment | 2,834,692 | 2,591,137 |
| Corporate and other distributed products segment | 1,178,982 | 1,251,521 |
| Total assets | \$10,434,439 | \$9,851,820 |

The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, Investment and Savings Products segment assets were as follows:

| | September 30, 2012 | December 31, 2011 |
|---|-----------------------|----------------------|
| | (In thousands) | |
| Investment and savings products segment assets, excluding separate accounts | \$204,883 | \$183,622 |

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Results of operations by segment were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Revenues: | | | | |
| Term life insurance segment | \$ 164,011 | \$ 141,713 | \$ 478,547 | \$ 410,316 |
| Investment and savings products segment | 101,163 | 97,486 | 304,264 | 302,918 |
| Corporate and other distributed products segment | 33,914 | 36,592 | 103,403 | 114,004 |
| Total revenues | \$ 299,088 | \$ 275,791 | \$ 886,214 | \$ 827,238 |
| Income (loss) before income taxes: | | | | |
| Term life insurance segment | \$ 48,576 | \$ 39,664 | \$ 144,583 | \$ 125,406 |
| Investment and savings products segment | 31,608 | 26,748 | 89,922 | 88,257 |
| Corporate and other distributed products segment | (9,628) | (10,905) | (28,563) | (26,435) |
| Total income before income taxes | \$ 70,556 | \$ 55,507 | \$ 205,942 | \$ 187,228 |

Results of operations by country were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Revenues by country: | | | | |
| United States | \$ 245,574 | \$ 224,559 | \$ 723,034 | \$ 669,871 |
| Canada | 53,514 | 51,232 | 163,180 | 157,367 |
| Total revenues | \$ 299,088 | \$ 275,791 | \$ 886,214 | \$ 827,238 |
| Income before income taxes by country: | | | | |
| United States | \$ 54,587 | \$ 40,262 | \$ 156,625 | \$ 139,920 |
| Canada | 15,969 | 15,245 | 49,317 | 47,308 |
| Total income before income taxes | \$ 70,556 | \$ 55,507 | \$ 205,942 | \$ 187,228 |

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(3) Investments

The period-end cost or amortized cost, gross unrealized gains and losses, and fair value of fixed-maturity and equity securities in our available-for-sale portfolio follow:

| | September 30, 2012 | | | |
|---|--|------------------------------|-------------------------------|---------------|
| | Cost or amortized cost (In thousands) | Gross unrealized gains | Gross unrealized losses | Fair value |
| Securities available for sale, carried at fair value: | | | | |
| Fixed-maturity securities: | | | | |
| U.S. government and agencies | \$6,754 | \$874 | \$— | \$7,628 |
| Foreign government | 101,439 | 18,210 | (12 |) 119,637 |
| States and political subdivisions | 30,771 | 3,785 | (11 |) 34,545 |
| Corporates (1) | 1,252,574 | 137,929 | (2,553 |) 1,387,950 |
| Mortgage- and asset-backed securities | 337,098 | 26,904 | (1,306 |) 362,696 |
| Total fixed-maturity securities | 1,728,636 | 187,702 | (3,882 |) 1,912,456 |
| Equity securities | 28,908 | 8,082 | (297 |) 36,693 |
| Total fixed-maturity and equity securities | \$1,757,544 | \$195,784 | \$(4,179 |) \$1,949,149 |

(1) Includes \$2.1 million of other-than-temporary impairment losses recognized in accumulated other comprehensive income.

| | December 31, 2011 | | | |
|---|--|------------------------------|-------------------------------|---------------|
| | Cost or amortized cost (In thousands) | Gross unrealized gains | Gross unrealized losses | Fair value |
| Securities available for sale, carried at fair value: | | | | |
| Fixed-maturity securities: | | | | |
| U.S. government and agencies | \$10,050 | \$935 | \$— | \$10,985 |
| Foreign government | 97,206 | 14,818 | (179 |) 111,845 |
| States and political subdivisions | 28,264 | 2,671 | — | 30,935 |
| Corporates (1) | 1,250,702 | 111,346 | (7,847 |) 1,354,201 |
| Mortgage- and asset-backed securities | 425,137 | 29,398 | (3,345 |) 451,190 |
| Total fixed-maturity securities | 1,811,359 | 159,168 | (11,371 |) 1,959,156 |
| Equity securities | 21,329 | 5,689 | (306 |) 26,712 |
| Total fixed-maturity and equity securities | \$1,832,688 | \$164,857 | \$(11,677 |) \$1,985,868 |

(1) Includes \$2.6 million of other-than-temporary impairment losses recognized in accumulated other comprehensive income.

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The net effect on stockholders' equity of unrealized gains and losses on available-for-sale securities was as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| | (In thousands) | |
| Net unrealized investment gains (losses) including foreign currency translation adjustment and other-than-temporary impairments: | | |
| Fixed-maturity and equity securities | \$191,605 | \$153,180 |
| Currency swaps | 108 | 96 |
| Foreign currency translation adjustment | (9,449 |) (6,481 |
| Other-than-temporary impairments | 2,098 | 2,562 |
| Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments | 184,362 | 149,357 |
| Deferred income taxes | (64,526 |) (52,275 |
| Net unrealized investment gains excluding foreign currency translation adjustment and other-than-temporary impairments, net of tax | \$119,836 | \$97,082 |

We also maintain a portfolio of fixed-maturity securities that are classified as trading securities. The carrying value of these securities was as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| | (In thousands) | |
| Fixed-maturity securities classified as trading, carried at fair value | \$17,081 | \$9,640 |

All of our available-for-sale mortgage- and asset-backed securities represent variable interests in variable interest entities ("VIEs"). We are not the primary beneficiary of these VIEs because we do not have the power to direct the activities that most significantly impact the entities' economic performance. The maximum exposure to loss as a result of our involvement in these VIEs equals the carrying value of the securities.

As required by law, the Company has investments on deposit with governmental authorities and banks for the protection of policyholders. The fair value of investments on deposit was as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| | (In thousands) | |
| Fair value of investments on deposit with governmental authorities | \$20,787 | \$19,100 |

We participate in securities lending transactions with broker-dealers and other financial institutions to increase investment income with minimal risk. We require minimum collateral on securities loaned equal to 102% of the fair value of the loaned securities. We accept collateral in the form of securities, which we are not able to sell or encumber, and to the extent the collateral declines in value below 100%, we require additional collateral from the borrower. Any securities collateral received is not reflected on our balance sheet. We also accept collateral in the form of cash, all of which we reinvest. For loans involving unrestricted cash collateral, the collateral is reported as an asset with a corresponding liability representing our obligation to return the collateral. We continue to carry the lent securities as investment assets on our balance sheet during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was as follows:

| | September 30, 2012 | December 31, 2011 |
|-------------------------------|-----------------------|----------------------|
| | (In thousands) | |
| Securities lending collateral | \$177,666 | \$149,358 |

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The scheduled contractual maturity distribution of the available-for-sale fixed-maturity portfolio at September 30, 2012 follows.

| | Amortized cost (In thousands) | Fair value |
|---------------------------------------|----------------------------------|-------------|
| Due in one year or less | \$137,074 | \$140,989 |
| Due after one year through five years | 562,912 | 611,874 |
| Due after five years through 10 years | 634,763 | 730,556 |
| Due after 10 years | 56,789 | 66,341 |
| | 1,391,538 | 1,549,760 |
| Mortgage- and asset-backed securities | 337,098 | 362,696 |
| Total fixed-maturity securities | \$1,728,636 | \$1,912,456 |

Expected maturities may differ from scheduled contractual maturities because issuers of securities may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Income. The components of net investment income were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|----------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Fixed-maturity securities | \$26,601 | \$27,413 | \$76,160 | \$83,888 |
| Equity securities | 245 | 170 | 712 | 523 |
| Policy loans and other invested assets | 315 | 441 | 926 | 1,088 |
| Cash and cash equivalents | 101 | 63 | 347 | 198 |
| Market return on deposit asset underlying 10% reinsurance agreement | 985 | 449 | 2,589 | 1,608 |
| Gross investment income | 28,247 | 28,536 | 80,734 | 87,305 |
| Investment expenses | (1,366) | (1,433) | (4,151) | (4,347) |
| Net investment income | \$26,881 | \$27,103 | \$76,583 | \$82,958 |

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The components of net realized investment gains (losses) as well as details on gross realized investment gains and losses and proceeds from sales or other redemptions were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Net realized investment gains (losses): | | | | |
| Gross gains from sales | \$3,843 | \$1,172 | \$10,385 | \$4,127 |
| Gross losses from sales | (27) | (65) | (84) | (394) |
| Gross gains from securities transferred from available-for-sale to trading | — | — | 323 | — |
| Gross losses from securities transferred from available-for-sale to trading | — | — | (6) | — |
| Other-than-temporary impairment losses | (162) | (981) | (503) | (1,314) |
| Gains (losses) from bifurcated options | 218 | (304) | 209 | (235) |
| Net realized investment gains (losses) | \$3,872 | \$(178) | \$10,324 | \$2,184 |
| Gross realized investment gains (losses) reclassified from accumulated other comprehensive income | \$3,654 | \$126 | \$10,115 | \$2,419 |
| Proceeds from sales or other redemptions | \$95,861 | \$84,975 | \$434,744 | \$355,583 |

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible other-than-temporary impairment ("OTTI"). An investment in a debt or equity security is impaired if its fair value falls below its cost. Factors considered in determining whether an unrealized loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects for the issue, and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery, which may be maturity. For additional information, see Note 3 to the consolidated and combined financial statements in our 2011 Annual Report.

Investments in fixed-maturity and equity securities with a cost basis in excess of fair value were as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|----------------------|
| | (In thousands) | |
| Fixed-maturity and equity securities with cost basis in excess of fair value, cost basis | \$80,406 | \$286,718 |

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The following tables summarize, for all securities in an unrealized loss position, the aggregate fair value and the gross unrealized loss by length of time such securities have continuously been in an unrealized loss position:

| September 30, 2012 | | | | | | |
|--|-------------------|----------------------|---------------------|-------------------|----------------------|------|
| Less than 12 months | | | 12 months or longer | | | |
| Fair value | Unrealized losses | Number of securities | Fair value | Unrealized losses | Number of securities | |
| (Dollars in thousands) | | | | | | |
| Fixed-maturity securities: | | | | | | |
| Foreign government | \$982 | \$(4) |) 1 | \$1,024 | \$(8) |) 3 |
| States and political subdivisions | 208 | (11) |) 1 | — | — |) 0 |
| Corporates | 41,348 | (1,088) |) 100 | 8,058 | (1,465) |) 27 |
| Mortgage- and asset-backed securities | 11,267 | (7) |) 13 | 8,249 | (1,299) |) 17 |
| Total fixed-maturity securities | 53,805 | (1,110) |) | 17,331 | (2,772) |) |
| Equity securities | 4,558 | (103) |) 11 | 533 | (194) |) 6 |
| Total fixed-maturity and equity securities | \$58,363 | \$(1,213) |) | \$17,864 | \$(2,966) |) |
| December 31, 2011 | | | | | | |
| Less than 12 months | | | 12 months or longer | | | |
| Fair value | Unrealized losses | Number of securities | Fair value | Unrealized losses | Number of securities | |
| (Dollars in thousands) | | | | | | |
| Fixed-maturity securities: | | | | | | |
| Foreign government | \$7,150 | \$(179) |) 10 | \$— | \$— |) 0 |
| States and political subdivisions | — | — |) 0 | — | — |) 0 |
| Corporates | 188,643 | (6,979) |) 185 | 4,092 | (868) |) 11 |
| Mortgage- and asset-backed securities | 49,026 | (478) |) 60 | 25,280 | (2,867) |) 30 |
| Total fixed-maturity securities | 244,819 | (7,636) |) | 29,372 | (3,735) |) |
| Equity securities | 850 | (306) |) 78 | — | — |) 0 |
| Total fixed-maturity and equity securities | \$245,669 | \$(7,942) |) | \$29,372 | \$(3,735) |) |

The amortized cost and fair value of available-for-sale fixed-maturity securities in default were as follows:

| | September 30, 2012 | | December 31, 2011 | |
|--------------------------------------|--------------------|------------|-------------------|------------|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| (In thousands) | | | | |
| Fixed-maturity securities in default | \$258 | \$720 | \$3,983 | \$5,168 |

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Impairment charges recognized in earnings on available-for-sale securities were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-------|---------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Impairments on fixed-maturity securities not in default | \$3 | \$808 | \$343 | \$1,132 |
| Impairments on fixed-maturity securities in default | — | 173 | — | 177 |
| Impairments on equity securities | 159 | — | 160 | 5 |
| Total impairment charges | \$162 | \$981 | \$503 | \$1,314 |

The fixed-maturity and equity securities noted above were considered to be other-than-temporarily impaired due to adverse credit events, such as news of an impending filing for bankruptcy; analyses of the issuer's most recent financial statements or other information in which liquidity deficiencies, significant losses and large declines in capitalization were evident; or analyses of rating agency information for issuances with severe ratings downgrades that indicated a significant increase in the possibility of default.

As of September 30, 2012, the unrealized losses on our invested asset portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by interest rate movement have little bearing on the recoverability of our investments. Because the declines in fair value were mostly attributable to changes in interest rates and not credit quality, and because we have the ability to hold these investments until a market price recovery or maturity as well as no present intention to dispose of them, we do not consider these investments to be other-than-temporarily impaired.

Net impairment losses recognized in earnings were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|-------|---------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Impairment losses related to securities which the Company does not intend to sell or more-likely-than-not will not be required to sell: | | | | |
| Total OTTI losses recognized | \$4 | \$360 | \$855 | \$362 |
| Less portion of OTTI loss recognized in accumulated other comprehensive income (loss) | — | 136 | 563 | 136 |
| Net impairment losses recognized in earnings for securities which the Company does not intend to sell or more-likely-than-not will not be required to sell before recovery | 4 | 224 | 292 | 226 |
| OTTI losses recognized in earnings for securities which the Company intends to sell or more-likely-than-not will be required to sell before recovery | 158 | 757 | 211 | 1,088 |
| Net impairment losses recognized in earnings | \$162 | \$981 | \$503 | \$1,314 |

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The roll-forward of the credit-related losses recognized in income for all fixed-maturity securities still held follows.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Cumulative OTTI credit losses recognized for securities still held, beginning of period | \$ 15,970 | \$ 23,221 | \$ 17,403 | \$ 24,460 |
| Additions for OTTI securities where no credit losses were recognized prior to the beginning of the period | — | 133 | 10 | 137 |
| Additions for OTTI securities where credit losses have been recognized prior to the beginning of the period | 3 | 848 | 333 | 1,172 |
| Reductions due to sales, maturities or calls of credit impaired securities | (938) |) (119) |) (2,711) |) (1,686) |
| Cumulative OTTI credit losses recognized for securities still held, end of period | \$ 15,035 | \$ 24,083 | \$ 15,035 | \$ 24,083 |

Derivatives. We use foreign currency swaps to reduce our foreign exchange risk due to direct investment in foreign currency-denominated debt securities. The aggregate notional balance and fair value of these currency swaps follow.

| | September 30, | December 31, |
|--|----------------|--------------|
| | 2012 | 2011 |
| | (In thousands) | |
| Aggregate notional balance of currency swaps | \$ 5,878 | \$ 5,878 |
| Aggregate fair value of currency swaps | (1,893) |) (2,032) |

The change in fair value of these currency swaps is reflected in other comprehensive income as they effectively hedge the variability in cash flows from these foreign currency-denominated debt securities.

The embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. We recognize the change in fair value of these bifurcated conversion options in realized investment gains, including other-than-temporary impairment losses. The fair value of these bifurcated options follows.

| | September 30, | December 31, |
|---|----------------|--------------|
| | 2012 | 2011 |
| | (In thousands) | |
| Aggregate fair value of embedded conversion options bifurcated from host contract | \$ 9,147 | \$ 8,583 |

We have a deferred loss related to closed forward contracts that were used to mitigate our exposure to foreign currency exchange rates that resulted from the net investment in our Canadian operations. The amount of deferred loss included in accumulated other comprehensive income was as follows:

| | September 30, | December 31, |
|---|----------------|--------------|
| | 2012 | 2011 |
| | (In thousands) | |
| Deferred loss related to closed forward contracts | \$ 26,385 | \$ 26,385 |

While we have no current intention to do so, these deferred losses will not be recognized until such time as we sell or substantially liquidate our Canadian operations.

(4) Fair Value of Financial Instruments

Fair value is the price that would be received upon the sale of an asset in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect

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our view of market assumptions in the absence of observable market information. We classify and disclose all invested assets carried at fair value in one of the following three categories:

Level 1. Quoted prices for identical instruments in active markets. Level 1 primarily consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;

Level 2. Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate, credit spread, and foreign exchange rates. All significant inputs are observable, or derived from observable information in the marketplace or are supported by observable levels at which transactions are executed in the marketplace. Financial instruments in this category primarily include: certain public and private corporate fixed-maturity and equity securities; government or agency securities; certain mortgage- and asset-backed securities and certain non-exchange-traded derivatives, such as currency swaps and forwards; and

Level 3. Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Level 3 consists of financial instruments whose fair value is estimated based on industry-standard pricing methodologies and models using significant inputs not based on, nor corroborated by, readily available market information. Valuations for this category primarily consist of non-binding broker quotes. Financial instruments in this category primarily include less liquid fixed-maturity corporate securities.

As of each reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input (Level 3 being the lowest). Significant levels of estimation and judgment are required to determine the fair value of certain of our investments. The factors influencing these estimations and judgments are subject to change in subsequent reporting periods.

The estimated fair value and hierarchy classifications for assets and liabilities that are measured at fair value on a recurring basis were as follows:

| | September 30, 2012 | | | |
|---------------------------------------|--------------------|-------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Fair value assets: | | | | |
| Fixed-maturity securities: | | | | |
| U.S. government and agencies | \$— | \$7,628 | \$— | \$7,628 |
| Foreign government | — | 119,637 | — | 119,637 |
| States and political subdivisions | — | 34,545 | — | 34,545 |
| Corporates | 1,266 | 1,382,438 | 4,246 | 1,387,950 |
| Mortgage- and asset-backed securities | — | 360,148 | 2,548 | 362,696 |
| Total fixed-maturity securities | 1,266 | 1,904,396 | 6,794 | 1,912,456 |
| Equity securities | 27,219 | 9,426 | 48 | 36,693 |
| Trading securities | — | 17,081 | — | 17,081 |
| Separate accounts | — | 2,630,630 | — | 2,630,630 |
| Total fair value assets | \$28,485 | \$4,561,533 | \$6,842 | \$4,596,860 |
| Fair value liabilities: | | | | |
| Currency swaps | \$— | \$1,893 | \$— | \$1,893 |
| Separate accounts | — | 2,630,630 | — | 2,630,630 |
| Total fair value liabilities | \$— | \$2,632,523 | \$— | \$2,632,523 |

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| | December 31, 2011 | | | |
|---------------------------------------|-------------------|-------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Fair value assets: | | | | |
| Fixed-maturity securities: | | | | |
| U.S. government and agencies | \$— | \$10,985 | \$— | \$10,985 |
| Foreign government | — | 111,845 | — | 111,845 |
| States and political subdivisions | — | 30,935 | — | 30,935 |
| Corporates | 256 | 1,349,021 | 4,924 | 1,354,201 |
| Mortgage- and asset-backed securities | — | 449,228 | 1,962 | 451,190 |
| Total fixed-maturity securities | 256 | 1,952,014 | 6,886 | 1,959,156 |
| Equity securities | 18,069 | 8,592 | 51 | 26,712 |
| Trading securities | — | 9,640 | — | 9,640 |
| Separate accounts | — | 2,408,598 | — | 2,408,598 |
| Total fair value assets | \$18,325 | \$4,378,844 | \$6,937 | \$4,404,106 |
| Fair value liabilities: | | | | |
| Currency swaps | \$— | \$2,032 | \$— | \$2,032 |
| Separate accounts | — | 2,408,598 | — | 2,408,598 |
| Total fair value liabilities | \$— | \$2,410,630 | \$— | \$2,410,630 |

In assessing fair value of our investments, we use a third-party pricing service for approximately 94% of our securities. The remaining securities are primarily thinly traded securities valued using models based on observable inputs on public corporate spreads having similar tenors (e.g., sector, average life and quality rating) and liquidity and yield based on quality rating, average life and treasury yields. All observable data inputs are corroborated by independent third-party data. In the absence of sufficient observable inputs, we utilize non-binding broker quotes, which are reflected in our Level 3 classification as we are unable to evaluate the valuation technique(s) or significant inputs used to develop the quotes. Therefore, we do not internally develop the quantitative unobservable inputs used in measuring the fair value of Level 3 investments. However, we do corroborate pricing information provided by our third-party pricing servicing by performing a review of selected securities. Our review activities include obtaining detailed information about the assumptions, inputs and methodologies used in pricing the security; documenting this information; and corroborating it by comparison to independently obtained prices and or independently developed pricing methodologies.

Furthermore, we perform internal reasonableness assessments on fair value determinations within our portfolio throughout the quarter and at quarter-end, including pricing variance analyses and comparisons to alternative pricing sources and benchmark returns. If a fair value appears unusual relative to these assessments, we will re-examine the inputs and may challenge a fair value assessment made by the pricing service. If there is a known pricing error, we will request a reassessment by the pricing service. If the pricing service is unable to perform the reassessment on a timely basis, we will determine the appropriate price by requesting a reassessment from an alternative pricing service or other qualified source as necessary. We do not adjust quotes or prices except in a rare circumstance to resolve a known error.

Because many fixed-maturity securities do not trade on a daily basis, fair value is determined using industry-standard methodologies by applying available market information through processes such as U.S. Treasury curves, benchmarking of similar securities, sector groupings, quotes from market participants and matrix pricing. Observable information is compiled and integrates relevant credit information, perceived market movements and sector news. Additionally, security prices are periodically back-tested to validate and/or refine models as conditions warrant. Market indicators and industry and economic events are also monitored as triggers to obtain additional data. For certain structured securities with limited trading activity, industry-standard pricing methodologies use adjusted market information, such as index prices or discounting expected future cash flows, to estimate fair value. If these measures are not deemed observable for a particular security, the security will be classified as Level 3 in the fair value hierarchy.

Where specific market information is unavailable for certain securities, pricing models produce estimates of fair value primarily using Level 2 inputs along with certain Level 3 inputs. These models include matrix pricing. The

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pricing matrix uses current treasury rates and credit spreads received from third-party sources to estimate fair value. The credit spreads incorporate the issuer's industry- or issuer-specific credit characteristics and the security's time to maturity, if warranted. Remaining un-priced securities are valued using an estimate of fair value based on indicative market prices that include significant unobservable inputs not based on, nor corroborated by, market information, including the utilization of non-binding broker quotes.

The roll-forward of the Level 3 assets measured at fair value on a recurring basis was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Level 3 assets, beginning of period | \$10,131 | \$12,265 | \$6,937 | \$24,998 |
| Net unrealized gains (losses) included in other comprehensive income | 206 | (454) | (130) | (735) |
| Net realized gains (losses) included in realized investment gains, including other-than-temporary impairment losses | 50 | 158 | 10 | 1,624 |
| Purchases | 757 | 13,609 | 3,173 | 17,609 |
| Sales | — | — | — | (3,823) |
| Settlements | (3,162) | (193) | (3,900) | (1,655) |
| Transfers into Level 3 | — | 488 | 2,951 | 4,991 |
| Transfers out of Level 3 | (1,140) | (4,815) | (2,199) | (21,951) |
| Level 3 assets, end of period | \$6,842 | \$21,058 | \$6,842 | \$21,058 |

We obtain independent pricing quotes based on observable inputs as of the end of the reporting period for all securities in Level 2. Those inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, market bids/offers, quoted prices for similar instruments in markets that are not active, and other relevant data. We monitor these inputs for market indicators, industry and economic events. We recognize transfers into new levels and out of previous levels as of the end of the reporting period, including interim reporting periods, as applicable. There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2012 and 2011. In addition, there were no transfers between Level 1 and Level 3 during the nine months ended September 30, 2012 and 2011.

Invested assets included in the transfer from Level 2 to Level 3 during the three months ended September 30, 2011 and the nine months ended September 30, 2012 and 2011 primarily were fixed-maturity investments for which we were unable to corroborate independent broker quotes with observable market data. Invested assets included in the transfer from Level 3 to Level 2 during the nine months ended September 30, 2011 primarily were fixed-maturity securities and fixed-maturity securities with embedded conversion options for which we were able to obtain independent pricing quotes based on observable inputs.

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The table below is a summary of the estimated fair value for financial instruments.

| | September 30, 2012 | | December 31, 2011 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Carrying value | Estimated fair value | Carrying value | Estimated fair value |
| | (In thousands) | | | |
| Assets: | | | | |
| Fixed-maturity securities | \$ 1,912,456 | \$ 1,912,456 | \$ 1,959,156 | \$ 1,959,156 |
| Equity securities | 36,693 | 36,693 | 26,712 | 26,712 |
| Trading securities | 17,081 | 17,081 | 9,640 | 9,640 |
| Policy loans | 24,669 | 24,699 | 25,996 | 25,996 |
| Deposit asset underlying 10% reinsurance agreement | 83,850 | 83,850 | 59,975 | 59,975 |
| Separate accounts | 2,630,630 | 2,630,630 | 2,408,598 | 2,408,598 |
| Liabilities: | | | | |
| Notes payable | \$374,421 | \$397,745 | \$300,000 | \$329,779 |
| Currency swaps | 1,893 | 1,893 | 2,032 | 2,032 |
| Separate accounts | 2,630,630 | 2,630,630 | 2,408,598 | 2,408,598 |

The fair values of financial instruments presented above are estimates of the fair values at a specific point in time using various sources and methods, including market quotations and a complex matrix system that takes into account issuer sector, quality, and spreads in the current marketplace.

Recurring fair value measurements. Estimated fair values of investments in fixed-maturity securities are principally a function of current spreads and interest rates that are corroborated by independent third-party data. Therefore, the fair values presented are indicative of amounts we could realize or settle at the respective balance sheet date. We do not necessarily intend to dispose of or liquidate such instruments prior to maturity. Trading securities, which primarily consist of fixed-maturity securities, are carried at fair value. Equity securities, including common and non-redeemable preferred stocks, are carried at fair value. Currency swaps are stated at fair value. Segregated funds in separate accounts are carried at the underlying value of the variable insurance contracts, which is fair value.

Nonrecurring fair value measurements. Policy loans are carried at unpaid principal balances, which approximate fair value and are categorized as Level 3 fair value measurements. The deposit asset underlying the 10% reinsurance agreement represents the value of the assets backing the economic reserves held in support of a reinsurance agreement. The carrying value of this deposit asset approximates fair value, which is categorized as Level 3 in the fair value hierarchy. As of September 30, 2012, notes payable were comprised of our publicly-traded senior notes and valued as a Level 2 fair value measurement using the quoted market price for our notes. As of December 31, 2011, notes payable consisted of a note issued to Citi for which the fair value was obtained by using a Level 2 fair value measurement involving market spreads and interest rates that were corroborated by independent third-party data. The carrying amounts for cash and cash equivalents, receivables, accrued investment income, accounts payable, cash collateral and payables for security transactions approximate their fair values due to the short-term nature of these instruments. Consequently, such financial instruments are not included in the above table.

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(5) Reinsurance

Reinsurance ceded arrangements do not relieve the Company of its primary obligation to the policyholder. We monitor the concentration of credit risk we have with any reinsurer, as well as the financial condition of the reinsurers. Details on in-force life insurance follow.

| | September 30, 2012 | December 31, 2011 |
|--|------------------------|----------------------|
| | (Dollars in thousands) | |
| Direct in-force face amount | \$673,983,100 | \$669,938,841 |
| Amounts ceded to other companies | (598,866,030) | (596,975,143) |
| Net in-force face amount | \$75,117,070 | \$72,963,698 |
| Percentage of reinsured in-force face amount | 89 | % 89 % |

Due from reinsurers includes ceded reserve balances and ceded claim liabilities. Reinsurance receivable and financial strength ratings by reinsurer were as follows:

| | September 30, 2012 | | December 31, 2011 | |
|--|---------------------------|---------------------|---------------------------|---------------------|
| | Reinsurance receivable | A.M. Best rating | Reinsurance receivable | A.M. Best rating |
| | (In thousands) | | | |
| Prime Reinsurance Company (1) | \$2,524,262 | NR | \$2,438,723 | NR |
| Financial Reassurance Company 2010, Ltd. (1) | 361,351 | NR | 335,396 | NR |
| American Health and Life Insurance Company (1) | 168,774 | A- | 164,387 | A- |
| Due from Citi affiliate reinsurers | 3,054,387 | | 2,938,506 | |
| Swiss Re Life & Health America Inc. (2) | 260,862 | A+ | 252,912 | A+ |
| SCOR Global Life Reinsurance Companies | 146,079 | A | 143,409 | A |
| Generali USA Life Reassurance Company | 114,691 | A- | 114,774 | A- |
| Transamerica Reinsurance Companies | 103,523 | A+ | 103,873 | A+ |
| Munich American Reassurance Company | 98,238 | A+ | 99,240 | A+ |
| Korean Reinsurance Company | 85,419 | A | 82,755 | A |
| RGA Reinsurance Company | 71,210 | A+ | 67,740 | A+ |
| All other reinsurers | 59,194 | — | 52,109 | — |
| Due from reinsurers | \$3,993,603 | | \$3,855,318 | |

NR – not rated

(1) Amounts shown are net of their share of the reinsurance receivable from other reinsurers.

(2) Includes amounts ceded to Lincoln National Life Insurance and 100% retroceded to Swiss Re Life & Health America Inc.

(6) Notes Payable

Notes payable consisted of the following:

| | September 30, 2012 | | December 31, 2011 | |
|---|------------------------|--------|-------------------|-------|
| | Amount | Rate | Amount | Rate |
| | (Dollars in thousands) | | | |
| 4.75% Senior notes payable, due July 15, 2022 | \$375,000 | 4.75 % | \$— | — |
| 5.5% Citi note payable | — | — | 300,000 | 5.5 % |
| Principal amount of notes payable | 375,000 | | 300,000 | |
| Original issuance discount on notes payable | (579) | | — | |
| Total notes payable | \$374,421 | | \$300,000 | |

In April 2010, we issued to Citi a \$300.0 million note (the "Citi Note") as part of our corporate reorganization. On July 16, 2012, we publicly issued \$375.0 million in principal amount of senior notes (the "Senior Notes") and used

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\$300.0 million of the net cash proceeds to repay the Citi Note in whole at a redemption price equal to 100% of the outstanding principal amount. We issued the Senior Notes at a price of 99.843% of the principal amount with an annual interest rate of 4.75%, payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2013. The Senior Notes mature on July 15, 2022. We were in compliance with the covenants of the Senior Notes at September 30, 2012. No events of default or defaults occurred on the Senior Notes or the Citi Note during the nine months ended September 30, 2012.

As unsecured senior obligations, the Senior Notes rank equally in right of payment with all existing and future unsubordinated indebtedness and senior to all existing and future subordinated indebtedness of the Parent Company. They are structurally subordinated in right of payment to all existing and future liabilities of our subsidiaries. In addition, the Senior Notes contain covenants that restrict our ability to, among other things, create or incur any indebtedness that is secured by a lien on the capital stock of certain of our subsidiaries, and merge, consolidate or sell all or substantially all of our properties and assets.

(7) Stockholders' Equity

A reconciliation of the number of shares of our common stock follows.

| | Nine months ended September 30, | |
|---|---------------------------------|--------|
| | 2012 | 2011 |
| | (In thousands) | |
| Common stock, beginning of period | 64,883 | 72,843 |
| Shares of restricted common stock issued, net | 438 | 348 |
| Shares of common stock issued upon lapse of restricted stock units ("RSUs") | 878 | 718 |
| Common stock retired | (6,476 |) (169 |
| Common stock, end of period | 59,723 | 73,740 |

The above reconciliation excludes RSUs which do not have voting rights and are subject to sale restrictions. As the restrictions lapse during the three years following the issuance of the RSUs, we will issue common shares with voting rights. As of September 30, 2012, we had a total of approximately 1.7 million RSUs outstanding. Approximately 267,000 RSUs were granted during the nine months ended September 30, 2012 and approximately 418,600 RSUs were granted during the nine months ended September 30, 2011.

On April 26, 2012, we repurchased 5,736,137 shares of our common stock beneficially owned by certain private equity funds managed by Warburg Pincus LLC ("Warburg Pincus") at \$26.15 per share, for a total purchase price of approximately \$150.0 million. The per-share purchase price was determined based on the closing price of our common stock on April 17, 2012, which was the date the agreement to repurchase the shares was executed.

On August 6, 2012, our Board of Directors authorized a share repurchase program of up to \$75.0 million of the Company's common stock (the "\$75.0 million share repurchase program"). During the three months ended September 30, 2012, we repurchased 308,214 shares of our common stock on the open market for an aggregate purchase price of approximately \$9.1 million.

On October 3, 2012, we executed an agreement to repurchase 2,087,682 shares of our common stock owned by Warburg Pincus at \$28.74 per share, for a total purchase price of approximately \$60.0 million. The per-share purchase price was determined based on the closing price of our common stock on October 3, 2012. We completed the repurchase transaction on October 10, 2012. Upon completion of the share repurchase, Warburg Pincus owned approximately 15% of the Company's outstanding common stock. Warburg Pincus continues to own warrants to purchase 4,103,110 additional shares of our common stock at an exercise price of \$18.00 per share. These warrants expire in April 2017.

The \$75.0 million share repurchase program was discontinued upon the completion of the repurchase transaction from Warburg Pincus on October 10, 2012. In total, we repurchased 2,575,896 shares of our common stock for an aggregate purchase price of approximately \$74.3 million.

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(8) Earnings Per Share ("EPS")

The Company has outstanding common stock, warrants, and equity awards. Both the vested and unvested equity awards maintain non-forfeitable dividend rights that result in dividend payment obligations on a one-to-one ratio with common shares for any future dividend declarations. These equity awards are deemed participating securities for purposes of calculating EPS.

As a result of issuing equity awards that are deemed participating securities, we calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares and to fully vested equity awards. Earnings attributable to unvested equity awards, along with the corresponding share counts, are excluded from EPS as reflected in our consolidated statements of income.

In calculating basic EPS, we deduct any dividends and undistributed earnings allocated to unvested equity awards from net income and then divide the result by the weighted-average number of common shares and fully vested equity awards outstanding for the period.

We determine the potential dilutive effect of warrants on EPS using the treasury-stock method. Under this method, we utilize the exercise price to determine the amount of cash that would be available to repurchase shares if the warrants were exercised. We then use the average market price of our common shares during the reporting period to determine how many shares we could repurchase with the cash raised from the exercise. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares and fully vested equity awards incorporating the increased, fully diluted share count to determine diluted EPS.

The calculation of basic and diluted EPS follows.

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|--|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands, except per-share amounts) | | | |
| Basic EPS | | | | |
| Numerator: | | | | |
| Net income | \$45,599 | \$35,098 | \$133,535 | \$119,989 |
| Income attributable to unvested participating securities | (1,116) | (988) | (3,624) | (3,799) |
| Net income used in calculating basic EPS | \$44,483 | \$34,110 | \$129,911 | \$116,190 |
| Denominator: | | | | |
| Weighted-average vested shares | 60,060 | 73,658 | 62,241 | 73,265 |
| Basic EPS | \$0.74 | \$0.46 | \$2.09 | \$1.58 |
| Diluted EPS | | | | |
| Numerator: | | | | |
| Net income | \$45,599 | \$35,098 | \$133,535 | \$119,989 |
| Income attributable to unvested participating securities | (1,092) | (981) | (3,558) | (3,759) |
| Net income used in calculating diluted EPS | \$44,507 | \$34,117 | \$129,977 | \$116,230 |
| Denominator: | | | | |
| Weighted-average vested shares | 61,563 | 74,199 | 63,519 | 74,095 |
| Diluted EPS | \$0.72 | \$0.46 | \$2.05 | \$1.57 |

(9) Share-Based Transactions

The Company has outstanding equity awards under its Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, RSUs, unrestricted stock as well as cash-based awards. In addition to time-based vesting requirements, awards granted

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under the OIP also may be subject to specified performance criteria. As of September 30, 2012, we had approximately 3.8 million shares available for future grants under this plan.

All outstanding management awards have time-based vesting requirements, vesting over three years. In connection with our granting of management equity awards, we recognized expense and tax benefit offsets as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Management equity award expense for awards granted in connection with the corporate reorganization in 2010 | \$ 3,104 | \$ 3,309 | \$ 9,371 | \$ 9,974 |
| Management equity award expense for awards granted in 2011 | 753 | 820 | 2,294 | 1,788 |
| Management equity award expense for awards granted in 2012 | 954 | — | 2,457 | — |
| Total management equity award expense | \$ 4,811 | \$ 4,129 | \$ 14,122 | \$ 11,762 |
| Tax benefit associated with the total management equity award expense | \$ 1,167 | \$ 1,413 | \$ 3,396 | \$ 4,052 |

As of September 30, 2012, total compensation cost not yet recognized in our financial statements related to management equity awards was \$19.6 million, all of which was related to equity awards with time-based vesting conditions yet to be reached. We expect to recognize these amounts over a weighted-average period of approximately one year, six months.

Our quarterly incentive awards to our sales force leaders have performance-based vesting requirements for which the grant and the service period occur within the same calendar quarter. These awards are granted in the form of RSUs that vest upon the conclusion of the quarterly contest and are subject to sale restrictions expiring over the three years subsequent to vesting. Because the awards are subject to sale restrictions following their vesting, their fair value is discounted to reflect a corresponding illiquidity discount. To the extent they are granted in connection with successful policy acquisitions, portions of these awards are deferred and amortized in the same manner as other deferred policy acquisition costs. In connection with these awards, we recognized and deferred expense as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| | (In thousands) | | | |
| Quarterly incentive awards expense deferred | \$ 1,915 | \$ 2,215 | \$ 5,340 | \$ 5,317 |
| Quarterly incentive awards expense recognized currently | — | 336 | — | 1,447 |

As of September 30, 2012, all non-employee equity awards were fully vested with the exception of approximately 88,937 shares that vested on October 1, 2012. As such, any related compensation cost not recognized as either expense or deferred acquisition costs in our financial statements as of and through September 30, 2012 is immaterial. All of our outstanding equity awards are eligible for dividends or dividend equivalents regardless of vesting status.

(10) Commitments and Contingent Liabilities

Effective March 31, 2012, Peach Re entered into a Credit Facility Agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the reserves (commonly referred to as Regulation XXX reserves) related to level premium term life insurance policies ceded to Peach Re from Primerica Life under the Peach Re Coinsurance Agreement. In connection with this transaction, Primerica Life obtained regulatory approval for the payment of an extraordinary dividend of \$150.0 million to the Parent Company, which was paid in April 2012. Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit in the initial amount of \$450.0 million

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with a term of approximately fourteen years (the "LOC") for the benefit of Primerica Life, the direct parent of Peach Re. Subject to certain conditions, the amount of the LOC will be periodically increased up to a maximum amount of \$510.0 million in 2014. Pursuant to the terms of the Credit Facility Agreement, in the event amounts are drawn under the LOC by Primerica Life, Peach Re will be obligated, subject to certain limited conditions, to reimburse Deutsche Bank for the amount of any draws and interest thereon. Peach Re has collateralized its obligations to Deutsche Bank by granting it a security interest in all of its assets with the exception of amounts held in a special account established to meet minimum asset thresholds required by state regulatory authorities.

In May 2011, we entered into an eight-year agreement with a third party to receive advisory services for our managed accounts product platform. In connection with this agreement, we are obligated to make asset-based fee payments (including minimum monthly payments) based on assets under management (AUM). We have made the minimum monthly payments and recognized expense accordingly of approximately \$938,000 during the nine months ended September 30, 2012. The minimum fee is approximately \$312,000 for the remainder of 2012 and approximately \$2.5 million per year in 2013 through 2018 and approximately \$1.0 million in 2019. We will continue to recognize these fees as the corresponding advisory services are received.

In late 2011 and in 2012, numerous arbitration claims were filed with the Financial Industry Regulatory Association ("FINRA") against our subsidiary, PFS Investments, Inc. and certain of its registered representatives seeking unspecified damages arising from the allegation that the representatives improperly recommended that the claimants transfer their retirement benefits from the Florida Retirement System's defined benefit plan to its defined contribution plan. Currently, there are 21 pending arbitrations. Of these arbitrations, 15 have been scheduled for hearings in 2013. In addition, six lawsuits alleging the same claims against PFS Investments Inc. and registered representatives are pending in Miami-Dade County Circuit Court. As some of the cases have multiple claimants, the total number of claimants, including both the arbitrations and the lawsuits, is 65. The law firm representing the claimants in these matters has engaged in solicitation activities directed to Florida state employees to generate interest in the cases and has informed us that they have a list of approximately 150 additional state employees who have responded to their advertisements. It is unclear how many additional claims will be filed. The law firm has demanded a substantial settlement for the matters it has already brought. We believe we have meritorious defenses to the claims, and we intend to vigorously defend against them. Most of the claims arose between 2002 and 2008, and are susceptible to statute of limitations defenses. In August 2012, one of the cases was dismissed by a Palm Beach County Circuit Court on statute of limitations grounds. An appeal of that decision is pending. Despite our defenses, we will incur significant costs, and possibly liabilities, defending and/or resolving these claims. Unless the matters are resolved, we will incur significant legal fees and litigation-related expenses in 2013. At this time, we are unable to reasonably estimate a range of possible losses.

The treasury departments of 11 U.S. states and the District of Columbia have each engaged the same third party to conduct audits of the Company and its subsidiaries for compliance with unclaimed property laws. If instances of noncompliance are identified during the audits, then it could ultimately result in additional payments that are required of the Company. Other jurisdictions may pursue similar inquiries and audits. The audits are expected to take significant time to complete and the Company cannot reasonably estimate the impact of additional costs or liabilities that could result from the resolution of these audits.

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including the large and/or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters. While it is possible that an adverse outcome in certain cases could have a material adverse effect upon the Company's financial position, based on information currently known by the Company's management, in management's opinion, the outcomes of such pending investigations and legal proceedings are not likely to have such an effect.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to inform the reader about matters affecting the financial condition and results of operations of Primerica, Inc. (the

“Parent Company”) and its subsidiaries (collectively, "we" or the “Company”) for the period from December 31, 2011 to September 30, 2012. As a result, the following discussion should be read in conjunction with MD&A and the consolidated and combined financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2011, as modified and updated by our Current Report on Form 8-K filed with the SEC on May 8, 2012 (together, the "2011 Annual Report"). This discussion contains forward-looking statements

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that constitute our plans, estimates and beliefs. These forward-looking statements involve numerous risks and uncertainties, including, but not limited to those discussed under the heading “Risk Factors” in the 2011 Annual Report. Actual results may differ materially from those contained in any forward-looking statements.

This MD&A is divided into the following sections:

Business Overview

Critical Accounting Estimates

Factors Affecting Our Results

Results of Operations

Financial Condition

Liquidity and Capital Resources

Business Overview

We are a leading distributor of financial products to middle income households in the United States and Canada. We assist our clients in meeting their needs for term life insurance, which we underwrite, and mutual funds, annuities and other financial products, which we distribute primarily on behalf of third parties. We have two primary operating segments, Term Life Insurance and Investment and Savings Products, and a third segment, Corporate and Other Distributed Products.

We were wholly owned by Citigroup Inc. (together with its non-Primerica affiliates, "Citi") through March 31, 2010. In April 2010, Citi transferred the legal entities that comprise our business to us, and we completed an initial public offering of our common stock by Citi pursuant to the Securities Act of 1933, as amended and also issued to Citi a \$300.0 million note payable (the "corporate reorganization").

Term Life Insurance. We distribute the term life insurance products that we originate through our three issuing life insurance company subsidiaries: Primerica Life Insurance Company (“Primerica Life”); National Benefit Life Insurance Company (“NBLIC”); and Primerica Life Insurance Company of Canada (“Primerica Life Canada”). Our in-force term insurance policies have level premiums for the stated term period. As such, the policyholder pays the same amount each year. Initial policy term periods are between 10 and 35 years. While premiums are guaranteed to remain level during the initial term period (up to a maximum of 20 years in the United States), our claim obligations generally increase as our policyholders age. In addition, we incur significant upfront costs in acquiring new insurance business. Our deferral and amortization of policy acquisition costs and reserving methodology are designed to match the recognition of premium revenues with the timing of policy lapses and the payment of expected claims obligations. Our Term Life Insurance segment results are primarily driven by sales and policies in force, accuracy of our pricing assumptions, terms and use of reinsurance, investment income, and expenses. In connection with our corporate reorganization in 2010, we entered into certain reinsurance transactions with affiliates of Citi (the "Citi reinsurers") and ceded between 80% and 90% of the risks and rewards of our term life insurance policies that were in force at year-end 2009 (the "Citi reinsurance transactions"). We continue to administer all policies subject to these coinsurance agreements. Subsequent to the Citi reinsurance transactions, the revenues and earnings of our Term Life Insurance segment initially declined in proportion to the amount of revenues and earnings historically associated with the book of term life insurance policies that we ceded to the Citi reinsurers. As we have added new in-force business, our revenues and earnings have grown from these initial levels. With each successive period, we expect revenue and earnings growth to decelerate as the size of our in-force book grows and incremental sales have a reduced marginal effect on the size of the then-existing in-force book.

Investment and Savings Products. We distribute mutual funds, managed accounts, annuities and segregated funds. In the United States, we distribute mutual fund and managed accounts products and variable and fixed annuity products of several third-party companies. In Canada, we offer our own Primerica-branded mutual funds, as well as mutual funds of other companies, and segregated funds, which are underwritten by Primerica Life Canada.

Results in our Investment and Savings Products segment are driven by sales of mutual funds and annuities, the value of assets in client accounts for which we earn ongoing service, distribution and advisory fees and the number of fee generating accounts for which we provide administration functions or retirement plan custodial services.

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While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period are affected by changes in the overall mix of products within these broad categories.

Corporate and Other Distributed Products. Our Corporate and Other Distributed Products segment consists primarily of revenues and expenses related to other distributed products, including various insurance products, prepaid legal services as well as credit information and debt referral services. These products are distributed pursuant to distribution arrangements with third parties, except for certain life and disability insurance products underwritten by NBLIC, our New York life insurance subsidiary, that are not distributed through our independent agent sales force. In addition, our Corporate and Other Distributed Products segment includes corporate income (including net investment income) and expenses not allocated to other segments, interest expense on our notes payable and realized gains and losses on our invested asset portfolio.

Critical Accounting Estimates

We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions based on currently available information when recording transactions resulting from business operations. Our significant accounting policies are described in Note 1 to our consolidated and combined financial statements included in our 2011 Annual Report. The most significant items on the balance sheet are based on fair value determinations, accounting estimates and actuarial determinations which are susceptible to changes in future periods and which affect our results of operations and financial position.

The estimates that we deem to be most critical to an understanding of our results of operations and financial position are those related to the valuation of investments, reinsurance, deferred policy acquisition costs, future policy benefit reserves, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. Subsequent experience or use of other assumptions could produce significantly different results.

Accounting Policy Change. Effective January 1, 2012, we adopted ASU 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts ("ASU 2010-26"), and no longer defer certain indirect acquisition costs or costs attributable to unsuccessful efforts of acquiring life insurance policies. We adopted this accounting policy change retrospectively and, accordingly, our historical results have been adjusted to reflect the adoption on a consistent basis across all periods presented.

The impact of adoption was as follows:

| | Prior to adoption of ASU 2010-26 | Impact of adoption of ASU 2010-26 | After adoption of ASU 2010-26 |
|--|---|---|--|
| | (In thousands, except per-share amounts) | | |
| As of December 31, 2011: | | | |
| Stockholders' equity | \$ 1,422,641 | \$ (95,991) | \$ 1,326,650 |
| For the three months ended September 30, 2011: | | | |
| Net income | \$ 40,601 | \$ (5,503) | \$ 35,098 |
| Basic earnings per share | 0.54 | (0.08) | 0.46 |
| Diluted earnings per share | 0.53 | (0.07) | 0.46 |

For the nine months ended September 30, 2011:

| | | | |
|----------------------------|------------|--------------|------------|
| Net income | \$ 137,091 | \$ (17,102) | \$ 119,989 |
| Basic earnings per share | 1.81 | (0.23) | 1.58 |
| Diluted earnings per share | 1.79 | (0.22) | 1.57 |

For additional information regarding this accounting policy change, see Note 1 to our condensed consolidated financial statements.

During the nine months ended September 30, 2012, there have been no further changes in the accounting methodology for items that we have identified as critical accounting estimates. For additional information regarding

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critical accounting estimates, see the Critical Accounting Estimates section of MD&A included in our 2011 Annual Report.

Factors Affecting Our Results

Economic Environment. The relative strength and stability of financial markets and economies in the United States and Canada affect our growth and profitability. Our business is, and we expect will continue to be, influenced by a number of industry-wide and product-specific trends and conditions.

Economic conditions, including unemployment levels and consumer confidence, influence investment and spending decisions by middle income consumers, who are generally our primary clients. These conditions and factors also impact prospective recruits' perceptions of the business opportunity that becoming a Primerica sales representative offers, which can drive or dampen recruiting. Consumer spending and borrowing levels remain under pressure, as consumers take a more conservative financial posture including reevaluating their savings and debt management plans. The effects of these trends and conditions are discussed in the Results of Operations section below.

Independent Sales Force. Our ability to increase the size of our sales force is largely based on the success of our recruiting efforts and our ability to train and motivate recruits to obtain licenses to sell life insurance. We believe that recruitment and licensing levels are important advance indicators of sales force trends, and growth in recruiting and licensing is usually indicative of future growth in the overall size of the sales force. Recruiting results do not always result in commensurate changes in the size of our licensed sales force because new recruits may obtain the requisite licenses at rates above or below historical levels.

Details on new recruits and life-licensed sales representative activity were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|--------|---------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| New recruits | 47,639 | 83,074 | 155,166 | 201,025 |
| New life-licensed sales representatives | 8,613 | 10,334 | 26,049 | 25,540 |

Recruiting of new representatives decreased for the three and nine months ended September 30, 2012 compared with the same periods a year ago. The decrease is directly attributable to the strong prior year recruiting surge that followed the announcement of short-term recruiting incentives at our June 2011 biennial sales force convention. However, new life licenses declined to a lesser extent than recruiting during the three months ended September 30, 2012 and increased during the nine months ended September 30, 2012 versus the comparable periods in 2011. The trend in new life license activity was driven by our efforts to balance the emphasis on recruiting and licensing in both our messaging and incentive programs. Results were also driven by the introduction of streamlined life-licensing processes for new recruits.

The size of our life-licensed insurance sales force was as follows:

| | September 30, | June 30, | March 31, | December 31, |
|---|---------------|----------|-----------|--------------|
| | 2012 | 2012 | 2012 | 2011 |
| Life-licensed insurance sales representatives | 91,506 | 90,868 | 89,651 | 91,176 |

The size of our life-licensed insurance sales force at September 30, 2012 increased since June 30, 2012 as a result of new representative life-licensing discussed above.

Term Life Insurance Segment. Our Term Life Insurance segment results are primarily driven by sales volumes, the accuracy of our pricing assumptions, terms and use of reinsurance, investment income and expenses.

Sales and policies in force. Sales of new term policies and the size and characteristics of our in-force book of policies are vital to our results over the long term. Premium revenue is recognized as it is earned over the term of the policy and eligible acquisition expenses are deferred and amortized ratably with the level premiums of the underlying policies. However, because we incur significant cash outflows at or about the time policies are issued, including the payment of sales commissions and underwriting costs, changes in life insurance sales volume will have a more immediate effect on our cash flows.

Historically, we have found that while sales volume of term life insurance products between fiscal periods may vary based on a variety of factors, the productivity of our individual sales representatives remains within a relatively

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narrow range and, consequently, our sales volume over the longer term generally correlates to the size of our sales force.

The average number of life-licensed sales representatives and the number of term life insurance policies issued, as well as the average monthly rate of new policies issued per life-licensed sales representative, were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|--------|---------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| Average number of life-licensed sales representatives | 91,229 | 91,302 | 90,635 | 92,031 |
| Number of new policies issued | 53,506 | 65,067 | 170,234 | 176,174 |
| Average monthly rate of new policies issued per life-licensed sales representative | .20x | .24x | .21x | .21x |

The average monthly rate of new policies issued per life-licensed sales representative declined during the three months ended September 30, 2012 in comparison to the prior year period primarily due to the post-convention recruiting surge that generated significant sales referrals and opportunities in the third quarter of 2011.

Pricing assumptions. Our pricing methodology is intended to provide us with appropriate profit margins for the risks we assume. We determine pricing classifications based on the coverage sought, such as the size and term of the policy, and certain policyholder attributes, such as age and health. In addition, we utilize unisex rates for our term life insurance policies. The pricing assumptions that underlie our rates are based upon our best estimates of mortality, persistency and investment yields at the time of issuance, sales force commission rates, issue and underwriting expenses, operating expenses and the characteristics of the insureds, including sex, age, underwriting class, product and amount of coverage. Our results will be affected to the extent there is a variance between our pricing assumptions and actual experience.

Persistency. Persistency is a measure of how long our insurance policies stay in force. As a general matter, persistency that is lower than our pricing assumptions adversely affects our results over the long term because we lose the recurring revenue stream associated with the policies that lapse. Determining the near-term effects of changes in persistency is more complicated. When persistency is lower than our pricing assumptions, we must accelerate the amortization of DAC. The resultant increase in amortization expense is offset by a corresponding release of reserves associated with lapsed policies, which causes a reduction in benefits and claims expense. The reserves associated with any given policy will change over the term of such policy. As a general matter, reserves are lowest at the inception of a policy term and rise steadily to a peak before declining to zero at the expiration of the policy term. Accordingly, depending on when the lapse occurs in relation to the overall policy term, the reduction in benefits and claims expense may be greater or less than the increase in amortization expense and, consequently, the effects on earnings for a given period could be positive or negative. Persistency levels will impact results to the extent actual experience deviates from the persistency assumptions used to price our products.

Mortality. Our profitability is affected to the extent actual mortality rates differ from those used in our pricing assumptions. We mitigate a significant portion of our mortality exposure through reinsurance.

Investment Yields. We use investment yield rates based on yields available at the time a policy is issued. For policies issued in 2010 and after, we have been using an increasing interest rate assumption to reflect the historically low interest rate environment. Both DAC and the reserve liability increase with the assumed investment yield rate. Since DAC is higher than the reserve liability in the early years of a policy, a lower assumed investment yield generally will result in lower profits. In the later years, when the reserve liability is higher than DAC, a lower assumed investment yield generally will result in higher profits. These assumed investment yields, which like other pricing assumptions are locked in at issue, impact the timing but not the aggregate amount of DAC and reserve changes. Actual investment yields will impact net investment income allocated to the Term Life Insurance segment, but will not impact DAC or the reserve liability.

Reinsurance. We use reinsurance extensively, which has a significant effect on our results of operations. Since the mid-1990s, we have reinsured between 60% and 90% of the mortality risk on our U.S. term life insurance policies on a quota share yearly renewable term ("YRT") basis. In Canada, we previously utilized reinsurance arrangements

similar to the U.S. in certain years and reinsured only face amounts above \$500,000 in other years. However, in the first quarter of 2012, we entered into a YRT reinsurance arrangement in Canada similar to our U.S. program that

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reinsures 80% of the face amount for every policy sold. YRT reinsurance permits us to set future mortality at contractual rates by policy class. To the extent actual mortality experience is more or less favorable than the contractual rate, the reinsurer will earn incremental profits or bear the incremental cost, as applicable. In contrast to coinsurance, which is intended to eliminate all risks (other than counterparty risk of the reinsurer) and rewards associated with a specified percentage of the block of policies subject to the reinsurance arrangement, the YRT reinsurance arrangements we enter into are intended only to reduce volatility associated with variances between estimated and actual mortality rates.

The effect of our reinsurance arrangements on ceded premiums and benefits and expenses on our statement of income follows:

Ceded premiums. Ceded premiums are the premiums we pay to reinsurers. These amounts are deducted from the direct premiums we earn to calculate our net premium revenues. Similar to direct premium revenues, ceded coinsurance premiums remain level over the initial term of the insurance policy. Ceded YRT premiums increase over the period that the policy has been in force. Accordingly, ceded YRT premiums generally constitute an increasing percentage of direct premiums over the policy term.

Benefits and claims. Benefits and claims include incurred claim amounts and changes in future policy benefit reserves. Reinsurance reduces incurred claims in direct proportion to the percentage ceded. Coinsurance also reduces the change in future policy benefit reserves in direct proportion to the percentage ceded while YRT reinsurance does not significantly impact benefit reserves.

Amortization of DAC. Amortization of DAC is reduced on a pro-rata basis for the coinsured business, including the business reinsured with Citi. There is no impact on amortization of DAC associated with our YRT contracts.

Insurance expenses. Insurance expenses are reduced by the allowances received from coinsurance, including the business reinsured with Citi. There is no impact on insurance expenses associated with our YRT contracts.

We may alter our reinsurance practices at any time due to the unavailability of YRT reinsurance at attractive rates or the availability of alternatives to reduce our risk exposure. We presently intend to continue ceding approximately 90% of our U.S. mortality risk on new business and approximately 80% of our Canadian mortality risk on new business.

Net investment income. Term Life Insurance segment net investment income is composed of two elements: allocated net investment income and the market return associated with the deposit asset underlying the 10% reinsurance agreement we executed in connection with our corporate reorganization. Invested assets are allocated to the Term Life segment based on the book value of the invested assets necessary to meet statutory reserve requirements and our targeted capital objectives. Net investment income is also impacted by the performance of our invested asset portfolio and the market return on the deposit asset which can be affected by interest rates, credit spreads and the mix of invested assets.

Expenses. Results are also affected by variances in client acquisition, maintenance and administration expense levels. **Investment and Savings Products Segment.** Our Investment and Savings Products segment results are primarily driven by sales, the value of assets in client accounts for which we earn ongoing management, service and distribution fees and the number of fee generating accounts we administer.

Sales. We earn commissions and fees, such as dealer re-allowances, and marketing and support fees, based on sales of mutual fund and managed account products and annuities. Sales of investment and savings products are influenced by the overall demand for investment products in the United States and Canada, as well as by the size and productivity of our sales force. We generally experience seasonality in our Investment and Savings Products segment results due to our high concentration of sales of retirement account products. These accounts are typically funded in February through April, coincident with our clients' tax return preparation season. While we believe the size of our sales force is a factor in driving sales volume in this segment, there are a number of other variables, such as economic and market conditions, that may have a significantly greater effect on sales volume in any given fiscal period.

Asset values in client accounts. We earn marketing and distribution fees (trail commissions or, with respect to U.S.

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mutual funds, 12b-1 fees) on mutual fund and annuity assets in the United States and Canada. In the United States, we also earn investment advisory fees on assets in the managed accounts program. In Canada, we earn management fees on certain mutual fund assets and on the segregated funds for which we serve as investment manager. Asset values are influenced by new product sales, ongoing contributions to existing accounts, redemptions and the change in market values in existing accounts. While we offer a wide variety of asset classes and investment styles, our clients' accounts are primarily invested in equity funds.

Accounts. We earn recordkeeping fees for administrative functions we perform on behalf of several of our retail and managed mutual fund providers and custodial fees for services as a non-bank custodian for certain of our clients' retirement plan accounts.

Sales mix. While our investment and savings products all have similar long-term earnings characteristics, our results in a given fiscal period will be affected by changes in the overall mix of products within these broad categories.

Examples of changes in the sales mix that influence our results include the following:

- sales of a higher proportion of mutual fund products of the several mutual fund families for which we act as recordkeeper will generally increase our earnings because we are entitled to recordkeeping fees on these accounts;
- sales of annuity products in the United States will generate higher revenues in the period such sales occur than sales of other investment products that either generate lower upfront revenues or, in the case of managed accounts and segregated funds, no upfront revenues;
- sales and administration of a higher proportion of mutual funds that enable us to earn marketing and support fees will increase our revenues and profitability;
- sales of a higher proportion of retirement products of several mutual fund families will tend to result in higher revenue generation due to our ability to earn custodial fees on these accounts; and
- sales of a higher proportion of managed accounts and segregated funds products will generally extend the time over which revenues can be earned because we are entitled to higher revenues based on assets under management for these accounts in lieu of upfront revenues.

Corporate and Other Distributed Products Segment. We earn revenues and pay commissions and referral fees for various other insurance products, prepaid legal services and other financial products, all of which are originated by third parties. NBLIC also underwrites a mail-order student life policy and a short-term disability benefit policy, neither of which is distributed by our sales force, and has in-force policies from several discontinued lines of insurance.

The Corporate and Other Distributed Products segment is affected by corporate income and expenses not allocated to our other segments, net investment income (other than net investment income allocated to our Term Life Insurance segment), general and administrative expenses (other than expenses that are allocated to our Term Life Insurance or Investment and Savings Products segments), equity awards granted to management and our sales force leaders at the time of our initial public offering, interest expense on notes payable and realized gains and losses on our invested asset portfolio.

Capital Structure. Our financial results have also been affected by changes in our capital structure that have occurred since our corporate reorganization in 2010.

Share repurchases and related financing arrangements. Effective March 31, 2012, Peach Re, Inc. ("Peach Re"), a special purpose financial captive insurance company and wholly owned subsidiary of Primerica Life, entered into a Credit Facility Agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the reserves (commonly referred to as Regulation XXX reserves) related to level premium term life insurance policies ceded to Peach Re from Primerica Life under the Peach Re Coinsurance Agreement. In connection with this transaction, Primerica Life obtained regulatory approval for the payment of an extraordinary dividend of \$150.0 million to the Parent Company, which was paid in April 2012. The dividend was primarily funded by the sale of invested assets, and the proceeds were used to repurchase approximately 5.7 million shares of our common stock from private equity funds managed by Warburg Pincus LLC ("Warburg Pincus") for approximately \$150.0 million in April 2012.

On August 6, 2012, our Board of Directors authorized a share repurchase program of up to \$75.0 million of the Company's common stock (the "\$75.0 million share repurchase program") using proceeds obtained from the

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issuance of senior notes. During the three months ended September 30, 2012, we repurchased approximately 0.3 million shares of our common stock on the open market for an aggregate purchase price of approximately \$9.1 million. In October 2012, we completed the repurchase of approximately 2.1 million shares of our common stock owned by Warburg Pincus for a purchase price of approximately \$60.0 million. The \$75.0 million share repurchase program was discontinued upon the completion of the share repurchase from Warburg Pincus. In total, we repurchased approximately 2.6 million shares of our common stock for an aggregate purchase price of approximately \$74.3 million under the \$75 million share repurchase program.

In addition, in November 2011 we repurchased approximately 8.9 million shares of our common stock from Citi for approximately \$200.0 million primarily using the proceeds from invested asset sales. We retired the common stock repurchased in each transaction, providing an accretive impact on earnings per share. The sales of invested assets used to fund the repurchases results in lower net investment income in periods following the sales.

Notes payable. In April 2010, we issued a \$300.0 million note to Citi as part of our corporate reorganization (the "Citi Note"). We paid interest on the Citi Note at an annual rate of 5.5%. On July 16, 2012, we repaid the Citi Note with a portion of the proceeds received from the issuance of senior notes with an aggregate principal amount of \$375.0 million (the "Senior Notes"). We issued the Senior Notes at a price of 99.843% of the principal amount. The Senior Notes bear interest at an annual rate of 4.75%. We used the remaining proceeds primarily to fund the \$75.0 million share repurchase program.

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Results of Operations

Primerica, Inc. and Subsidiaries Results. Our results of operations were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|---|------------------------|------------|-----------|--------|-------------------|--------------|-----------|--------|------|------|
| | September 30, | | \$ | % | September 30, | | \$ | % | | |
| | 2012 | 2011 | | | | | | | 2012 | 2011 |
| | (Dollars in thousands) | | | | | | | | | |
| Revenues: | | | | | | | | | | |
| Direct premiums | \$567,273 | \$560,739 | \$6,534 | 1 % | \$1,698,383 | \$1,673,689 | \$24,694 | 1 % | | |
| Ceded premiums | (414,991) | (425,643) | (10,652) | (3)% | (1,248,969) | (1,283,445) | (34,476) | (3)% | | |
| Net premiums | 152,282 | 135,096 | 17,186 | 13 % | 449,414 | 390,244 | 59,170 | 15 % | | |
| Commissions and fees | 104,337 | 100,883 | 3,454 | 3 % | 315,003 | 315,697 | (694) | * | | |
| Net investment income | 26,881 | 27,103 | (222) | (1)% | 76,583 | 82,958 | (6,375) | (8)% | | |
| Realized investment gains (losses), including OTTI losses | 3,872 | (178) | 4,050 | * | 10,324 | 2,184 | 8,140 | * | | |
| Other, net | 11,716 | 12,887 | (1,171) | (9)% | 34,890 | 36,155 | (1,265) | (3)% | | |
| Total revenues | 299,088 | 275,791 | 23,297 | 8 % | 886,214 | 827,238 | 58,976 | 7 % | | |
| Benefits and expenses: | | | | | | | | | | |
| Benefits and claims | 70,738 | 64,101 | 6,637 | 10 % | 207,596 | 179,008 | 28,588 | 16 % | | |
| Amortization of DAC | 29,234 | 26,645 | 2,589 | 10 % | 83,970 | 73,849 | 10,121 | 14 % | | |
| Sales commissions | 49,370 | 47,135 | 2,235 | 5 % | 150,562 | 147,846 | 2,716 | 2 % | | |
| Insurance expenses | 23,744 | 22,133 | 1,611 | 7 % | 70,777 | 64,919 | 5,858 | 9 % | | |
| Insurance commissions | 6,684 | 10,538 | (3,854) | (37)% | 21,638 | 29,070 | (7,432) | (26)% | | |
| Interest expense | 8,828 | 7,000 | 1,828 | 26 % | 24,244 | 20,995 | 3,249 | 15 % | | |
| Other operating expenses | 39,934 | 42,732 | (2,798) | (7)% | 121,485 | 124,323 | (2,838) | (2)% | | |
| Total benefits and expenses | 228,532 | 220,284 | 8,248 | 4 % | 680,272 | 640,010 | 40,262 | 6 % | | |
| Income before income taxes | 70,556 | 55,507 | 15,049 | 27 % | 205,942 | 187,228 | 18,714 | 10 % | | |
| Income taxes | 24,957 | 20,409 | 4,548 | 22 % | 72,407 | 67,239 | 5,168 | 8 % | | |
| Net income | \$45,599 | \$35,098 | \$10,501 | 30 % | \$133,535 | \$119,989 | \$13,546 | 11 % | | |

* Less than 1% or not meaningful

Results for the Three and Nine Months Ended September 30, 2012 and 2011

Total revenues. The increase in revenues was primarily attributable to incremental premiums on term life insurance policies issued subsequent to the Citi reinsurance transactions ("New Term"), which was partially offset by lower net investment income resulting from sales of invested assets to facilitate our share repurchase transactions in November 2011 and April 2012. The reduction in the average book yield of our fixed-maturity portfolio, which reflects the current interest rate environment, also contributed a moderate decrease in net investment income. The decline in net investment income during the three months ended September 30, 2012 was tempered by income from certain called securities of approximately \$1.8 million and recovery of interest of approximately \$1.0 million on a previously defaulted security. Realized investment gains were higher during 2012 due to income received from certain fixed income securities that were tendered during the third quarter and gains from sales of invested assets to fund share repurchases.

Total benefits and expenses. Total benefits and expenses increased in 2012 primarily as a result of the growth in premium-related costs, which include benefits and claims, amortization of DAC and insurance expenses. This increase was partially offset by declines in insurance commissions reflecting higher deferrals of commissions consistent with

incentive program changes.

Income taxes. Our effective income tax rate of 35.4% during the three months ended September 30, 2012 was lower than our effective income tax rate of 36.8% during the three months ended September 30, 2011. For the nine

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months ended September 30, 2012, our effective income tax rate was 35.2%, compared with 35.9% for the nine months ended September 30, 2011. The lower effective income tax rate during the three and nine months ended September 30, 2012 versus the comparable period in 2011 was primarily driven by decreasing Canadian statutory income tax rates combined with capital planning decisions for Canadian unremitted earnings.

For additional information, see the Segment Results discussions below.

Segment Results

Term Life Insurance Segment Results. Our results for the Term Life Insurance segment were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|---------------------------------|--------------------|------------|-----------|--------|--------------------|--------------|-----------|--------|--|--|
| | September 30, 2012 | 2011 | \$ | % | September 30, 2012 | 2011 | \$ | % | | |
| (Dollars in thousands) | | | | | | | | | | |
| Revenues: | | | | | | | | | | |
| Direct premiums | \$549,068 | \$539,693 | \$9,375 | 2 % | \$1,641,555 | \$1,612,143 | \$29,412 | 2 % | | |
| Ceded premiums | (411,240) | (421,933) | (10,693) | (3)% | (1,237,837) | (1,272,477) | (34,640) | (3)% | | |
| Net premiums | 137,828 | 117,760 | 20,068 | 17 % | 403,718 | 339,666 | 64,052 | 19 % | | |
| Allocated net investment income | 18,395 | 15,664 | 2,731 | 17 % | 51,740 | 47,127 | 4,613 | 10 % | | |
| Other, net | 7,788 | 8,289 | (501) | (6)% | 23,089 | 23,523 | (434) | (2)% | | |
| Total revenues | 164,011 | 141,713 | 22,298 | 16 % | 478,547 | 410,316 | 68,231 | 17 % | | |
| Benefits and expenses: | | | | | | | | | | |
| Benefits and claims | 60,733 | 52,067 | 8,666 | 17 % | 178,226 | 143,339 | 34,887 | 24 % | | |
| Amortization of DAC | 27,645 | 22,289 | 5,356 | 24 % | 74,125 | 62,310 | 11,815 | 19 % | | |
| Insurance commissions | 2,169 | 5,632 | (3,463) | (61)% | 8,060 | 15,015 | (6,955) | (46)% | | |
| Insurance expenses | 20,531 | 19,186 | 1,345 | 7 % | 62,030 | 55,626 | 6,404 | 12 % | | |
| Interest expense | 4,357 | 2,875 | 1,482 | 52 % | 11,523 | 8,620 | 2,903 | 34 % | | |
| Total benefits and expenses | 115,435 | 102,049 | 13,386 | 13 % | 333,964 | 284,910 | 49,054 | 17 % | | |
| Income before income taxes | \$48,576 | \$39,664 | \$8,912 | 22 % | \$144,583 | \$125,406 | \$19,177 | 15 % | | |

Results for the Three Months Ended September 30, 2012 and 2011

Net premiums. The increase in net premiums is primarily due to the continued addition of New Term in-force business combined with the run off of business subject to the Citi reinsurance transactions. While ceded premiums supporting YRT reinsurance programs for New Term are less than 20% of direct premiums, ceded premiums for the block of business coinsured by Citi are more than 80% of direct premiums. As a result, as we continue to build New Term and the block coinsured by Citi continues to run off, net premiums will continue to grow faster than direct premiums, albeit at a declining rate of growth.

Allocated net investment income. The increase in allocated net investment income was attributable to the increase in Term Life assets underlying the growth in the in-force business and income from certain called securities.

Benefits and claims. Benefits and claims increased primarily due to the growth in net premiums. Incurred claims were consistent with the prior-year period.

Amortization of DAC. The impact of moderately lower persistency during the quarter for recent policy issue years resulted in DAC amortization increasing at a higher rate than net premiums.

Insurance commissions. The decrease in insurance commissions was largely driven by changes to our agent incentive programs that resulted in a higher portion of commissions being deferred in the 2012 period.

Insurance expenses. The increase in insurance expenses is mainly due to higher premium-related taxes, licenses and fees as well as the run-off of expense allowances received under the Citi reinsurance agreements. Also contributing to the increase was the emergence of higher spending for information technology contracts.

Interest expense. Interest expense increased primarily due to the redundant reserve financing executed in March

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2012.

Results for the Nine Months Ended September 30, 2012 and 2011

Net premiums. Net premium growth was primarily driven by the factors impacting net premiums as discussed above in the three-month comparison. The remaining increase in net premiums was largely attributable to reprocessed reinsurance transactions in the second quarter of 2012 that were substantially offset by a corresponding increase in benefits and claims.

Allocated net investment income. The increase in allocated net investment income was a result of the growth in Term Life assets.

Benefits and claims. The increase in benefits and claims was mainly attributable to the factors discussed above in the three-month comparison and the reprocessing of certain transactions noted above.

Amortization of DAC. The increase in amortization of DAC was consistent with the increase in net premiums.

Insurance commissions. The decrease in insurance commissions was primarily driven by changes to our agent incentive program discussed above in the three-month comparison.

Insurance expenses. Insurance expenses increased in 2012 mainly due to the factors discussed above in the three-month comparison as well as prior-year favorable expense items including the release of management incentive compensation accruals. The impact of these factors were partially offset by expenses in the prior year for new product launches and recruiting initiatives associated with the biennial sales force convention in June 2011.

Interest expense. The increase in interest expense was largely attributable to the redundant reserve financing as noted in the three-month comparison above.

Product Sales and Face Amount In Force

New policy sales activity was as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------|----------------------------------|--------|---------------------------------|---------|
| | 2012 | 2011 | 2012 | 2011 |
| New policies issued | 53,506 | 65,067 | 170,234 | 176,174 |

Lower sales of our term life insurance products was primarily due to the impact that the recruiting surge from the June 2011 biennial convention had on third quarter 2011 policy sales. The surge in new recruits translated to increased sales opportunities and significantly impacted the number of new policies issued in the third quarter of 2011. The decline during the nine months ended September 30, 2012 was not as significant because increased productivity during the first half of 2012 resulted in a higher volume of policies issued compared with the first half of 2011.

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The changes in the face amount of our in-force book of term life insurance policies were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|--|-----------------------|-----------|---------|------|-----------------------|-----------|-----------|---------|-----|---|
| | September 30, 2012 | 2011 | \$ | % | September 30, 2012 | 2011 | \$ | % | | |
| | (Dollars in millions) | | | | | | | | | |
| Face amount in force, beginning of period | \$668,024 | \$663,617 | \$4,407 | 1 | % | \$664,955 | \$656,791 | \$8,164 | 1 | % |
| Issued face amount | 16,345 | 18,885 | (2,540) | (13) | % | 51,635 | 54,594 | (2,959) | (5) | % |
| Terminations | (15,566) | (16,221) | (655) | (4) | % | (46,196) | (48,192) | (1,996) | (4) | % |
| Foreign currency | 328 | (99) | 427 | * | | (1,263) | 2,989 | (4,252) | * | |
| Face amount in force, end of period | \$669,131 | \$666,182 | \$2,949 | * | | \$669,131 | \$666,182 | \$2,949 | * | |

* Less than 1% or not meaningful

Issued face amount decreased during 2012 due to the impact that the recruiting surge in 2011 had on new policies issued in the prior year combined with the lower average size of policies issued for TermNow. Terminations decreased in 2012 as a result of higher persistency mainly on older policy issue years.

Investment and Savings Product Segment Results. Investment and Savings Products segment results were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|-------------------------------|------------------------|----------|---------|------|-----------------------|-----------|-----------|---------|------|---|
| | September 30, 2012 | 2011 | \$ | % | September 30, 2012 | 2011 | \$ | % | | |
| | (Dollars in thousands) | | | | | | | | | |
| Revenues: | | | | | | | | | | |
| Commissions and fees: | | | | | | | | | | |
| Sales-based revenues | \$43,120 | \$42,244 | \$876 | 2 | % | \$134,856 | \$130,276 | \$4,580 | 4 | % |
| Asset-based revenues | 45,627 | 41,996 | 3,631 | 9 | % | 133,099 | 132,169 | 930 | 1 | % |
| Account-based revenues | 9,826 | 10,140 | (314) | (3) | % | 28,693 | 32,383 | (3,690) | (11) | % |
| Other, net | 2,590 | 3,106 | (516) | (17) | % | 7,616 | 8,090 | (474) | (6) | % |
| Total revenues | 101,163 | 97,486 | 3,677 | 4 | % | 304,264 | 302,918 | 1,346 | * | |
| Expenses: | | | | | | | | | | |
| Amortization of DAC | 1,411 | 4,034 | (2,623) | (65) | % | 7,514 | 10,570 | (3,056) | (29) | % |
| Insurance commissions | 2,322 | 2,277 | 45 | 2 | % | 6,723 | 6,761 | (38) | (1) | % |
| Sales commissions: | | | | | | | | | | |
| Sales-based | 30,521 | 29,640 | 881 | 3 | % | 95,406 | 91,583 | 3,823 | 4 | % |
| Asset-based | 15,557 | 13,805 | 1,752 | 13 | % | 45,334 | 44,367 | 967 | 2 | % |
| Other operating expenses | 19,744 | 20,982 | (1,238) | (6) | % | 59,365 | 61,380 | (2,015) | (3) | % |
| Total expenses | 69,555 | 70,738 | (1,183) | (2) | % | 214,342 | 214,661 | (319) | * | |
| Income before income taxes | \$31,608 | \$26,748 | \$4,860 | 18 | % | \$89,922 | \$88,257 | \$1,665 | 2 | % |

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Supplemental information on the underlying metrics that drove results follows.

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|--|--------------------|--------------------|---------|-------|--------------------|--------------------|---------|-------|--|--|
| | September 30, 2012 | September 30, 2011 | \$ | % | September 30, 2012 | September 30, 2011 | \$ | % | | |
| (Dollars in millions and accounts in thousands) | | | | | | | | | | |
| Product sales: | | | | | | | | | | |
| Retail mutual funds | \$546 | \$498 | \$48 | 10 % | \$1,747 | \$1,747 | \$— | * | | |
| Annuities and other | 445 | 483 | (38) | (8) % | 1,374 | 1,286 | 88 | 7 % | | |
| Total sales-based revenue generating product sales | 991 | 981 | 10 | 1 % | 3,121 | 3,033 | 88 | 3 % | | |
| Managed accounts | 37 | 12 | 25 | * | 100 | 12 | 88 | * | | |
| Segregated funds and other | 64 | 67 | (3) | (4) % | 252 | 264 | (12) | (5) % | | |
| Total product sales | \$1,092 | \$1,060 | \$32 | 3 % | \$3,473 | \$3,309 | \$164 | 5 % | | |
| Average client asset values: | | | | | | | | | | |
| Retail mutual funds | \$23,750 | \$23,500 | \$250 | 1 % | \$23,723 | \$24,571 | \$(848) | (3) % | | |
| Annuities and other | 9,245 | 8,192 | 1,053 | 13 % | 8,978 | 8,341 | 637 | 8 % | | |
| Managed accounts | 425 | 21 | 404 | * | 321 | 7 | 314 | * | | |
| Segregated funds | 2,542 | 2,479 | 63 | 3 % | 2,523 | 2,501 | 22 | 1 % | | |
| Total average client asset values | \$35,962 | \$34,192 | \$1,770 | 5 % | \$35,545 | \$35,420 | \$125 | * | | |
| Average number of fee-generating accounts: | | | | | | | | | | |
| Recordkeeping accounts | 2,552 | 2,626 | (74) | (3) % | 2,573 | 2,633 | (60) | (2) % | | |
| Custodial accounts | 1,945 | 1,959 | (14) | (1) % | 1,946 | 1,955 | (9) | * | | |

* Less than 1% or not meaningful

Results for the Three Months Ended September 30, 2012 and 2011

Total revenues. The increase in commissions and fees in 2012 was largely driven by higher average client asset values as well as a moderate increase in product sales. Higher asset-based revenues were primarily the result of the increase in average client asset values, which reflect market conditions combined with an increase in sales mix towards managed accounts products launched in 2011. The distribution of managed accounts results in higher ongoing asset-based revenues in lieu of upfront sales-based revenues. The increase in product sales was driven by higher mutual fund sales and new offerings of fixed-indexed annuities, which was partially offset by a decline in variable annuity sales largely related to lower internal exchanges. The increases in total revenues were slightly offset by a recordkeeping fee structure change that resulted in a decrease in account-based revenues and other operating expenses. Amortization of DAC. The decrease in DAC amortization on our Canadian Segregated Funds products in 2012 resulted primarily from market returns in the invested assets underlying Canadian Segregated Funds that showed strong improvement from the market losses experienced in the prior-year period.

Sales commissions. The increase in commissions in 2012 was primarily the result of the increase in sales and asset-based revenues discussed above.

Other operating expenses. Other operating expenses decreased primarily due to the impact of the recordkeeping fee structure change, which was offset by decreased account-based revenue.

Results for the Nine Months Ended September 30, 2012 and 2011

Total revenues. Commissions and fees increased slightly as higher sales from annuity products were largely offset by the decline in account-based revenue from the recordkeeping fee structure change. Asset-based revenues increased modestly as higher revenue from managed accounts was offset by lower average client asset values during the first six months of 2012 due to market conditions.

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Amortization of DAC. The decrease in DAC amortization was primarily due to the impact from market returns in the invested assets underlying Canadian Segregated Funds in the third and second quarter of 2012.

Sales commissions. Sales-based commissions increased mainly due to the increases in annuity sales noted above.

Other operating expenses. The decline in operating expenses during the nine months ended September 30, 2012 was largely attributable to the impact of the recordkeeping fee structure change noted above. This impact was partially offset by higher new product offering expenses in 2012 combined with the impact of the prior-year release of management incentive compensation accruals.

Asset Values in Client Accounts

Changes in asset values in client accounts were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | | | |
|---------------------------------------|-----------------------|--------------------|---------|------|--------------------|--------------------|-----------|------|--|--|
| | September 30, 2012 | September 30, 2011 | \$ | % | September 30, 2012 | September 30, 2011 | \$ | % | | |
| | (Dollars in millions) | | | | | | | | | |
| Asset values, beginning of period | \$35,286 | \$36,020 | \$(734) | (2)% | \$33,664 | \$34,869 | \$(1,205) | (3)% | | |
| Inflows | 1,092 | 1,060 | 32 | 3% | 3,473 | 3,310 | 163 | 5% | | |
| Redemptions | (1,014) | (1,091) | (77) | (7)% | (3,391) | (3,292) | 99 | 3% | | |
| Change in market value, net and other | 1,540 | (4,365) | 5,905 | * | 3,158 | (3,263) | 6,421 | * | | |
| Asset values, end of period | \$36,904 | \$31,624 | \$5,280 | 17% | \$36,904 | \$31,624 | \$5,280 | 17% | | |

* Not meaningful

The increase in asset values in 2012 was primarily attributable to favorable market conditions. The growth in inflows was consistent with the increase in sales volume for both the quarter-to-date and year-to-date periods. Redemptions declined during the three months ended September 30, 2012 largely due to a decrease in the volume of internal exchanges for variable annuities. For the nine months ended September 30, 2012, the rate of redemptions relative to average client asset values remained consistent with the nine months ended September 30, 2011.

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Corporate and Other Distributed Products Segment Results. Corporate and Other Distributed Products segment results were as follows:

| | Three months ended | | Change | | Nine months ended | | Change | |
|---|-----------------------|------------|-----------|-------|-----------------------|------------|-----------|-------|
| | September 30, 2012 | 2011 | \$ | % | September 30, 2012 | 2011 | \$ | % |
| (Dollars in thousands) | | | | | | | | |
| Revenues: | | | | | | | | |
| Direct premiums | \$ 18,205 | \$ 21,046 | \$(2,841) | (13)% | \$ 56,828 | \$ 61,545 | \$(4,717) | (8)% |
| Ceded premiums | (3,751) | (3,710) | 41 | 1% | (11,132) | (10,969) | 163 | 1% |
| Net premiums | 14,454 | 17,336 | (2,882) | (17)% | 45,696 | 50,576 | (4,880) | (10)% |
| Commissions and fees | 5,764 | 6,502 | (738) | (11)% | 18,355 | 20,868 | (2,513) | (12)% |
| Allocated net investment income | 8,486 | 11,439 | (2,953) | (26)% | 24,843 | 35,831 | (10,988) | (31)% |
| Realized investment gains (losses), including OTTI losses | 3,872 | (178) | 4,050 | * | 10,324 | 2,184 | 8,140 | * |
| Other, net | 1,338 | 1,493 | (155) | (10)% | 4,185 | 4,545 | (360) | (8)% |
| Total revenues | 33,914 | 36,592 | (2,678) | (7)% | 103,403 | 114,004 | (10,601) | (9)% |
| Benefits and expenses: | | | | | | | | |
| Benefits and claims | 10,005 | 12,034 | (2,029) | (17)% | 29,370 | 35,670 | (6,300) | (18)% |
| Amortization of DAC | 178 | 323 | (145) | (45)% | 2,331 | 970 | 1,361 | 140% |
| Insurance commissions | 2,193 | 2,627 | (434) | (17)% | 6,855 | 7,291 | (436) | (6)% |
| Insurance expenses | 3,213 | 2,947 | 266 | 9% | 8,747 | 9,293 | (546) | (6)% |
| Sales commissions | 3,292 | 3,692 | (400) | (11)% | 9,822 | 11,898 | (2,076) | (17)% |
| Interest expense | 4,471 | 4,125 | 346 | 8% | 12,721 | 12,375 | 346 | 3% |
| Other operating expenses | 20,190 | 21,749 | (1,559) | (7)% | 62,120 | 62,942 | (822) | (1)% |
| Total benefits and expenses | 43,542 | 47,497 | (3,955) | (8)% | 131,966 | 140,439 | (8,473) | (6)% |
| Loss before income taxes | \$(9,628) | \$(10,905) | \$(1,277) | (12)% | \$(28,563) | \$(26,435) | \$2,128 | 8% |

* Less than 1% or not meaningful

Results for the Three Months Ended September 30, 2012 and 2011

Total revenues. Total revenues decreased in 2012 primarily due to lower net investment income from a lower average base of invested assets subsequent to share repurchases in November 2011 and April 2012 and a higher allocation to the Term Life segment. The decline also resulted from the termination of our loan business and a decrease in our short-term disability product line. These decreases were partially offset by realized investment gains due to income received from certain fixed income securities that were tendered during the third quarter.

Total benefits and expenses. The decrease in benefits and claims is primarily due to lower claims on short-term disability products. The decline in other operating expenses is largely attributable to a \$2.7 million print inventory charge incurred in 2011 due to the discontinuation of carrying inventory in our print operations. Partially offsetting the decrease in other operating expenses are higher employee compensation costs from merit increases and an additional year of stock compensation amortization following our corporate reorganization.

Results for the Nine Months Ended September 30, 2012 and 2011

Total revenues. The decrease in total revenues was largely attributable to the factors discussed in the three-month comparison above. In addition, the remaining increase in realized investment gains during the nine-month period is primarily the result of gains realized from the sale of invested assets sold to fund the April 2012 share repurchase.

Total benefits and expenses. The decline in benefits and claims was largely attributable to lower claims on short-term disability products and refinements in our policy estimates for student life insurance products underwritten by NBLIC. Partially offsetting this decrease was higher DAC amortization associated with the refinements in policy

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estimates for the student life products. The decrease in other operating expenses is primarily driven by the items discussed above in the three-month comparison.

Financial Condition

Investments. We have an investment committee composed of members of our senior management team that is responsible for establishing and maintaining our investment guidelines and supervising our investment activity. We follow a conservative investment strategy designed to emphasize the preservation of our invested assets and provide adequate liquidity for the prompt payment of claims. To meet business needs and mitigate risks, our investment guidelines provide restrictions on our portfolio's composition, including limits on asset type, sector limits, credit quality limits, portfolio duration, limits on the amount of investments in approved countries and permissible security types. Additionally, to ensure adequate liquidity for payment of claims, we take into account the maturity and duration of our invested asset portfolio and our general liability profile.

Our invested asset portfolio is subject to a variety of risks, including risks related to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk. Investment guideline restrictions have been established to minimize the effect of these risks but may not always be effective due to factors beyond our control. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A significant increase in interest rates could result in significant losses, realized or unrealized, in the value of our invested asset portfolio.

The composition and duration of our portfolio will vary depending on several factors, including the yield curve and our opinion of the relative value among various asset classes. The average rating and average approximate duration of our fixed-maturity portfolio were as follows:

| | September 30, 2012 | December 31, 2011 |
|--|-----------------------|-------------------|
| Average rating of our fixed-maturity portfolio | A | A |
| Average duration of our fixed-maturity portfolio | 3.8 years | 3.5 years |
| Average book yield of our fixed-maturity portfolio | 5.30% | 5.52% |

The distribution of our investments in fixed-maturity securities by rating follows.

| | September 30, 2012 | | December 31, 2011 | |
|------------------------|------------------------|------|-------------------|------|
| | Amortized cost | % | Amortized cost | % |
| | (Dollars in thousands) | | | |
| AAA | \$345,163 | 20% | \$428,748 | 24% |
| AA | 144,648 | 8% | 150,894 | 8% |
| A | 413,323 | 24% | 431,175 | 24% |
| BBB | 747,369 | 43% | 683,818 | 38% |
| Below investment grade | 91,160 | 5% | 125,594 | 7% |
| Not rated | 4,054 | * | 770 | * |
| Total (1) | \$1,745,717 | 100% | \$1,820,999 | 100% |

* Less than 1%

(1) Totals may not add due to rounding.

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The ten largest holdings within our invested asset portfolio were as follows:

| Issuer | September 30, 2012 | | | |
|--|------------------------------|---------------|--------------------|------------------|
| | Cost or amortized cost | Fair value | Unrealized gain | Credit rating |
| | (Dollars in thousands) | | | |
| Government of Canada | \$29,584 | \$33,157 | \$3,573 | AAA |
| General Electric Co | 15,373 | 17,265 | 1,892 | AA |
| International Business Machines Corp | 12,316 | 13,640 | 1,324 | AA- |
| Bank of America Corp | 11,122 | 12,252 | 1,130 | A- |
| Verizon Communications Inc | 9,501 | 10,991 | 1,490 | A- |
| Iberdrola SA | 9,444 | 10,655 | 1,211 | BBB+ |
| ProLogis Inc | 9,414 | 10,425 | 1,011 | BBB- |
| Province of Ontario Canada | 9,168 | 11,725 | 2,557 | AA- |
| National Rural Utilities Cooperative | 7,186 | 10,585 | 3,399 | A+ |
| Province of Quebec Canada | 7,060 | 8,967 | 1,907 | A+ |
| Total – ten largest holdings | \$120,168 | \$139,662 | \$19,494 | |
| Total – fixed-maturity and equity securities | \$1,774,625 | \$1,966,230 | | |
| Percent of total fixed-maturity and equity securities ⁷ | | % 7 | % | |

Sales of invested assets to fund our April 2012 repurchase of \$150.0 million of our common stock did not result in meaningful changes to asset mix, duration or overall credit quality of our invested asset portfolio. However, it did reduce our consolidated cash and invested assets and, as a result, net investment income. Our average book yield at September 30, 2012 decreased from December 31, 2012, reflecting the replacement of higher-yield invested asset maturities with lower-yield invested asset acquisitions available in the current interest rate environment. The decrease in the average book yield was partially offset as the investments sold to fund the repurchase generally had yields that were lower than the average book yield on the invested assets portfolio before the repurchase.

For additional information on our invested asset portfolio, see Note 3 to our condensed consolidated financial statements.

Liquidity and Capital Resources

Dividends and other payments to us from our subsidiaries are our principal sources of cash. Our primary uses of funds by the Parent Company include the payment of dividends, the payment of interest to noteholders, and the payment of general operating expenses. At September 30, 2012, the Parent Company had cash and invested assets of approximately \$134.9 million, of which approximately \$65.2 million was subsequently deployed for share repurchases in October 2012.

The liquidity requirements of our subsidiaries principally relate to the liabilities associated with their distribution and underwriting of insurance products (including the payment of claims), distribution of investment and savings products, operating expenses, income taxes and the payment of dividends. Historically, our insurance subsidiaries have used cash flow from operations associated with our in-force book of term life insurance to fund their liquidity requirements. Our insurance subsidiaries' principal cash inflows from operating activities are derived from policyholder premiums and investment income earned on invested assets that support our statutory capital and reserves. We also derive cash inflows from the distribution of investment and savings products and other products. Our principal outflows relate to payments for ceded premiums and benefits and claims. The principal cash inflows from investment activities result from repayments of principal and investment income, while the principal outflows relate to purchases of fixed-maturity securities. We typically hold cash sufficient to fund operating flows, and invest any excess cash.

Our distribution and underwriting of term life insurance place significant demands on our liquidity, particularly when we experience growth. We pay a substantial majority of the sales commission during the first year following the sale of a policy. Our underwriting activities also require significant cash outflows at the inception of a policy's term. However, we anticipate that cash flows from our businesses, including our existing block of term life policies and our

investment and savings products, will continue to provide us with sufficient liquidity to meet our operating requirements.

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We may seek to enhance our liquidity position or capital structure through borrowings from third-party sources, sales of debt or equity securities, reserve financings or some combination of these sources.

Cash Flows. Cash flows from operating activities are affected primarily by the timing of premiums received, commissions and fees received, benefits paid, commissions paid to sales representatives, administrative and selling expenses, investment income, and cash taxes. Our principal source of cash historically has been premiums received on term life insurance policies in force.

We typically generate positive cash flows from operating activities, as premiums, net investment income, commissions and fees collected from our insurance and investment and savings products exceed benefits, commissions and operating expenses paid, and we invest the excess.

The components of the change in cash and cash equivalents were as follows:

| | Nine months ended September 30, | | Change |
|---|---------------------------------|----------|-----------|
| | 2012 | 2011 | \$ |
| | (In thousands) | | |
| Net cash provided by (used in) operating activities | \$107,393 | \$13,330 | \$94,063 |
| Net cash provided by (used in) investing activities | 54,349 | 24,944 | 29,405 |
| Net cash provided by (used in) financing activities | (112,737) | (9,411) | (103,326) |
| Effect of foreign exchange rate changes on cash | 740 | (874) | 1,614 |
| Change in cash and cash equivalents | \$49,745 | \$27,989 | \$21,756 |

Operating Activities. Net cash provided by operating activities increased primarily due to cash received from the collection of premium revenue in excess of benefits and claims paid in our New Term business. The additional layering of net premiums from our New Term business has generated positive incremental cash flows after payments are made for policy acquisition costs during the first year that policies are issued. Cash provided by operating activities also increased due to a difference in the timing of when payments were due to Citi for coinsurance activity. Proceeds from the sale of trading investments to fund the share repurchases further contributed to the increase in cash provided by operating activities. These items were partially offset by a decrease in cash resulting from the timing of amounts due from reinsurers.

Investing Activities. The increase in investing cash flows as compared to the same period a year ago was primarily driven by proceeds from the sale of available-for-sale investments to fund share repurchases.

Financing Activities. The increase in net cash used in financing activities in 2012 was due to share repurchases and higher quarterly cash dividends, which was partially offset by increased borrowings from the refinancing of our notes payable.

Notes Payable. In April 2010, we issued a \$300.0 million note to Citi as part of our corporate reorganization. On July 16, 2012, we publicly issued \$375.0 million in principal amount of the Senior Notes and used a portion of the net cash proceeds to repay the Citi Note in whole at a redemption price equal to 100% of the outstanding principal amount plus accrued and unpaid interest as of that date.

We issued the Senior Notes at a price of 99.843% and an annual rate of 4.750% and interest of approximately \$8.9 million is paid semi-annually on January 15 and July 15, commencing on January 15, 2013. The term of the Senior Notes ends on July 15, 2022 with a principal payment of \$375.0 million due upon maturity. We were in compliance with the covenants of the Senior Notes at September 30, 2012. No events of default or defaults occurred on the Senior Notes or the Citi Note during the nine months ended September 30, 2012. For additional information, see Note 6 to our condensed consolidated financial statements.

We calculate our debt-to-capital ratio by dividing total long-term debt by the sum of stockholders' equity and total long-term debt. As of September 30, 2012, our debt-to-capital ratio was 21.9%.

Rating Agencies. There have been no changes to Primerica, Inc.'s senior debt ratings or Primerica Life's financial strength ratings since December 31, 2011.

Risk-Based Capital. The NAIC has established risk-based capital ("RBC") standards for U.S. life insurers, as well as a risk-based capital model act (the "RBC Model Act") that has been adopted by the insurance regulatory authorities. The RBC Model Act requires that life insurers annually submit a report to state regulators regarding their

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RBC based upon four categories of risk: asset risk; insurance risk; interest rate risk and business risk. The capital requirement for each is determined by applying factors that vary based upon the degree of risk to various asset, premiums and reserve items. The formula is an early warning tool to identify possible weakly capitalized companies for purposes of initiating further regulatory action.

As of September 30, 2012, our U.S. life insurance subsidiaries had statutory capital substantially in excess of the applicable statutory requirements to support existing operations and to fund future growth.

In Canada, an insurer's minimum capital requirement is overseen by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and determined as the sum of the capital requirements for five categories of risk: asset default risk; mortality/morbidity/lapse risks; changes in interest rate environment risk; segregated funds risk and foreign exchange risk. Primerica Life Canada is in compliance with Canada's minimum capital requirements as of September 30, 2012, as determined by OSFI.

Short-term Borrowings. We had no short-term borrowings as of or during the nine months ended September 30, 2012. **Off-Balance Sheet Arrangements.** Effective March 31, 2012, Peach Re entered into the Credit Facility Agreement with Deutsche Bank. Under the Credit Facility Agreement, a letter of credit ("LOC") was issued to support certain obligations of Peach Re for a portion of reserves (commonly referred to as Regulation XXX reserves) related to level premium term life insurance policies ceded to Peach Re from Primerica Life under a coinsurance agreement, effective as of March 31, 2012. The LOC has a term of approximately 14 years and was issued in an initial amount of \$450.0 million. Subject to certain conditions, the amount of the LOC will be periodically increased to a maximum amount of \$510.0 million in 2014.

Pursuant to the terms of the Credit Facility Agreement, in the event amounts are drawn under the LOC by Primerica Life, Peach Re will be obligated, subject to certain limited conditions, to reimburse Deutsche Bank for the amount of any draw and interest thereon. The Credit Facility Agreement is non-recourse to the Parent Company and Primerica Life, meaning that neither is liable for repaying Deutsche Bank for any draws or interest thereon. Pursuant to the terms of a letter agreement with Deutsche Bank, the Parent Company has agreed to guarantee the payment of fees to Deutsche Bank under the Credit Facility Agreement. Pursuant to the Credit Facility Agreement, Peach Re has collateralized its obligations to Deutsche Bank by granting it a security interest in all of its assets with the exception of amounts held in a special account established to meet minimum asset thresholds required by state regulatory authorities.

Contractual Obligations Update. The material changes in contractual obligations from those disclosed in the 2011 Annual Report as of September 30, 2012 were as follows:

| | Total payments (in millions) | Payments remaining in 2012 | Payments in 2013-2015 | Payments in 2016-2018 | Payments in 2019 and after |
|--|------------------------------------|----------------------------------|--------------------------|--------------------------|-------------------------------|
| Interest on LOC | \$56.7 | \$3.2 | \$20.6 | \$17.3 | \$15.6 |
| Principal and interest on Senior Notes (1) | 553.0 | — | 53.4 | 53.4 | 446.2 |
| Fees for enterprise software licensing and maintenance contractual agreement | 16.3 | 1.4 | 14.9 | — | — |
| Purchase obligations under managed accounts advisory contractual agreement | 16.3 | 0.3 | 7.5 | 7.5 | 1.0 |

On July 16, 2012, the outstanding principal amount plus all accrued and unpaid interest on the Citi Note was repaid (1) with proceeds received from the issuance of the Senior Notes. No remaining payments or contractual obligations remain on the Citi Note as of September 30, 2012.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Investors are cautioned that certain statements contained in this report as well as some statements in periodic press releases and some oral statements made by our officials during our presentations are “forward-looking” statements. Forward-looking statements include, without limitation, any statement that may project, indicate or imply

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future results, events, performance or achievements, and may contain the words “expect,” “intend,” “plan,” “anticipate,” “estimate,” “believe,” “will be,” “will continue,” “will likely result,” and similar expressions, or future conditional verbs such as “may,” “will,” “should,” “would,” and “could.” In addition, any statement concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible actions taken by us or our subsidiaries are also forward-looking statements. These forward-looking statements involve external risks and uncertainties, including, but not limited to, those described under the section entitled “Risk Factors” included herein. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond the control of our management team. All forward-looking statements in this report and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by these risks and uncertainties. These risks and uncertainties include, among others:

- our failure to continue to attract and license new recruits, retain sales representatives, or license or maintain the licensing of our sales representatives;
- changes to the independent contractor status of our sales representatives;
- our or our sales representatives' violation of, or non-compliance with, laws and regulations;
- our or our sales representatives' failure to protect the confidentiality of client information;
- differences between our actual experience and our expectations regarding mortality, persistency, expenses and investment yields as reflected in the pricing for our insurance policies;
- the occurrence of a catastrophic event that causes a large number of premature deaths of our insureds;
- changes in federal and state legislation and regulation, including other legislation or regulation that affects our insurance, investment product businesses;
- our failure to meet risk-based capital standards or other minimum capital or surplus requirements;
- a downgrade or potential downgrade in our insurance subsidiaries' financial strength ratings or in the investment grade credit ratings for our senior unsecured debt;
- the effects of credit deterioration and interest rate fluctuations on our invested asset portfolio;
- incorrectly valuing our investments;
- inadequate or unaffordable reinsurance or the failure of our reinsurers to perform their obligations;
- the failure of, or legal challenges to, the support tools we provide to our sales force;
- heightened standards of conduct or more stringent licensing requirements for our sales representatives;
- inadequate policies and procedures regarding suitability review of client transactions;
- the inability of our subsidiaries to pay dividends or make distributions;
- our ability to generate and maintain a sufficient amount of working capital;
- our non-compliance with the covenants of our senior unsecured debt;
- legal and regulatory investigations and actions concerning us or our sales representatives;
- the loss of key personnel;
- the failure of our information technology systems, breach of our information security or failure of our business continuity plan; and
- fluctuations in Canadian currency exchange rates.

Developments in any of these areas could cause actual results to differ materially from those anticipated or projected or cause a significant reduction in the market price of our common stock and debt securities.

The foregoing list of risks and uncertainties may not contain all of the risks and uncertainties that could affect us. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this document may not in fact occur. Accordingly, undue reliance should not be placed on these statements. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise, except as otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest rate risk

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The fair value of the fixed-maturity securities in our invested asset portfolio as of September 30, 2012 was \$1.93 billion. The primary market risk for this portion of our invested asset portfolio is interest rate risk. One means of assessing the exposure of our fixed-maturity securities portfolios to interest rate changes is a duration-based analysis that measures the potential changes in market value resulting from a hypothetical change in interest rates of 100 basis points across all maturities. This model is sometimes referred to as a parallel shift in the yield curve. Under this model, with all other factors constant and assuming no offsetting change in the value of our liabilities, we estimated that such an increase in interest rates would cause the market value of our fixed-maturity securities portfolios to decline by approximately \$66.8 million, or 4%, based on our actual securities positions as of September 30, 2012.

Canadian currency risk

We also have exposure to foreign currency exchange risk to the extent we conduct business in Canada. For the three months and nine months ended September 30, 2012, 18% and 19%, respectively, of our revenues from operations, excluding realized investment gains, were generated by our Canadian operations. A strong Canadian dollar relative to the U.S. dollar results in higher levels of reported revenues, expenses, net income, assets, liabilities and accumulated other comprehensive income (loss) in our U.S. dollar financial statements and a weaker Canadian dollar has the opposite effect. Historically, we have not hedged this exposure, although we may elect to do so in future periods. One means of assessing exposure to changes in Canadian currency exchange rates is to model the effects on reported income using a sensitivity analysis. We analyzed our Canadian currency exposure for the three and nine months ended September 30, 2012. Net exposure was measured assuming a 10% decrease in Canadian currency exchange rates compared to the U.S. dollar. We estimated that such a decrease would decrease our net income before income taxes for the three and nine months ended September 30, 2012 by approximately \$1.6 million and \$4.6 million, respectively.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Co-Chief Executive Officers and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, the Company's Co-Chief Executive Officers and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. Additional information regarding certain legal proceedings to which we are a party is described in Note 10 to our condensed consolidated financial statements and such information is incorporated herein by reference.

ITEM 1A. RISK FACTORS.

The Risk Factors contained in the 2011 Annual Report are incorporated herein by reference.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the quarter ended September 30, 2012, we repurchased shares of our common stock as follows.

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs (1) | Approximate dollar value of shares that may yet be purchased under the plans or programs (1) |
|------------------------|----------------------------------|------------------------------|--|--|
| July 1 - 31, 2012 | — | \$— | — | \$— |
| August 1 - 31, 2012 | — | — | — | 75,000,000 |
| September 1 - 30, 2012 | 308,214 | 29.60 | 308,214 | 65,875,754 |
| Total | 308,214 | \$29.60 | 308,214 | N/A |

(1) On August 6, 2012, our Board of Directors authorized a share repurchase program of up to \$75.0 million of the Company's common stock. This share repurchase program was discontinued on October 10, 2012 upon completion of the repurchase of 2,087,682 of our common stock for a total purchase price of approximately \$60.0 million from certain private equity funds managed by Warburg Pincus LLC. In total, we repurchased 2,575,896 shares of our common stock for an aggregate purchase price of approximately \$74.3 million under this share repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

The agreements included as exhibits to this report are included to provide you with information regarding the terms of these agreements and are not intended to provide any other factual or disclosure information about the Company or its subsidiaries, our business or the other parties to these agreements. These agreements may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

• should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

• have been qualified by disclosures that were made to the other party in connection with the negotiation of the application agreement, which disclosures are not necessarily reflected in the agreement;

• may apply standards of materiality in a way that is different from what may be viewed as material to our investors; and

• were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time, and should not be relied upon by investors.

| Exhibit Number | Description |
|-------------------|--|
| 3.1 | Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Primerica's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680)) |
| 3.2 | Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 to Primerica's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (Commission File No. 001-34680)) |
| 4.1 | Indenture, dated as of July 16, 2012, between Primerica, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.1 to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680)) |
| 4.2 | First Supplemental Indenture, dated as of July 16, 2012, between Primerica, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.2 to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680)) |
| 4.3 | Form of 4.750% Senior Notes due 2022 (included in Exhibit 4.2 filed herewith) (Incorporated by reference to Exhibit 4.2 to Primerica's Current Report on Form 8-K dated July 11, 2012 (Commission File No. 001-34680)) |
| 10.1 | Share Repurchase Agreement dated as of October 4, 2012 by and between Warburg Pincus Private Equity X, L.P., Warburg Pincus X Partners, L.P. and Primerica, Inc. (Incorporated by reference to Exhibit 99.2 to Primerica's Current Report on Form 8-K dated October 4, 2012 (Commission File No. 001-34680)) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification, executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification, executed by John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer |
| 31.3 | Rule 13a-14(a)/15d-14(a) Certification, executed by Alison S. Rand, Executive Vice President and Chief Financial Officer |
| 32.1 | Certifications required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350), executed by D. Richard Williams, Chairman of the Board and Co-Chief Executive Officer, John A. Addison, Chairman of Primerica Distribution and Co-Chief Executive Officer, and Alison S. Rand, Executive Vice President and Chief Financial Officer |
| 101.INS* | XBRL Instance Document (1) |
| 101.SCH* | XBRL Taxonomy Extension Schema |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections. The financial information contained in the XBRL(eXtensible Business Reporting Language)-related documents is unaudited and unreviewed.

(1) Includes the following materials contained in this Quarterly Report on Form 10-Q for the period ended September 30, 2012, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Primerica, Inc.

November 8, 2012

/s/ Alison S. Rand

Alison S. Rand

Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)