Primerica, Inc.
Form 10-Q
November 09, 2016

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, 2016

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	27-1204330
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Primerica Parkway	30099

Duluth, Georgia
(Address of principal executive offices) (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

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, 2016
Common Stock, $0.01 Par Value	45,801,431 shares

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	(Unaudited) September 30, 2016	December 31, 2015
	(In thousands)	
Assets		
Investments:		
Fixed-maturity securities available-for-sale, at fair value (amortized cost: $1,660,347 in 2016 and $1,690,043 in 2015)	$1,761,174	$1,731,459
Fixed-maturity securities held-to-maturity, at amortized cost (fair value: $500,823 in 2016 and $371,742 in 2015)	454,000	365,220
Equity securities available-for-sale, at fair value (cost: $37,966 in 2016 and $39,969 in 2015)	47,539	47,839
Trading securities, at fair value (cost: $12,268 in 2016 and $5,383 in 2015)	12,259	5,358
Policy loans	30,801	28,627
Total investments	2,305,773	2,178,503
Cash and cash equivalents	195,323	152,294
Accrued investment income	17,449	17,080
Due from reinsurers	4,161,537	4,110,628
Deferred policy acquisition costs, net	1,672,454	1,500,259
Agent balances, due premiums and other receivables	226,539	190,379
Intangible assets, net (accumulated amortization: $74,381 in 2016 and $71,828 in 2015)	55,766	58,318
Income taxes	29,313	35,067
Other assets	356,713	304,356
Separate account assets	2,347,816	2,063,899
Total assets	$11,368,683	$10,610,783
Liabilities and Stockholders' Equity		
Liabilities:		
Future policy benefits	$5,629,967	$5,431,711
Unearned premiums	526	628
Policy claims and other benefits payable	246,514	238,157
Other policyholders' funds	348,975	356,123
Notes payable	372,827	372,552
Surplus note	453,247	364,424
Income taxes	215,454	148,125
Other liabilities	436,621	417,910
Payable under securities lending	95,843	71,482
Separate account liabilities	2,347,816	2,063,899

Commitments and contingent liabilities (see Commitments and Contingent Liabilities note)		
Total liabilities	10,147,790	9,465,011
Stockholders' equity:		
Common stock ($0.01 par value; authorized 500,000 in 2016 and 2015; issued and		
outstanding 45,962 shares in 2016 and 48,297 shares in 2015)	460	483
Paid-in capital	66,510	180,250
Retained earnings	1,090,388	952,804
Accumulated other comprehensive income (loss), net of income tax:		
Unrealized foreign currency translation gains (losses)	(8,227)	(19,801)
Net unrealized investment gains (losses):		
Net unrealized investment gains not other-than-temporarily impaired	71,827	32,107
Net unrealized investment losses other-than-temporarily impaired	(65)	(71)
Total stockholders' equity	1,220,893	1,145,772
Total liabilities and stockholders' equity	$ 11,368,683	$ 10,610,783

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, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	(In thousands, except per-share amounts)			
Revenues:				
Direct premiums	$616,587	$587,882	$1,825,906	$1,753,589
Ceded premiums	(399,676)	(393,987)	(1,201,692)	(1,198,382)
Net premiums	216,911	193,895	624,214	555,207
Commissions and fees	134,282	132,368	400,005	404,353
Investment income net of investment expenses	24,356	22,487	74,742	67,918
Interest expense on surplus note	(4,957)	(3,772)	(13,716)	(8,954)
Net investment income	19,399	18,715	61,026	58,964
Realized investment gains (losses), including other-than-temporary impairment losses	(35)	(259)	2,623	1,623
Other, net	13,069	10,990	37,353	30,605
Total revenues	383,626	355,709	1,125,221	1,050,752
Benefits and expenses:				
Benefits and claims	93,022	88,599	272,983	253,621
Amortization of deferred policy acquisition costs	45,428	40,797	127,277	113,392
Sales commissions	66,700	67,402	203,489	207,358
Insurance expenses	32,837	30,266	98,873	93,365
Insurance commissions	4,709	4,619	13,328	11,953
Interest expense	7,184	8,718	21,534	26,036
Other operating expenses	45,309	40,355	137,206	126,439
Total benefits and expenses	295,189	280,756	874,690	832,164
Income before income taxes	88,437	74,953	250,531	218,588
Income taxes	30,400	25,603	87,991	76,664
Net income	$58,037	$49,350	$162,540	$141,924
Earnings per share:				
Basic earnings per share	$1.22	$0.98	$3.38	$2.73
Diluted earnings per share	$1.22	$0.98	$3.37	$2.73
Weighted-average shares used in computing earnings per share:				
Basic	47,008	50,082	47,736	51,494
Diluted	47,051	50,104	47,775	51,526
Supplemental disclosures:				
Total impairment losses	$(478)	$(1,564)	$(3,308)	$(2,433)
Impairment losses recognized in other comprehensive income before income taxes	-	-	-	-
Net impairment losses recognized in earnings	(478)	(1,564)	(3,308)	(2,433)

Other net realized investment gains (losses)	443	1,305	5,931	4,056
Realized investment gains (losses), including other-than-temporary impairment losses	$(35)	$(259)	$2,623	$1,623
Dividends declared per share	$0.18	$0.16	$0.52	$0.48

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss) – Unaudited

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Net income	$58,037	$49,350	$162,540	$141,924
Other comprehensive income (loss) before income taxes:				
Unrealized investment gains (losses):				
Change in unrealized holding gains/(losses) on investment securities	5,129	(18,019)	63,414	(35,078)
Reclassification adjustment for realized investment (gains) losses included in net income	33	381	(2,300)	(1,892)
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses) before income tax expense (benefit)	(3,165)	(16,323)	11,704	(33,731)
Total other comprehensive income (loss) before income taxes	1,997	(33,961)	72,818	(70,701)
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,777	(6,345)	21,518	(13,306)
Other comprehensive income (loss), net of income taxes	220	(27,616)	51,300	(57,395)
Total comprehensive income	$58,257	$21,734	$213,840	$84,529

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity – Unaudited

	Nine months ended September 30,	
	2016	2015
	(In thousands)	
Common stock:		
Balance, beginning of period	$483	$522
Repurchases of common stock	(29)	(41)
Net issuance of common stock	6	5
Balance, end of period	460	486
Paid-in capital:		
Balance, beginning of period	180,250	353,337
Share-based compensation	21,564	28,073
Net issuance of common stock	(6)	(5)
Repurchases of common stock	(135,298)	(187,180)
Adjustments to paid-in capital, other	-	1,089
Balance, end of period	66,510	195,314
Retained earnings:		
Balance, beginning of period	952,804	795,740
Net income	162,540	141,924
Dividends	(24,956)	(24,915)
Balance, end of period	1,090,388	912,749
Accumulated other comprehensive income (loss):		
Balance, beginning of period	12,235	95,527
Change in foreign currency translation adjustment, net of income tax expense (benefit)	11,574	(33,365)
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)	39,720	(24,419)
Change in net unrealized investment losses other-than-temporarily impaired, net of income tax expense (benefit)	6	389
Balance, end of period	63,535	38,132
Total stockholders' equity	$1,220,893	$1,146,681

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows – Unaudited

	Nine months ended September 30,	
	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Net income	$162,540	$141,924
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Change in future policy benefits and other policy liabilities	177,744	167,886
Deferral of policy acquisition costs	(281,397)	(243,346)
Amortization of deferred policy acquisition costs	127,277	113,392
Change in income taxes	51,598	31,349
Realized investment (gains) losses, including other-than-temporary impairments	(2,623)	(1,623)
Accretion and amortization of investments	(1,091)	(1,094)
Depreciation and amortization	10,879	8,201
Change in due from reinsurers	(34,907)	(33,248)
Change in agent balances, due premiums and other receivables	(36,160)	(21,553)
Trading securities sold, matured, or called (acquired), net	(6,917)	1,143
Share-based compensation	11,754	12,918
Change in other operating assets and liabilities, net	(13,809)	(34,957)
Net cash provided by (used in) operating activities	164,888	140,992
Cash flows from investing activities:		
Available-for-sale investments sold, matured or called:		
Fixed-maturity securities — sold	76,540	104,097
Fixed-maturity securities — matured or called	195,803	201,722
Equity securities	4,864	4,700
Available-for-sale investments acquired:		
Fixed-maturity securities	(228,986)	(264,457)
Equity securities	(1,074)	(794)
Purchases of property and equipment and other investing activities, net	(11,410)	(5,924)
Cash collateral received (returned) on loaned securities, net	24,361	33,009
Sales (purchases) of short-term investments using securities lending collateral, net	(24,361)	(33,009)
Net cash provided by (used in) investing activities	35,737	39,344
Cash flows from financing activities:		
Dividends paid	(24,956)	(24,915)
Common stock repurchased	(131,570)	(181,121)
Excess tax benefits on share-based compensation	1,684	4,624
Tax withholdings on share-based compensation	(3,757)	(6,101)
Cash proceeds from stock options exercised	-	136
Net cash provided by (used in) financing activities	(158,599)	(207,377)
Effect of foreign exchange rate changes on cash	1,003	(4,395)
Change in cash and cash equivalents	43,029	(31,436)

Cash and cash equivalents, beginning of period	152,294	191,997
Cash and cash equivalents, end of period	$195,323	$160,561

See accompanying notes to condensed consolidated financial statements.

PRIMERICA, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements — Unaudited

(1) Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business. Primerica, Inc. (the "Parent Company"), together with its subsidiaries (collectively, "we", "us" 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. ("PFS"), 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 PFSL Investments Canada Ltd. ("PFSL Investments Canada"); and PFS Investments Inc. ("PFS Investments"), an investment products company and broker-dealer. Primerica Life, domiciled in Massachusetts, owns National Benefit Life Insurance Company ("NBLIC"), a New York insurance company. We established Peach Re, Inc. ("Peach Re") and Vidalia Re, Inc. (“Vidalia Re”) as special purpose financial captive insurance companies and wholly owned subsidiaries of Primerica Life. Peach Re and Vidalia Re have each entered into separate coinsurance agreements with Primerica Life whereby Primerica Life has ceded certain level premium term life insurance policies to Peach Re and Vidalia Re (respectively, the “Peach Re Coinsurance Agreement” and the “Vidalia Re Coinsurance Agreement”).

Basis of Presentation. We prepare our financial statements in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). These principles are established primarily by the Financial Accounting Standards Board ("FASB"). The preparation of financial statements in conformity with U.S. 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 accompanying unaudited condensed consolidated financial statements contain all adjustments, generally consisting of normal recurring accruals, which are necessary to fairly present the balance sheets as of September 30, 2016 and December 31, 2015 and the statements of income and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and the statements of stockholders' equity and cash flows for the nine months ended September 30, 2016 and 2015. 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 regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are sufficient to make the information not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Annual Report").

Use of Estimates. 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 ("DAC"), liabilities for future policy benefits and unpaid policy claims, and income taxes. Estimates for these and other items are subject to change and are reassessed by management in accordance with U.S. GAAP. Actual results could differ from those estimates.

Consolidation. 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.

Reclassifications. Certain reclassifications have been made to prior-period amounts to conform to current-period reporting classifications. These reclassifications had no impact on net income or total stockholders' equity.

Subsequent Events. The Company has evaluated subsequent events for recognition and disclosure for occurrences and transactions after the date of the unaudited condensed consolidated financial statements dated as of September 30, 2016.

Significant Accounting Policies. All significant accounting policies remain unchanged from the 2015 Annual Report.

Future Application of Accounting Standards. Recent accounting guidance not discussed is not applicable, is immaterial to our financial statements, or did not or is not expected to have a material impact on our business. For additional information on new accounting pronouncements and recent accounting principles and their impact, if any, on our financial position or results of operations, see Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies) in our 2015 Annual Report and in the unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2016 and June 30, 2016.

(2) Segment and Geographical Information

Segments. We have two primary operating segments — Term Life Insurance and Investment and Savings Products. We also have a Corporate and Other Distributed Products segment.

Results of operations by segment were as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	(In thousands)			
Revenues:				
Term life insurance segment	$222,598	$197,205	$639,253	$563,795
Investment and savings products segment	130,080	128,596	387,604	392,561
Corporate and other distributed products segment	30,948	29,908	98,364	94,396
Total revenues	$383,626	$355,709	$1,125,221	$1,050,752
Income (loss) before income taxes:				
Term life insurance segment	$58,137	$46,519	$162,234	$127,284
Investment and savings products segment	35,760	34,811	103,514	107,600
Corporate and other distributed products segment	(5,460)	(6,377)	(15,217)	(16,296)
Total income before income taxes	$88,437	$74,953	$250,531	$218,588

Total assets by segment were as follows:

	September 30, 2016	December 31, 2015
	(In thousands)	
Assets:		
Term life insurance segment	$5,878,013	$5,638,682
Investment and savings products segment[1]	2,462,111	2,157,548
Corporate and other distributed products segment	3,028,559	2,814,553
Total assets	$11,368,683	$10,610,783

[1] The Investment and Savings Products segment includes assets held in separate accounts. Excluding separate accounts, the Investment and Savings Products segment assets were approximately $114.4 million and $93.8 million as of September 30, 2016 and December 31, 2015, respectively.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report for more information regarding the results of our operating segments.

Geographical Information. Results of operations by country and long-lived assets, primarily tangible assets reported in Other assets in our unaudited condensed consolidated balance sheets, were as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
	(In thousands)			
Revenues by country:				
United States	$323,560	$298,671	$947,618	$876,363

Canada	60,066	57,038	177,603	174,389
Total revenues	$383,626	$355,709	$1,125,221	$1,050,752
Income before income taxes by country:				
United States	$71,525	$61,116	$200,137	$170,172
Canada	16,912	13,837	50,394	48,416
Total income before income taxes	$88,437	$74,953	$250,531	$218,588

	September 30, 2016	December 31, 2015
	(In thousands)	
Long-lived assets by country:		
United States	$27,997	$ 28,621
Canada	865	787
Total long-lived assets	$28,862	$ 29,408

(3) Investments

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

	September 30, 2016			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$15,515	$547	$(1)	$16,061
Foreign government	121,993	9,843	(106)	131,730
States and political subdivisions	43,326	3,167	(34)	46,459
Corporates	1,246,969	78,951	(2,840)	1,323,080
Residential mortgage-backed securities	78,549	6,836	(107)	85,278
Commercial mortgage-backed securities	104,471	4,355	(51)	108,775
Other asset-backed securities	49,524	352	(85)	49,791
Total fixed-maturity securities(1)	1,660,347	104,051	(3,224)	1,761,174
Equity securities	37,966	10,147	(574)	47,539
Total fixed-maturity and equity securities	$1,698,313	$114,198	$(3,798)	$1,808,713

(1) Includes approximately $0.1 million of other-than-temporary impairment (“OTTI”) losses related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

	December 31, 2015			
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
U.S. government and agencies	$20,233	$448	$(22)	$20,659
Foreign government	114,656	7,082	(1,522)	120,216
States and political subdivisions	38,995	2,111	(541)	40,565
Corporates	1,276,965	49,008	(24,211)	1,301,762
Residential mortgage-backed securities	94,532	6,814	(121)	101,225
Commercial mortgage-backed securities	97,666	2,875	(555)	99,986
Other asset-backed securities	46,996	129	(79)	47,046
Total fixed-maturity securities(1)	1,690,043	68,467	(27,051)	1,731,459
Equity securities	39,969	8,252	(382)	47,839
Total fixed-maturity and equity securities	$1,730,012	$76,719	$(27,433)	$1,779,298

(1) Includes approximately $0.1 million of OTTI related to corporates and mortgage- and asset-backed securities recognized in accumulated other comprehensive income.

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.

The scheduled maturity distribution of the available-for-sale fixed-maturity portfolio at September 30, 2016 follows:

	Amortized cost	Fair value
	(In thousands)	
Due in one year or less	$94,127	$95,946
Due after one year through five years	690,909	734,979
Due after five years through 10 years	594,927	632,004
Due after 10 years	47,840	54,401
	1,427,803	1,517,330
Mortgage-and asset-backed securities	232,544	243,844
Total fixed-maturity securities	$1,660,347	$1,761,174

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.

Unrealized Gains and Losses on Investments. The net effect on stockholders' equity of unrealized gains and losses on available-for-sale investments was as follows:

	September 30, 2016	December 31, 2015
	(In thousands)	
Net unrealized investment gains including OTTI:		
Fixed-maturity and equity securities	$110,400	$49,286
OTTI	103	109
Net unrealized investment gains excluding OTTI	110,503	49,395
Deferred income taxes	(38,676)	(17,288)
Net unrealized investment gains excluding OTTI, net of tax	$71,827	$32,107

Trading Securities. We maintain a portfolio mostly of fixed-maturity securities that are classified as trading securities. The carrying values of the fixed-maturity securities classified as trading securities were approximately $12.3 million and $5.4 million as of September 30, 2016 and December 31, 2015, respectively.

Held-to-maturity Security. Concurrent with the execution of the Vidalia Re Coinsurance Agreement, Vidalia Re entered into a Surplus Note Purchase Agreement (the "Surplus Note Purchase Agreement") with Hannover Life Reassurance Company of America and certain of its affiliates (collectively, "Hannover Re") and a newly formed limited liability company (the "LLC") owned by a third party service provider. Under the Surplus Note Purchase Agreement, Vidalia Re issued a surplus note (the "Surplus Note") to the LLC in exchange for a credit enhanced note from the LLC with an equal principal amount (the "LLC Note"). The principal amount of both the LLC Note and the Surplus Note will fluctuate over time to coincide with the amount of reserves contractually supported under the Vidalia Re Coinsurance Agreement. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. The LLC Note is guaranteed by Hannover Re through a credit enhancement feature in exchange for a fee, which is reflected in interest expense on our unaudited condensed consolidated statements of income.

The LLC is a variable interest entity as its owner does not have an equity investment at risk that is sufficient to permit the LLC to finance its activities without Vidalia Re or Hannover Re. The Parent Company, Primerica Life, and Vidalia Re share the power to direct the activities of the LLC with Hannover Re, but do not have the obligation to absorb losses or the right to receive any residual returns related to the LLC's primary risks or sources of variability. Through the credit enhancement feature, Hannover Re is the ultimate risk taker in this transaction and bears the obligation to absorb the LLC's losses in the event of a Surplus Note default in exchange for the fee. Accordingly, the Company is not the primary beneficiary of the LLC and does not consolidate the LLC within its consolidated financial statements.

The LLC Note is classified as a held-to-maturity debt security in the Company's invested asset portfolio as we have the positive intent and ability to hold the security until maturity. As of September 30, 2016, the LLC Note, which was rated A+ by Fitch Ratings, had an estimated unrealized holding gain of $46.8 million based on its amortized cost and estimated fair value, which is derived using the valuation techniques described in Note 4 (Fair Value of Financial Instruments).

See Note 6 (Debt) for more information on the Surplus Note.

Investments on Deposit with Governmental Authorities. As required by law, we have investments on deposit with governmental authorities and banks for the protection of policyholders. The fair values of investments on deposit were approximately $19.4 million and $18.1 million as of September 30, 2016 and December 31, 2015, respectively.

Securities Lending Transactions. 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 unaudited condensed consolidated balance sheets. 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 loaned securities as invested assets on our unaudited condensed consolidated balance sheets during the terms of the loans, and we do not report them as sales. Cash collateral received and reinvested was approximately $95.8 million and $71.5 million as of September 30, 2016 and December 31, 2015, respectively.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Fixed-maturity securities (available-for-sale)	$18,578	$18,786	$56,204	$58,132
Fixed-maturity security (held-to-maturity)	4,957	3,772	13,716	8,954
Equity securities	505	514	1,527	1,533
Policy loans and other invested assets	318	354	998	1,049
Cash and cash equivalents	148	51	497	141
Market return on deposit asset underlying 10% coinsurance agreement	1,058	220	5,443	1,776
Gross investment income	25,564	23,697	78,385	71,585
Investment expenses	(1,208)	(1,210)	(3,643)	(3,667)
Investment income net of investment expenses	24,356	22,487	74,742	67,918
Interest expense on surplus note	(4,957)	(3,772)	(13,716)	(8,954)
Net investment income	$19,399	$18,715	$61,026	$58,964

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,	
	2016	2015	2016	2015
	(In thousands)			
Net realized investment gains (losses):				
Gross gains from sales	$637	$1,209	$6,322	$4,610
Gross losses from sales	(192)	(26)	(714)	(285)
Other-than-temporary impairment losses	(478)	(1,564)	(3,308)	(2,433)
Gains (losses) from bifurcated options	(2)	122	323	(269)
Net realized investment gains (losses)	$(35)	$(259)	$2,623	$1,623

Other-Than-Temporary Impairment. We conduct a review each quarter to identify and evaluate impaired investments that have indications of possible 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 fixed-maturity securities or within a reasonable period of time for equity securities. For additional information, see Note 4 (Investments) to the consolidated financial statements in our 2015 Annual Report.

Available-for-sale fixed-maturity and equity securities with a cost basis in excess of their fair values were approximately $152.4 million and $626.0 million as of September 30, 2016 and December 31, 2015, respectively.

The following tables summarize, for all available-for-sale 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, 2016					
	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:						
U.S. government and agencies	$1,729	$ (1)	1	$-	$ -	-
Foreign government	3,398	(19)	2	3,134	(87)	3
States and political subdivisions	2,844	(34)	4	-	-	-
Corporates	31,616	(321)	29	58,781	(2,519)	65
Residential mortgage-backed securities	2,451	(39)	5	4,515	(68)	8
Commercial mortgage-backed securities	11,873	(18)	11	7,136	(33)	10
Other asset-backed securities	11,755	(53)	14	4,108	(32)	7
Total fixed-maturity securities	65,666	(485)		77,674	(2,739)	
Equity securities	1,752	(123)	11	3,500	(451)	9
Total fixed-maturity and equity securities	$67,418	$ (608)		$81,174	$ (3,190)	

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	December 31, 2015					
	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:						
U.S. government and agencies	$13,651	$(22)	7	$-	$ -	-
Foreign government	23,572	(829)	20	2,396	(693)	3
States and political subdivisions	2,729	(44)	6	878	(497)	2
Corporates	413,131	(17,481)	393	34,624	(6,730)	54
Residential mortgage-backed securities	9,681	(61)	9	4,762	(60)	7
Commercial mortgage-backed securities	56,216	(493)	49	3,199	(62)	6
Other asset-backed securities	26,611	(77)	23	260	(2)	2
Total fixed-maturity securities	545,591	(19,007)		46,119	(8,044)	
Equity securities	3,652	(287)	17	3,209	(95)	8
Total fixed-maturity and equity securities	$549,243	$(19,294)		$49,328	$ (8,139)	

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

	September 30, 2016		December 31, 2015	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Fixed-maturity securities in default	$5	$ 93	$138	$262

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Impairments on fixed-maturity securities not in default	$466	$1,287	$3,145	$2,075
Impairments on fixed-maturity securities in default	2	2	121	7
Impairments on equity securities	10	275	42	351
Total impairment charges	$478	$1,564	$3,308	$2,433

The securities noted above were considered to be other-than-temporarily impaired due to: our intent to sell them; 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. We also recognized impairment losses related to invested assets held at the Parent company that we intended to sell to fund share repurchases, as well as credit impairments on certain other investments.

As of September 30, 2016, the unrealized losses on our available-for-sale invested asset portfolio were largely caused by interest rate sensitivity and changes in credit spreads. We believe that fluctuations caused by movements in interest rates and credit spreads have little bearing on the recoverability of our investments. We do not consider these investments to be other-than-temporarily impaired because we have the ability to hold these investments until maturity or a market price recovery, and we have no present intention to dispose of them.

Net impairment losses recognized in earnings for available-for-sale securities were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Total 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	$445	$150	$1,374	$251
Less portion of OTTI loss recognized in accumulated other comprehensive income (loss)	-	-	-	-
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	445	150	1,374	251
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	33	1,414	1,934	2,182
Net impairment losses recognized in earnings	$478	$1,564	$3,308	$2,433

The rollforward of the OTTI recognized in net income for all fixed-maturity securities still held follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Cumulative OTTI recognized in net income for securities still held, beginning of period	$7,489	$7,701	$11,856	$9,550
Additions for OTTI securities where no OTTI were recognized prior to the beginning of the period	451	336	1,682	403
Additions for OTTI securities where OTTI have been recognized prior to the beginning of the period	17	953	1,584	1,679
Reductions due to sales, maturities, calls, amortization or increases in cash flows expected to be collected over the remaining life of credit impaired securities	(640)	(138)	(6,134)	(1,503)
Reductions for exchanges of securities previously impaired	(112)	-	(1,783)	(1,277)
Cumulative OTTI recognized in net income for securities still held, end of period	$7,205	$8,852	$7,205	$8,852

As of September 30, 2016, no impairment losses have been recognized on the LLC Note held-to-maturity security.

Derivatives. Embedded conversion options associated with fixed-maturity securities are bifurcated from the fixed-maturity security host contracts and separately recognized as equity securities. The change in fair value of these bifurcated conversion options is reflected in realized investment gains (losses), including OTTI losses. As of September 30, 2016 and December 31, 2015, the fair value of these bifurcated options was approximately $4.6 million and $5.4 million, respectively.

We have a deferred loss related to closed forward contracts, which were settled several years ago, 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 approximately $26.4 million as of September 30, 2016 and December 31, 2015. 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 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 bifurcated conversion options; 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, mortgage-and asset-backed 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) that is significant to the fair value measurement. 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, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$-	$16,061	$-	$16,061
Foreign government	-	131,730	-	131,730
States and political subdivisions	-	46,459	-	46,459
Corporates	3,374	1,317,982	1,724	1,323,080
Residential mortgage-backed securities	-	83,984	1,294	85,278
Commercial mortgage-backed securities	-	108,775	-	108,775
Other asset-backed securities	-	46,321	3,470	49,791
Total fixed-maturity securities	3,374	1,751,312	6,488	1,761,174
Equity securities	41,821	5,644	74	47,539
Trading securities	-	12,259	-	12,259
Separate accounts	-	2,347,816	-	2,347,816
Total fair value assets	$45,195	$4,117,031	$6,562	$4,168,788
Fair value liabilities:				
Separate accounts	$-	$2,347,816	$-	$2,347,816
Total fair value liabilities	$-	$2,347,816	$-	$2,347,816

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Fair value assets:				
Fixed-maturity securities:				
U.S. government and agencies	$-	$20,659	$-	$20,659
Foreign government	-	120,216	-	120,216
States and political subdivisions	-	40,565	-	40,565
Corporates	2,146	1,299,613	3	1,301,762
Residential mortgage-backed securities	-	100,493	732	101,225
Commercial mortgage-backed securities	-	99,986	-	99,986
Other asset-backed securities	-	47,046	-	47,046
Total fixed-maturity securities	2,146	1,728,578	735	1,731,459
Equity securities	41,341	6,450	48	47,839
Trading securities	-	5,358	-	5,358
Separate accounts	-	2,063,899	-	2,063,899
Total fair value assets	$43,487	$3,804,285	$783	$3,848,555
Fair value liabilities:				
Separate accounts	$-	$2,063,899	$-	$2,063,899
Total fair value liabilities	$-	$2,063,899	$-	$2,063,899

In assessing fair value of our investments, we use a third-party pricing service for approximately 95% of our securities that are measured at fair value on a recurring basis. The remaining securities are primarily thinly traded securities such as private placements and are valued using models based on observable inputs on public corporate spreads having similar characteristics (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, third party pricing services generally determine fair value using industry-standard methodologies, which vary by asset class. For corporates, governments, and agency securities, these methodologies include developing prices by incorporating available market information such as U.S. Treasury curves, benchmarking of similar securities including new issues, 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 (such as mortgage-and asset-backed securities) with limited trading activity, third-party pricing services generally use industry-standard pricing methodologies that incorporate market information, such as index prices, or discounting expected future cash flows based on underlying collateral, and quotes from market participants, 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 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 unpriced 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,	
	2016	2015	2016	2015
	(In thousands)			
Level 3 assets, beginning of period	$717	$862	$783	$1,165
Net unrealized gains (losses) included in other comprehensive income	12	2	17	(4)
Realized gains (losses) and accretion (amortization) recognized in earnings, including OTTI	1	-	6	-
Purchases[1]	4,183	-	4,183	-
Sales	-	-	(3)	-
Settlements	(25)	(35)	(98)	(111)
Transfers into Level 3	1,675	-	1,676	2
Transfers out of Level 3	(1)	(2)	(2)	(225)
Level 3 assets, end of period	$6,562	$827	$6,562	$827

[1] During the three and nine months ended September 30, 2016, purchases of Level 3 assets primarily consisted of newly issued fixed maturity securities in the third quarter for which observable inputs, most notably quoted prices, used to derive valuations are not yet readily available.

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 material transfers between Level 1 and Level 2 or between Level 1 and Level 3 during the three and nine months ended September 30, 2016. There were no material transfers between Level 1 and Level 2 or between Level 1 and Level 3 during the three months ended September 30, 2015. During the nine months ended September 30, 2015, we transferred a $1.0 million equity security from Level 1 to Level 2 as it was not consistently trading in an active market. There were no material transfers between Level 1 and Level 3 during the nine months ended September 30, 2015.

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

	September 30, 2016		December 31, 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
	(In thousands)			
Assets:				
Fixed-maturity securities (available-for-sale)	$1,761,174	$1,761,174	$1,731,459	$1,731,459
Fixed-maturity security (held-to-maturity)	454,000	500,823	365,220	371,742
Equity securities	47,539	47,539	47,839	47,839
Trading securities	12,259	12,259	5,358	5,358
Policy loans	30,801	30,801	28,627	28,627
Deposit asset underlying 10% coinsurance agreement	198,275	198,275	181,889	181,889
Separate accounts	2,347,816	2,347,816	2,063,899	2,063,899
Liabilities:				
Notes payable[1]	$372,827	$410,296	$372,552	$398,649
Surplus note[1]	453,247	498,256	364,424	371,498
Separate accounts	2,347,816	2,347,816	2,063,899	2,063,899

[1] Carrying value amounts shown are net of issuance costs.

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 available-for-sale 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 nonredeemable preferred stocks, are carried 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. The estimated fair value of the held-to-maturity fixed-maturity security, which is classified as a Level 3 fair value measurement, is derived using the credit spread on similarly rated debt securities and the hypothetical spread of the security's credit enhancement feature. Policy loans, which are categorized as Level 3 fair value measurements, are carried at the unpaid principal balances. The fair value of policy loans approximate the unpaid principal balances as the timing of repayment is uncertain and the loans are collateralized by the amount of the policy. The deposit asset underlying a 10% coinsurance agreement represents the value of the assets necessary to back the economic reserves held in support of the reinsurance agreement. The carrying value of this deposit asset approximates fair value, which is categorized as Level 3 in the fair value hierarchy. Notes payable represent our publicly-traded senior notes and are valued as a Level 2 fair value measurement using the quoted market price for our notes. The estimated fair value of the Surplus Note is derived by using an assumed credit spread we would expect if Vidalia Re was a credit-rated entity and the hypothetical spread of the Surplus Note's subordinated structure. The Surplus Note is classified as a Level 3 fair value measurement.

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.

(5) Reinsurance

We use reinsurance extensively, which has a significant effect on our results of operations. Reinsurance arrangements do not relieve us of our 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, 2016	December 31, 2015
	(Dollars in thousands)	
Direct life insurance in force	$725,613,934	$696,884,429
Amounts ceded to other companies	(638,417,864)	(616,252,839)
Net life insurance in force	$87,196,070	$80,631,590
Percentage of reinsured life insurance in force	88 %	88 %

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

	September 30, 2016		December 31, 2015	
	Reinsurance receivable	A.M. Best rating	Reinsurance receivable	A.M. Best rating
	(In thousands)			
Pecan Re Inc.[(1) (2)]	$2,718,356	NR	$-	-
Prime Reinsurance Company[(2)]	-	-	2,692,721	NR
SCOR Global Life Reinsurance Companies[(3)]	358,815	A	362,195	A
Munich Re Life Insurance Company of Vermont[(2) (5)]	290,384	NR	270,306	NR
Swiss Re Life & Health America Inc.[(4)]	246,036	A+	254,461	A+
American Health and Life Insurance Company[(2)]	177,295	B	176,790	B
Munich American Reassurance Company	106,446	A+	101,466	A+
Korean Reinsurance Company	96,066	A	91,605	A
RGA Reinsurance Company	83,313	A+	81,217	A+
TOA Reinsurance Company	22,339	A+	22,242	A+
Hannover Life Reassurance Company	22,606	A+	20,650	A+
All other reinsurers	39,881	-	36,975	-
Due from reinsurers	$4,161,537		$4,110,628	

NR – not rated

(1) Pecan Re Inc. is a wholly owned subsidiary of Swiss Re Life & Health America Inc.
(2) Includes balances ceded under coinsurance transactions of term life insurance policies that were in force as of December 31, 2009. Amounts shown are net of their share of the reinsurance receivable from other reinsurers.
(3) Includes amounts ceded to Transamerica Reinsurance Companies and fully retroceded to SCOR Global Life Reinsurance Companies.
(4) Includes amounts ceded to Lincoln National Life Insurance and fully retroceded to Swiss Re Life & Health America Inc.
(5) Previously known as Financial Reassurance Company 2010, Ltd. This entity was acquired by Munich American Reassurance Company from Citigroup Inc. (“Citigroup”) as of September 23, 2016 and was subsequently renamed Munich Re Life Insurance Company of Vermont.

Prior to January 1, 2016, Primerica Life had a coinsurance agreement in place with Prime Reinsurance Company (“Prime Re”), an insurance company owned by Citigroup, under which we ceded 80% of the risks and rewards of our U.S. (except New York) term life insurance policies that were in force as of December 31, 2009 (the “80% Coinsurance Agreement”). Beginning on January 1, 2016, Pecan Re Inc. (“Pecan Re”), an insurance company owned by Swiss Re Life & Health America Inc. (“Swiss Re”), assumed Prime Re’s obligations under the 80% Coinsurance Agreement through a novation agreement (the “Novation Agreement”). In addition, the counterparties to the related trust and capital maintenance agreements that provide Primerica Life with statutory reinsurance credit for the 80% Coinsurance Agreement were replaced by Pecan Re and Swiss Re, respectively. No material terms and conditions of the 80% Coinsurance Agreement and the related trust and capital maintenance agreements were modified.

A separate 10% coinsurance agreement remains in place between Primerica Life and Prime Re (the “10% Coinsurance Agreement”) that includes an experience refund provision and does not satisfy U.S. GAAP risk transfer rules. In exchange for our consent to the Novation Agreement, the finance charge on the statutory reserves in excess of economic reserves funded by Prime Re in support of the 10% Coinsurance Agreement was reduced from 3.0% to 2.0% beginning on July 1, 2015 and then from 2.0% to 0.5% beginning on January 1, 2016.

(6) Debt

Notes Payable. At September 30, 2016, the Company had $375.0 million of publicly-traded, senior unsecured notes with an annual interest rate of 4.75% that are scheduled to mature on July 15, 2022 (the "Senior Notes"). As of September 30, 2016, we were in compliance with the covenants of the Senior Notes. No events of default occurred on the Senior Notes during the three months ended September 30, 2016.

Further discussion on the Company’s notes payable is included in Note 10 (Debt) to our consolidated financial statements within our 2015 Annual Report.

Surplus Note. At September 30, 2016, the principal amount outstanding on the Surplus Note issued by Vidalia Re was $454.0 million, equal to the principal amount of the LLC Note invested asset. The principal amount of the Surplus Note and the LLC Note will fluctuate over time to coincide with the amount of reserves being contractually supported. Both the LLC Note and the Surplus Note mature on December 31, 2029 and bear interest at an annual interest rate of 4.50%. Based on the estimated reserves for ceded policies issued in 2011, 2012, 2013, and 2014, the maximum principal amounts of the Surplus Note and the LLC Note are expected to be approximately $915.0 million each.

Further discussion on the Company’s Surplus Note and LLC Note are included in Note 10 (Debt) and Note 4 (Investments) to our consolidated financial statements within our 2015 Annual Report.

(7) Stockholders' Equity

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

	Nine months ended September 30,	
	2016	2015
	(In thousands)	
Common stock, beginning of period	48,297	52,169
Shares issued upon the exercise of stock options	108	89
Shares of common stock issued upon lapse of restricted stock units ("RSUs")	426	407
Common stock retired	(2,869)	(4,094)
Common stock, end of period	45,962	48,571

The above reconciliation excludes RSUs, which do not have voting rights. As the RSUs lapse, we issue common shares with voting rights. As of September 30, 2016, we had a total of approximately 1.1 million RSUs outstanding, excluding the performance-based vesting stock units ("PSUs") discussed in Note 9 (Share-Based Transactions).

Our Board of Directors authorized a share repurchase program for up to $200.0 million of our outstanding common stock in August 2015 (the "share repurchase program") for purchases through December 31, 2016. Under the share repurchase program, we repurchased 3,831,300 shares of our common stock in open market transactions for an aggregate purchase price of approximately $181.5 million through September 30, 2016. As of September 30, 2016, there is approximately $18.5 million remaining for repurchases of our outstanding common stock under the share repurchase program.

(8) Earnings Per Share

The Company has outstanding common stock and equity awards that consist of restricted stock, RSUs, PSUs and stock options. The restricted stock and RSUs 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.

Unvested restricted stock and unvested RSUs are deemed participating securities for purposes of calculating earnings per share ("EPS") as they maintain dividend rights. We calculate EPS using the two-class method. Under the two-class method, we allocate earnings to common shares (excluding unvested restricted stock) and vested RSUs outstanding for the period. Earnings attributable to unvested participating securities, along with the corresponding share counts, are excluded from EPS as reflected in our unaudited condensed consolidated statements of income.

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

We determine the potential dilutive effect of PSUs and stock options outstanding ("contingently issuable shares") on EPS using the treasury-stock method. Under this method, we determine the proceeds that would be received from the issuance of the contingently issuable shares if the end of the reporting period were the end of the contingency period. The proceeds from the contingently issuable shares include: the remaining unrecognized compensation expense of the awards, the cash received for the exercise price on stock options, and the resulting effect on the income tax deduction from the vesting of PSUs and the exercise of stock options. We then use the average market price of our common shares during the period the contingently issuable shares were outstanding to determine how many shares we could repurchase with the proceeds raised from the issuance of the contingently issuable shares. The net incremental share count issued represents the potential dilutive securities. We then reallocate earnings to common shares and vested RSUs by 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,	
	2016	2015	2016	2015
	(In thousands, except per-share amounts)			
Basic EPS				
Numerator:				
Net income	$58,037	$49,350	$162,540	$141,924
Income attributable to unvested participating securities	(494)	(379)	(1,353)	(1,196)
Net income used in calculating basic EPS	$57,543	$48,971	$161,187	$140,728
Denominator:				
Weighted-average vested shares	47,008	50,082	47,736	51,494
Basic EPS	$1.22	$0.98	$3.38	$2.73
Diluted EPS				
Numerator:				
Net income	$58,037	$49,350	$162,540	$141,924
Income attributable to unvested participating securities	(493)	(379)	(1,352)	(1,196)
Net income used in calculating diluted EPS	$57,544	$48,971	$161,188	$140,728
Denominator:				
Weighted-average vested shares	47,008	50,082	47,736	51,494
Dilutive effect of incremental shares to be issued for contingently issuable shares	43	22	39	32
Weighted-average shares used in calculating diluted EPS	47,051	50,104	47,775	51,526
Diluted EPS	$1.22	$0.98	$3.37	$2.73

(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 under the OIP also may be subject to specified performance criteria. Since 2010, the Company has issued equity awards to our management (officers and other key employees), non-employee directors, and sales force leaders under the OIP. For more information on equity awards granted under the OIP, see Note 14 (Share-Based Transactions) to our consolidated financial statements within our 2015 Annual Report.

In connection with our granting of equity awards to our management and members of the Board of Directors, we recognize expense over the requisite service period of the equity award. Additionally, to the extent that equity awards to members of our sales force are an incremental direct cost of successful acquisitions of life insurance policies that result directly from and are essential to the policy acquisition(s) and would not have been incurred had the policy acquisition(s) not occurred, we defer and amortize the fair value of these awards in the same manner as other deferred policy acquisition costs.

The impacts of equity awards granted are as follows:

	Three months ended September 30,	Nine months ended September 30,

	2016	2015	2016	2015
	(In thousands)			
Total equity awards expense recognized	$1,723	$2,056	$11,754	$12,918
Quarterly incentive awards expense deferred	2,732	3,412	8,126	10,531

On February 24, 2016, the Compensation Committee of the Board of Directors granted the following equity awards to employees in connection with the annual approval of management incentive compensation:

- 204,558 RSUs awarded to management with a measurement-date fair value of $41.88 per unit that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.
- 89,540 stock options awarded to the four members of our executive management team (the "executive team") with a measurement-date fair value of $8.21 per option that have time-based vesting requirements with equal and annual graded vesting over approximately three years subsequent to the grant date.
- 18,385 PSUs awarded under the OIP to the executive team with a measurement-date fair value of $41.88 per unit. The PSUs will be earned on March 1, 2019 contingent upon the Company achieving a target annual average three-year return on adjusted equity ("ROAE") for the period from January 1, 2016 through December 31, 2018. The actual number of PSUs that will vest will vary based on the actual ROAE relative to the target ROAE and can range from zero PSUs to 27,577.

All awards granted to employees on February 24, 2016 provide for such awards to vest upon voluntary termination of employment by any employee who is “retirement eligible” as of his or her termination date. In order to be retirement eligible, an employee must be at least 55 years old and his or her age plus years of service with the Company must equal at least 75. The number of PSUs that will ultimately vest for a retirement-eligible employee is equal to the amount calculated using the Company’s actual cumulative three-year ROAE ending on December 31, 2018, even if that employee retires prior to the completion of the three year performance period.

(10) Commitments and Contingent Liabilities

Letter of Credit (“LOC”). Peach Re maintains a credit facility agreement with Deutsche Bank (the "Credit Facility Agreement") to support certain obligations for a portion of the Regulation XXX reserves related to the Peach Re Coinsurance Agreement. Under the Credit Facility Agreement, Deutsche Bank issued a letter of credit for the benefit of Primerica Life with a term ending on January 15, 2026. As of September 30, 2016, the Company was in compliance with all financial covenants under the Credit Facility Agreement. At September 30, 2016, the amount of the LOC outstanding was approximately $422.9 million. This amount will decline over the remaining term of the LOC to correspond with declines in the Regulation XXX reserves.

Further discussion on the Company’s letter of credit is included in Note 16 (Commitments and Contingent Liabilities) to our consolidated financial statements within our 2015 Annual Report.

Contingent Liabilities. 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 unless otherwise indicated.

The Company is currently undergoing multi-state treasurer unclaimed property audits by 30 jurisdictions focusing on the life insurance claims paying practices of its subsidiaries, Primerica Life and NBLIC. Other jurisdictions may pursue similar audits and litigation. The potential outcome of such actions is difficult to predict but could subject the Company to adverse consequences, including, but not limited to, settlement payments, additional payments to beneficiaries and additional escheatment of funds deemed abandoned under state laws. At this time, the Company cannot reasonably estimate the likelihood or the impact of additional costs or liabilities that could result from the resolution of these matters.

(11) Other Comprehensive Income

The components of other comprehensive income (“OCI”), including the income tax expense or benefit allocated to each component, were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
	(In thousands)			
Foreign currency translation adjustments:				
Change in unrealized foreign currency translation gains (losses)	$(3,165)	$(16,323)	$11,704	$(33,731)

before income taxes				
Income tax expense (benefit) on unrealized foreign currency translation gains (losses)	(29)	(171)	130	(366)
Change in unrealized foreign currency translation gains (losses), net of income taxes	$(3,136)	$(16,152)	$11,574	$(33,365)
Unrealized gain (losses) on available-for-sale securities:				
Change in unrealized holding gains (losses) arising during period before income taxes	$5,129	$(18,019)	$63,414	$(35,078)
Income tax expense (benefit) on unrealized holding gains (losses) arising during period	1,795	(6,308)	22,193	(12,278)
Change in unrealized holding gains (losses) on available-for-sale securities arising during period, net of income taxes	3,334	(11,711)	41,221	(22,800)
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities	33	381	(2,300)	(1,892)
Income tax (expense) benefit on (gains) losses reclassified from accumulated OCI to net income	11	134	(805)	(662)
Reclassification from accumulated OCI to net income for (gains) losses realized on available-for-sale securities, net of income taxes	22	247	(1,495)	(1,230)
Change in unrealized gains (losses) on available-for-sale securities, net of income taxes and reclassification adjustment	$3,356	$(11,464)	$39,726	$(24,030)

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", "us" or the "Company") for the period from December 31, 2015 to September 30, 2016. As a result, the following discussion should be read in conjunction with MD&A and the consolidated financial statements and notes thereto that are included in our Annual Report on Form 10-K for the year ended December 31, 2015 ("2015 Annual Report"). This discussion contains forward-looking statements 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 2015 Annual Report as well as Item 1A of Part II (Other Information) included elsewhere in this 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
- Business Trends and Conditions
- Factors Affecting Our Results
- Critical Accounting Estimates
- 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.

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.

Investment and Savings Products. In the United States, we distribute mutual fund and managed account 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.

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 underwritten by NBLIC, prepaid legal services, and other financial products. These products, except for various insurance products underwritten by NBLIC, are distributed pursuant to distribution arrangements with third parties through our independent agent sales force. Net investment income earned on our invested asset portfolio is recorded in our

Corporate and Other Distributed Products segment, with the exception of the assumed net interest accreted to our Term Life Insurance segment's future policy benefit reserve liability less deferred acquisition costs. Interest expense incurred by the Company is attributed solely to the Corporate and Other Distributed Products segment.

Business Trends and Conditions

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 affect how consumers evaluate their savings and debt management plans. In addition, interest rates and equity market returns impact consumer demand for the savings and investment products we distribute. Our customers' perception of the strength of the capital markets will influence their decisions to invest in the Investment and savings products we distribute.

The financial and distribution results of our operations in Canada, as reported in U.S. dollars, are affected by changes in the currency exchange rate. The effects of these trends and conditions are discussed below and in the Results of Operations section.

Size of Our Independent Sales Force.

Our ability to increase the size of our independent sales force is largely based on the success of our recruiting efforts as well as our ability to train and motivate recruits to get licensed to sell life insurance. We believe that recruitment and licensing levels are important to sales force trends, and growth in recruiting and licensing is usually indicative of future growth in the overall size of the sales force. Recruiting changes 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.

Regulatory changes can also impact the size of our independent sales force. For example, the insurance regulators in Canada have recently implemented a new life insurance licensing examination program. We believe that the new licensing program has the potential to result in a decrease in the number of applicants who obtain their life insurance licenses in Canada. However, we have undertaken efforts to adapt our licensing process to the new program in order to help mitigate any such decline. In addition, the Canadian regulators have committed to evaluate the new program in an effort to ensure that it will remain an entry level credentialing exam constructed in accordance with generally accepted psychometric principles.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
New recruits	73,706	65,945	202,406	179,491
New life-licensed sales representatives	11,739	11,160	33,576	29,085

The increase in new recruits and new life-licensed sales representatives during the three and nine months ended September 30, 2016 compared to the prior year periods was largely due to the growing size of our sales force resulting in more agents available to actively recruit and our strong focus on training new representatives to become licensed to sell life insurance.

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

	September 30, 2016	June 30, 2016
Life-licensed insurance sales representatives	115,345	112,365

Growth in the size of our life-licensed sales force at September 30, 2016 was primarily driven by the ongoing growth in new life-licensed representatives despite slightly higher non-renewals and terminations during the third quarter of 2016 compared to the second quarter of 2016.

Term Life Insurance Product Sales and Face Amount In 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 (historically between 0.18 and 0.22), were as follows:

	Three months ended September	Nine months ended September 30,

	30, 2016	2015	2016	2015
Average number of life-licensed sales representatives	113,748	102,850	110,466	100,283