

NLV Financial Corporation and Subsidiaries

**Annual Performance Review and
Consolidated Financial Statements**

**As of and for the Years Ended
December 31, 2023 and 2022**

GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

NLV Financial Corporation (“NLVF”) through its subsidiaries (collectively, the “Company”, “we”, “our”) offer a broad range of life insurance and annuity products through its insurance operations, which include National Life Insurance Company (“NLIC”), a Vermont-domiciled life insurer, and Life Insurance Company of the Southwest (“LSW”), a Texas-domiciled life insurer. Together with their affiliates, NLIC and LSW operate as a unified organization under the trade name of National Life Group.

National Life Group’s leading life insurance product lines include indexed universal life, whole life, term life, and universal life. We offer a wide array of options and riders in connection with these policies to provide additional features such as accelerated benefits, waiver of premium, accidental death benefits, paid up additions, supplemental term insurance and lifetime income.

National Life Group’s leading annuity product lines are indexed annuities and fixed interest rate annuities. We offer a guaranteed lifetime income rider on our indexed annuity products, which allows the contract holder the option to elect a guaranteed annual income that is fixed and will continue for the remaining life of the contract holder, even if the annuity’s account value reaches zero. National Life Group also offers variable annuities, but does not offer, and has never offered, guaranteed minimum withdrawal, accumulation or income benefits on our variable annuities. A return of premium guaranteed minimum death benefit is the only guarantee currently offered on our variable annuity products.

For indexed life and annuity products, indexed interest, if any, is credited based on the change in an equity index over a specified period, subject to a cap rate, a participation rate and a floor of zero percent. Indexed products also offer the contract holder the option of selecting a guaranteed fixed interest rate instead of indexed interest.

Distribution

National Life Group provides a broad range of life insurance and annuity products to a national client base, primarily through an extensive network of independent agents and affiliated agents. We focus on serving Middle America in our target market of customers with household income of between \$75,000 and \$150,000, offering products with benefits that help Middle America customers meet needs during their lifetime, including lifetime income in retirement and accelerated death benefits if the insured becomes terminally, chronically or critically ill. In our individual annuity business, we focus on the 403(b) K-12 educator and 457 markets. National Life Group also offers products to meet financial and business planning needs including estate, business succession and retirement planning, and deferred compensation and other key executive benefit planning for small business owners, professionals, and other middle to upper income individuals. We market and distribute our products throughout the United States through two principal channels: *Affiliated Partner* and *Independent*:

- ***Affiliated Partner*** is an evolution of the traditional “career” channel, and includes producing and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other individuals for financial and business planning purposes.
- ***Independent*** consists of agents who primarily offer life insurance and annuity products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, and chronic or long-term illness. While the agents have access to all products, certain agents sell life insurance and annuity products with an emphasis on the 403(b) qualified tax deferred retirement savings market for individuals employed by public schools.

Organization

National Life Insurance Company was established in Vermont in 1848. In 1999, NLIC reorganized from a mutual to a stock insurance company as part of a reorganization into a mutual insurance holding company structure in order to compete more effectively, have a more flexible and cost-effective capital structure, and be part of an enterprise which is better positioned to make strategic acquisitions. Concurrent with the reorganization into a mutual insurance holding company structure, NLIC created a closed block for the benefit of holders of certain of NLIC's individual participating life insurance and annuity policies ("the Closed Block"). The Closed Block is designed to give reasonable assurance to owners of policies in the Closed Block that assets will be available to provide policy benefits, including the continuation of dividends.

National Life Holding Company, a Vermont mutual insurance holding company, owns 100% of the outstanding common stock of NLVF, an intermediate stock insurance holding company incorporated under the laws of the state of Delaware. NLVF directly owns 100% of the outstanding common stock of NLIC, NLG Capital, Inc. ("NLG Capital") formerly Sentinel Asset Management, Inc., Equity Services, Inc. ("ESI"), Catamount Reinsurance Company ("Catamount"), Longhorn Reinsurance Company ("Longhorn"), and certain other subsidiaries, and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest, which is wholly owned by NLIC. NLVF indirectly owns National Life Distribution, LLC ("NLD"), whose sole member is LSW.

Non-GAAP Measures

The discussion herein, unless otherwise noted, is prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). In addition to net income, we use pre-tax operating income and core earnings, which are both pre-tax, non-GAAP financial measures, to evaluate our financial performance. Pre-tax operating income excludes income taxes and net investment gains (losses). It also excludes the portion of amortization of deferred policy acquisition costs ("DAC") and deferred sales inducements, and policyholder dividend obligations, that are related to net investment gains (losses).

Core earnings equal pre-tax operating income after excluding volatility caused by the periodic fair value measurement of certain liabilities for indexed life and annuity products, and the related impact to DAC and deferred sales inducements. Significant short-term income volatility may result from the measurement of these indexed product liabilities under GAAP, because they are sensitive to movements in equity market indexes and future interest rate assumptions. We exclude such volatility from core earnings.

Core earnings is a useful measure for the Company to analyze our results and trends because it excludes such short-term volatility and is more consistent with the economics and long-term performance of our indexed products. On a non-GAAP core earnings basis, we also exclude from revenues any investment income from derivative instruments that economically hedge our indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. We believe the combined presentation and discussion of pre-tax operating income, core earnings, and net income provides information that will enhance readers' understanding of our underlying results, operating trends and profitability.

A reconciliation of total revenues on a GAAP basis to total revenues on a core earnings basis is presented below:

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Total revenues	\$ 3,734,994	\$ 2,339,491
Net investment losses	39,548	6,143
Net investment (gains) losses from derivatives that hedge equity indexed products, which is included in interest credited to policyholder liabilities on a core earnings basis	<u>(417,684)</u>	616,142
Total revenues on a core earnings basis	<u>\$ 3,356,858</u>	<u>\$ 2,961,776</u>

A reconciliation of net income to non-GAAP pre-tax operating income and core earnings is presented below:

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Net income	\$ 217,437	\$ 132,363
Net investment losses	39,548	6,143
Amortization of DAC and sales inducements, and policyholder dividend obligations, and other adjustments related to net investment gains and losses	14,149	(14,268)
Income tax expense	<u>62,437</u>	26,030
Pre-tax operating income	333,571	150,268
Non-core losses, primarily volatility resulting from the measurement of indexed product liabilities	<u>137,268</u>	241,616
Core earnings	<u>\$ 470,839</u>	<u>\$ 391,884</u>

ANNUAL FINANCIAL PERFORMANCE REVIEW

This annual financial performance review provides an overview of the Company's results of operations as of and for the years ended December 31, 2023 and 2022, and, where applicable, factors that may affect the Company's future financial performance. This review should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements as of and for the years ended December 31, 2023 and 2022, which have been audited by PricewaterhouseCoopers LLP.

The Company's universal life, indexed universal life, and annuity products generate revenues through investment income and policy and contract charges that are earned during the life of the contracts. On a GAAP basis, revenues from net investment income include changes in the fair value of derivative instruments that economically hedge our indexed life and annuity products, primarily options and futures. Whole and term life insurance products generate primarily premium revenues. The increase in the Company's total revenues on a GAAP basis was primarily driven by market value gains on derivative instruments of \$432 million for the year ended December 31, 2023, compared to derivative losses of \$616 million for the same period in 2022. The derivative losses for the year ended December 31, 2022 were due to a decrease in the value of derivatives reflective of the equity market volatility during the period. On a core earnings basis, which excludes from revenue such derivative gains (losses) as well as net investment gains (losses), the Company's total revenues for the twelve months of 2023 were up 13% from the same period in 2022. This increase was driven by strong growth in the life insurance business, including an increase in policy and contract charges of 14%, as well as increased net investment income of 18%.

Net income was \$217 million in 2023, compared to \$132 million in 2022. The year ended December 31, 2023 included negative non-core earnings of \$137 million, which primarily reflected the equity market volatility and increased interest rates during the period, compared to negative non-core earnings of \$242 million for the same period in 2022. Net income in 2023 also included net investment losses of \$40 million, compared to net investment losses of \$6 million for the same period in 2022. The losses in 2023 were primarily comprised of fair value changes in partnerships and impairments.

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Adoption of this ASU requires an entity to estimate lifetime credit losses for most financial assets not reported at fair value, premiums receivable, amounts recoverable from reinsurers and certain off-balance sheet credit exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of reported amounts. Additionally, modifications to the impairment model for AFS debt securities remove the requirement for entities to consider the length of time the fair value has been below amortized cost and subsequent fair value recoveries, or declines, when determining if an asset is impaired. Both the current expected credit loss and AFS debt securities impairment models employ an allowance methodology to record impairments that can be modified in following periods due to improvements in expected cash flows.

The guidance was applied through a cumulative-effect adjustment to beginning retained earnings for expected credit losses. Upon adoption of this ASU for AFS debt securities, the Company determined that an additional allowance adjustment to the opening balance of retained earnings as of January 1, 2023 was not necessary due to a qualitative assessment of impairment factors the Company has determined to be sufficient in assessing whether a credit loss existed. Upon adoption and for the year-ended December 31, 2023, this guidance did not have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

Core earnings were \$471 million in 2023, up from \$392 million for the same period in 2022. The increase in core earnings was driven by higher revenues from growth in policy and contract charges as well as higher net investment income. This was partially offset by higher interest credited driven by increased sales of indexed universal life and annuity products as well as higher operating expenses as we continue to grow our business.

Each of the components of core earnings and the factors that contributed to the changes for the years ended December 31, 2023 and 2022 are described in detail below.

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Revenues:		
Insurance premiums	\$ 376,371	\$ 358,085
Policy and contract charges	1,232,932	1,079,828
Commissions, fees and other income	77,865	106,462
Net investment income	1,669,690	1,417,401
Total revenues, on a core earnings basis	3,356,858	2,961,776
Benefits and expenses:		
Increase in policy liabilities	50,171	105,481
Policy benefits	679,471	593,558
Policyholders' dividends and dividend obligations	21,014	8,708
Interest credited to policyholder account liabilities	1,034,319	810,922
Operating expenses	454,668	401,617
Interest expense	67,014	67,332
Policy acquisition expenses	579,362	582,274
Total benefits and expenses, on a core earnings basis	2,886,019	2,569,892
Core earnings	\$ 470,839	\$ 391,884

Insurance Premiums

Insurance premiums include considerations on traditional whole, term life insurance and disability income contracts. Insurance premiums do not include deposits received for investment-type products such as fixed interest annuities, indexed annuities and universal life policies, which comprise the majority of our new sales. Annuity products earn a net spread between net investment income on assets that support the policies and expenses for interest credited to policyholders. Revenue from universal life products is primarily reflected in policy and contract charges.

Insurance premiums increased \$18 million, or 5%, to \$376 million for the year ended December 31, 2023, from \$358 million for the same period in 2022. This increase was primarily driven by higher term life product sales.

Policy and Contract Charges

Policy and contract charges include fees charged on indexed universal life products, variable annuities, premium loads, cost of insurance charges, surrender charges and rider charges. Policy and contract charges increased \$153 million, or 14%, to \$1.2 billion for the year ended December 31, 2023, from \$1.1 billion in 2022. This increase was driven by growth in overall account value, primarily on our indexed universal life products.

Commissions, Fees and Other Income

Commissions consist of dealer concessions earned by the Company's affiliated broker-dealer, Equity Services, Inc. Other income includes revenues from reinsurance, change in cash surrender value of corporate owned life insurance ("COLI") and miscellaneous fee income. Revenues from commissions, fees and other income decreased by \$28 million, or 26% to \$78 million for the year end December 31, 2023, from \$106 million in 2022, primarily due to a decrease in reinsurance related revenue.

Net Investment Income

Net investment income represents interest income on our portfolio of bonds, mortgage loans, contract loans and short-term investments, as well as amortization of premium or accretion of discount on bonds, dividends from preferred and common stock, partnership income, and income (losses) from derivative instruments. On a non-GAAP core earnings basis, we exclude from net investment income any income (losses) from derivative instruments that economically hedge our indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. Net investment income on a core earnings basis was \$1.7 billion in 2023, compared to \$1.4 billion in 2022. This increase was driven by higher income from the bond portfolio due to the overall growth of the in-force business and rising interest rates.

The table below provides a breakdown of the components of net investment income on a core earnings basis, which excludes income on options that economically hedge our indexed products:

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Net investment income		
Debt securities	\$ 1,312,352	\$ 1,086,422
Equity securities	19,275	(9,641)
Mortgage loans	194,876	203,368
Policy loans	55,411	43,841
Real estate	4,728	3,411
Derivatives	(5,198)	(2,714)
Partnerships	96,787	120,208
Other investment income	31,157	3,800
Gross investment income	1,709,388	1,448,695
Less: Investment expenses	(39,698)	(31,294)
Net investment income on a core earnings basis	\$ 1,669,690	\$ 1,417,401

Increase in Policy Liabilities

The increase in policy liabilities reflects changes in the product liability reserves for whole and term life insurance, disability income insurance and changes in additional reserves held on certain annuities. The change in policy liabilities was a net increase of \$50 million in 2023 compared to a net increase of \$105 million in 2022. The change in policy liabilities was primarily due to the release of reserves related to higher mortality and surrender activity within the Closed Block during the years ended December 31, 2023 compared to the same period in 2022.

Policy Benefits

Policy benefits include death benefits for life insurance policies, policy surrenders for whole life policies and disability income benefits. In addition, policy benefits include a small amount of miscellaneous benefits such as payments on life-contingent immediate annuities and premium waiver benefits due to disability. Policy benefits increased \$85 million to \$679 million in 2023 from \$594 million in 2022, driven by elevated mortality experience as well as less favorable experience on accelerated benefits riders.

Policyholders' Dividends and Dividend Obligations

Policyholders' dividends consist of the pro rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations ("PDO") primarily arising from the Closed Block. Dividends are based on a scale that is designed to reflect the relative contribution of each group of policies to the Company's overall operating results. The dividend scales are approved annually by the Company's Board of Directors. For the non-GAAP measure of core earnings, policyholders' dividends and dividend obligations exclude amounts related to current year net investment gains (losses). Policyholders' dividends and dividend obligations included in core earnings increased \$12 million in 2023. This increase was primarily related to changes in the PDO liability.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities represents amounts credited to universal life insurance, fixed deferred annuities and indexed products, as well as the change in reserves related to guaranteed lifetime income riders ("GLIR") and the amortization of sales inducements. For the non-GAAP presentation of core earnings, interest credited also includes income on options that economically hedge our indexed products. Core interest credited increased \$223 million to \$1.0 billion in 2023, from \$811 million in 2022. This increase reflected growth in account value within our indexed product lines, driven by sales growth.

The actuarial assumption updates included in core interest credited in 2023 included a \$26 million net negative impact on core earnings, reflecting assumption updates primarily relating to indexed annuity products, compared to a \$31 million net positive impact on 2022 core earnings, which reflected updates and refinements for GLIR modeling.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses were \$455 million in 2023 compared to \$402 million in 2022. Operating expenses in 2023 included higher growth-related personnel costs, partially offset by lower legal expenses. Certain defined contribution deferred compensation liabilities reported in operating expenses were unfavorably impacted by market movement in 2023. This change is largely offset by changes in the fair value of certain equity investments, which are reported within net investment income.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled \$67 million in 2023 and 2022.

Policy Acquisition Expenses

Policy acquisition expenses include commissions and other costs related to the acquisition of new or renewal life and annuity business, as well as amortization of previously deferred acquisition costs. Commissions and other costs that are directly related to the successful acquisition of new or renewal insurance contracts are eligible to be deferred under GAAP. DAC for participating life insurance, universal life insurance, and annuities is amortized and recognized in income in relation to future estimated gross profits. DAC for non-participating term and whole life insurance and participating limited-payment and single-payment life insurance is amortized and recognized in relation to premium income. Policy acquisition expenses are reported net of amounts deferred in the current year and include the amortization of DAC.

For the non-GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net investment gains (losses) on assets that support policy reserves, and amortization of DAC related to non-core earnings. Policy acquisition expenses for the life and annuity businesses included in core earnings were \$579 million in 2023, down from \$582 million in 2022. This decrease was primarily attributable to a one-time positive impact to deferred commission resulting from a prior period adjustment, partially offset by higher amortization expense from an increased volume of indexed universal life and annuity products.

The actuarial assumption updates included in core amortization expense included a \$7 million net positive impact to core earnings in 2023, compared to a \$10 million net negative impact to core earnings in 2022, related to assumption updates

Net Investment Gains (Losses)

The Company recorded net investment losses of \$40 million in 2023 compared to net investment losses of \$6 million in 2022. Changes in the fair value of partnerships not accounted for using the equity method (based on the Company's level of ownership and influence) are recorded within net investment gains (losses). The net investment losses in 2023 was primarily driven by these negative market impacts to partnerships, credit losses related to debt securities as well as current year impairments of debt securities and partnerships, partially offset by positive market impacts to equity trading securities. Net investment losses in 2022 were primarily driven by the fair value changes in partnerships. The non-GAAP measure of pre-tax operating income excludes net investment losses and is also adjusted to exclude amortization of DAC and sales inducements, and policyholder dividend obligations, that are related to net investment gains (losses) (see "Non-GAAP Measures," above).

Details of net investment gains (losses) by asset category are provided in the table below:

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Net investment losses on:		
Debt securities	\$ (24,816)	\$ (13,952)
Equity securities	12,487	(5,663)
Mortgage loans	2,799	1,108
Partnerships	(38,197)	11,553
Other invested assets	8,179	811
Net investment losses	\$ (39,548)	\$ (6,143)

Federal Income Taxes

Federal income tax expense was \$62 million in 2023 compared to income tax expense of \$26 million in 2022. The Company's effective tax rate was 22.3% and 16% in 2023 and 2022, respectively.

Non-Core Earnings

Non-core earnings primarily include short-term income volatility that results from the fair value measurement under GAAP of certain indexed product liabilities, which are sensitive to movement in equity market indexes and future interest rate assumptions, and the related impact to DAC and deferred sales inducements. Non-core earnings reduced pre-tax operating earnings by \$137 million in 2023 and reduced pre-tax operating earnings by \$242 million in 2022. The losses (negative non-core earnings) in 2023 and 2022 reflected the equity market volatility and increased interest rates during the periods.

SUMMARY OF FINANCIAL POSITION

Balance Sheet Information

The Company's investment objective is to keep its promises to policyholders by earning competitive net investment income within prudent, strategic asset allocation, asset liability management, and risk management frameworks. This includes portfolio and issuer diversification and careful consideration of various scenarios including interest rate, credit, and liquidity risks through market cycles. The Company's investment portfolio consists primarily of available-for-sale debt and equity securities, agency mortgage-backed securities, directly underwritten commercial real estate mortgages and contract loans.

As of December 31, 2023, total assets were \$45.5 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 1.3 million customers.

Cash and investments increased \$6.2 billion from December 31, 2022, which included a \$846 million increase in unrealized gains (losses) on available-for-sale debt securities and a \$1.7 billion increase in derivative assets, primarily equity index options used to hedge our indexed product liabilities. After excluding derivative assets and net unrealized gains and losses, total cash and invested assets as of December 31, 2023, were \$38.4 billion compared to \$34.7 billion as of December 31, 2022, including an increase in available-for-sale debt securities of \$3.0 billion, driven by cash flows from our growing life and annuity business. The remainder of the portfolio consists primarily of partnerships and other invested assets, cash, trading debt securities, equity securities, policy loans, and other short-term investments.

Total liabilities as of December 31, 2023 were \$42.9 billion, compared to \$36.9 billion as of December 31, 2022. The increase was primarily due to increases in policyholder account liabilities.

We evaluate our capital adequacy based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. We regularly evaluate the impact on our capital of potential macroeconomic, financial and insurance stresses. We believe that our capital resources are sufficient to satisfy future requirements and meet our obligations to policyholders, creditors and debt-holders, including those arising from reasonably foreseeable contingencies or events.

The following table provides a summary of the Company's consolidated balance sheet data:

	As of December 31, 2023	As of December 31, 2022
	<i>(in thousands)</i>	
Assets:		
Cash and investments	\$ 38,228,181	\$ 31,963,411
Other general account assets	6,418,085	6,119,633
Separate account assets	825,827	772,523
Total assets	\$ 45,472,093	\$ 38,855,567
Liabilities and Stockholder's Equity:		
Total liabilities	42,923,414	36,945,170
Stockholder's Equity:		
Retained earnings	3,940,015	3,729,404
Accumulated other comprehensive loss	(1,391,336)	(1,819,007)
Total stockholder's equity	2,548,679	1,910,397
Total liabilities and stockholder's equity	\$ 45,472,093	\$ 38,855,567

Cash Flow and Liquidity Information

Cash and restricted cash was \$668 million as of December 31, 2023, compared to \$198 million as of December 31, 2022. In addition to liquidity sourced from cash flows including premiums, deposits, investment income and maturities, the Company has access to secured asset-based borrowing capacity through membership in the Federal Home Loan Banks of Boston and Dallas. The Company evaluates liquidity risk quarterly by projecting cash flows under a stress scenario to ensure that there is sufficient liquidity to meet operating demands and objectives over a 36-month period, without consideration of mitigating actions such as the liquidation of investment holdings and changes in our investment strategy and product offerings.

In 2021, NLVF entered into a facility agreement with a Delaware trust that gives the Company the right over a 30-year period to issue at any time up to \$750 million of 4.161% Senior Notes due August 15, 2051 to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust, therefore providing an alternative source of liquidity. This agreement provides an alternative source of liquid assets that the Company can access at its discretion. As of December 31, 2023, NLVF has not exercised its issuance right with respect to the facility agreement and there are no 4.161% Senior Notes outstanding.

The following table includes the Company's consolidated cash flows provided by or used in operating, investing, and financing activities:

	For the Year Ended December 31,	
	2023	2022
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (229,581)	\$ (36,103)
Net cash used in investing activities	(3,005,895)	(2,817,055)
Net cash provided by financing activities	3,704,855	2,410,923
Net increase (decrease) in cash	<u>\$ 469,379</u>	<u>\$ (442,235)</u>

Net cash used in operating activities was \$230 million in 2023, compared to \$36 million in 2022. The change in cash used in operating activities compared to the prior year period was primarily due to continued growth in the Company resulting in higher operating expenses and income taxes.

Net cash used in investing activities was \$3.0 billion in 2023, compared to \$2.8 in 2022. The change in cash used in investing activities compared to the prior year period was driven by cost of investments acquired, net of sales, primarily due to growth in the bond portfolio and an increase in short-term investments due to higher interest rates. These were partially offset by an increase in the short-term broker collateral held.

Net cash provided by financing activities was \$3.7 billion in 2023, compared to \$2.4 billion in 2022. The change in net cash provided by financing activities compared to the prior year period was primarily due to an increase in policyholder deposits, net of withdrawals, of \$1.4 billion, resulting from higher sales of indexed universal life and annuity products.

Other Selected Data

	<u>As of</u> <u>December 31, 2023</u>	<u>As of</u> <u>December 31, 2022</u>	<u>Change</u>
	<i>(in billions)</i>		
Life insurance in force (before reinsurance ceded)	<u>\$ 334.4</u>	<u>\$ 291.2</u>	<u>\$ 43.2</u>
Total cash and invested assets (excluding unrealized gains and losses and derivatives)	<u>\$ 38.4</u>	<u>\$ 34.7</u>	<u>\$ 3.7</u>
	<u>For the Year Ended</u>		
	<u>December 31, 2023</u>	<u>December 31, 2022</u>	<u>Change</u>
<u>Weighted New Annualized Premium ("WNAP")</u>	<i>(in millions)</i>		
<u>Sales</u>			
Life	<u>\$ 530</u>	<u>\$ 465</u>	<u>\$ 65</u>
Annuity	<u>629</u>	<u>325</u>	<u>304</u>
Total Life and Annuity WNAP	<u>\$ 1,159</u>	<u>\$ 790</u>	<u>\$ 369</u>

PROSPECTIVE INFORMATION

Forward-looking statements contained herein are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The following uncertainties, among others, may have such an effect:

- Difficult conditions in the global capital markets and the economy;
- Significant market valuation fluctuations of the Company's investments, including any that are relatively illiquid;
- Differing interpretations in the methodologies, estimations and assumptions for the valuation of fixed maturity, equity and trading securities;
- Subjectivity in determining the amount of allowances and impairments taken on certain Company investments;
- Defaults on commercial mortgages held by the Company and volatilities in performance;
- Exposure to structured finance securities;
- Exposure to alternative investments;
- Exposure to mortgage-backed securities;
- Impairments of other institutions;
- Changes in interest rates and exposure to credit spreads;
- Effectiveness of the Company's hedging strategies and availability of hedging instruments;
- Impact of economic conditions on customers and vendors;
- Downgrades or potential downgrades in the Company's ratings;
- Changes in accounting rules;
- Adverse regulatory and legislative developments;
- Litigation and regulatory investigations;
- Changes in tax laws and the interpretation thereof;
- Inability to pay guaranteed policy benefits;
- Effectiveness of the Company's risk management policies and procedures;
- Lack of available, affordable or adequate reinsurance;
- Failure of counterparties to perform under reinsurance agreements, hedging instruments, or other contracts with the Company;
- Significant competition in the Company's businesses;

- Sensitivity of the amount of statutory capital the Company must hold to factors outside of its control;
- Adequacy of the Company's reserves for future policy benefits and claims;
- Deviations from assumptions regarding future mortality, morbidity, and interest rates used in calculating reserve amounts and pricing the Company's products;
- Ability to attract and retain producing agents and key personnel;
- Ability to raise additional capital;
- Costs related to future pension obligations;
- Impact of international tension between the United States and other nations, terrorist attacks or ongoing military and other actions;
- Pandemics or other catastrophic events; and
- A computer system failure or security breach.

Consequently, such forward-looking statements should be regarded solely as our current plans, estimates, and beliefs. We do not intend, and do not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

Our goals over the next several years include continued responsible growth across all of our product lines, as well as improving the efficiency and effectiveness of the overall organization. The Company will continue to deliver new and innovative products and riders, and partner with distributors who share our mission, values, and purpose. We will also continue to invest in our technology infrastructure to improve services for all our key stakeholders.

We will continue to manage our investment portfolio with the objective of competitive net investment income within prudent strategic asset allocation, asset liability management, and risk management frameworks.

Basis of Presentation and Principles of Consolidation

The following consolidated financial statements of NLVF have been prepared in conformity with GAAP. These financial statements should be read in conjunction with and are qualified in their entirety by reference to the Company's consolidated financial statements as of and for the years ended December 31, 2023 and 2022, which have been audited by PricewaterhouseCoopers LLP, including the accompanying notes which are an integral part of the audited financial statements. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. Actual results could differ, possibly materially, from those estimates.

The consolidated financial statements of the Company include the accounts of NLVF and its direct and indirect subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Certain reclassifications have been made to conform prior periods to the current year's presentation.

NLV Financial Corporation and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2023 and 2022

(in thousands)

Assets:

Cash and investments:

	As of December 31, 2023	As of December 31, 2022
Available-for-sale debt securities	\$ 26,799,650	\$ 22,946,775
Equity securities	132,305	111,513
Trading debt securities	154,306	164,106
Mortgage loans	4,762,202	4,967,269
Policy loans	1,244,017	1,067,698
Real estate investments	21,584	7,906
Derivative assets	2,494,681	801,285
Other invested assets	1,553,932	1,403,185
Short term investments	397,965	295,512
Cash and restricted cash	667,541	198,162
Total cash and investments	38,228,183	31,963,411
Deferred policy acquisition costs	4,434,425	4,297,579
Accrued investment income	353,848	304,219
Premiums and fees receivable	19,622	17,829
Amounts recoverable from reinsurers	139,554	150,428
Property and equipment, net	170,222	159,304
Corporate owned life insurance	598,668	573,933
Deferred tax asset	515,449	405,997
Federal income tax recoverable	—	44,400
Other assets	186,298	165,944
Separate account assets	825,824	772,523
Total assets	\$ 45,472,093	\$ 38,855,567

Liabilities:

Policy liabilities:

Policy benefit liabilities	\$ 3,935,308	\$ 3,852,755
Policyholder account liabilities	34,099,412	29,889,964
Policyholders' deposits	149,630	88,837
Policy claims payable	141,356	143,051
Policyholders' dividends and dividend obligations	9,307	10,012
Total policy liabilities	38,335,013	33,984,619
Amounts payable to reinsurers	23,775	27,892
Derivative liabilities	1,577,475	510,660
Other liabilities and accrued expenses	1,031,663	563,998
Pension and other post-retirement benefit obligations	183,157	169,142
Federal income tax payable	29,603	—
Debt	916,904	916,336
Separate account liabilities	825,824	772,523
Total liabilities	\$ 42,923,414	\$ 36,945,170

Stockholder's equity:

Class A common stock, 2,000 shares authorized, no shares issued and outstanding	\$ —	\$ —
Class B common stock, par value of \$0.01, 1,001 shares authorized, 100 shares issued and outstanding	—	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	—	—
Retained earnings	3,940,015	3,729,404
Accumulated other comprehensive loss	(1,391,336)	(1,819,007)
Total stockholder's equity	\$ 2,548,679	\$ 1,910,397
Total liabilities and stockholder's equity	\$ 45,472,093	\$ 38,855,567

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years ended December 31, 2023 and 2022

	For the Year Ended	
	December 31,	
	2023	2022
<i>(in thousands)</i>		
Revenues:		
Insurance premiums	\$ 376,371	\$ 358,085
Policy and contract charges	1,232,932	1,079,828
Commissions and fee income	63,757	65,031
Net investment income	2,087,374	801,259
Net investment losses	(39,548)	(6,143)
Other income	14,108	41,431
Total revenues	3,734,994	2,339,491
Benefits and expenses:		
Increase in policy liabilities	50,171	105,481
Policy benefits	679,471	593,558
Policyholders' dividends and dividend obligations	21,014	8,708
Interest credited to policyholder account liabilities	1,530,050	530,753
Operating expenses	454,668	401,617
Interest expense	67,014	67,332
Policy acquisition expenses	652,732	473,649
Total benefits and expenses	3,455,120	2,181,098
Income before income taxes	279,874	158,393
Income tax expense	62,437	26,030
Net income	\$ 217,437	\$ 132,363

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Years ended December 31, 2023 and 2022

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<i>(in thousands)</i>						
January 1, 2022	\$ —	\$ —	\$ —	\$ 3,597,041	\$ 972,640	\$ 4,569,681
Net income	—	—	—	72,532	—	72,532
Change in unrealized losses on available-for-sale securities, net	—	—	—	—	(2,999,656)	(2,999,656)
Change in cash flow hedge on debt issuance, net	—	—	—	—	31	31
Change in additional minimum pension liability, net	—	—	—	—	5,379	5,379
Total comprehensive loss	—	—	—	—	—	(2,921,714)
December 31, 2022	\$ —	\$ —	\$ —	\$ 3,669,573	\$ (2,021,606)	\$ 1,647,967
January 1, 2023	\$ —	\$ —	\$ —	\$ 3,729,404	\$ (1,819,007)	\$ 1,910,397
Net income	—	—	—	217,437	—	217,437
Effect of implementation of ASU 2016-13, net	—	—	—	(6,826)	—	(6,826)
Change in unrealized gains on available-for-sale securities, net	—	—	—	—	421,119	421,119
Change in cash flow hedge on debt issuance, net	—	—	—	—	41	41
Change in additional minimum pension liability, net	—	—	—	—	6,511	6,511
Total comprehensive income	—	—	—	—	—	638,282
December 31, 2023	\$ —	\$ —	\$ —	\$ 3,940,015	\$ (1,391,336)	\$ 2,548,679

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Years ended December 31, 2023 and 2022

	For the Year Ended December 31,	
	2023	2022
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 217,437	\$ 132,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	(223,137)	9
Interest credited to policyholder account liabilities	1,530,051	530,753
Amortization of deferred policy acquisition costs	543,327	294,936
Policy and contract charges	(1,232,932)	(1,079,828)
Net investment losses	39,548	6,143
Change in fair value of derivatives	(437,286)	627,509
Change in corporate owned life insurance policies	(24,735)	(23,277)
Depreciation	(18,848)	33,322
Other	(337)	3,384
Changes in assets and liabilities:		
Accrued investment income	(49,630)	(40,432)
Deferred policy acquisition costs	(922,450)	(730,470)
Policy liabilities	245,647	271,549
Other assets and liabilities	103,764	(62,064)
Net cash used in operating activities	<u>(229,581)</u>	<u>(36,103)</u>
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	2,978,550	2,527,692
Cost of investments acquired	(6,145,903)	(4,692,172)
Property and equipment additions	12,930	(27,501)
Change in policy loans	(176,319)	(100,207)
Change in short term investments	(102,453)	(260,363)
Change in short term broker collateral	429,070	(324,810)
Other	(1,770)	60,306
Net cash used in investing activities	<u>(3,005,895)</u>	<u>(2,817,055)</u>
Cash flows from financing activities:		
Policyholders' deposits	6,097,524	4,210,572
Policyholders' withdrawals	(2,370,742)	(1,863,739)
Advances from Federal Home Loan Banks	132,758	519,278
Repayments to Federal Home Loan Banks	(142,758)	(467,141)
Change in other deposits	(11,927)	11,953
Net cash provided by financing activities	<u>3,704,855</u>	<u>2,410,923</u>
Net increase (decrease) in cash	469,379	(442,235)
Cash and restricted cash:		
Beginning of period	198,162	640,397
End of period	<u>\$ 667,541</u>	<u>\$ 198,162</u>

NLV Financial Corporation and Subsidiaries

Financial Statements

**As of and for the Years Ended
December 31, 2023 and 2022**

NLV Financial Corporation and Subsidiaries
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Board of Directors of NLV Financial Corporation

Opinion

We have audited the accompanying consolidated financial statements of NLV Financial Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of comprehensive income, of changes in stockholder's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Boston, Massachusetts
February 22, 2024

NLV Financial Corporation and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2023 and 2022

(in thousands)

Assets:

Cash and investments:

Available-for-sale debt securities (net of allowance for credit losses of \$15,133 in 2023) (amortized cost of \$29,461 in 2023)

Equity securities

Trading debt securities

Mortgage loans (net of allowance for credit losses of \$8,270 in 2023)

Policy loans

Real estate investments

Derivative assets

Other invested assets

Short term investments

Cash and restricted cash

Total cash and investments

Deferred policy acquisition costs

Accrued investment income

Premiums and fees receivable

Amounts recoverable from reinsurers

(net of allowance for credit losses of \$560 in 2023)

Property and equipment, net

Corporate owned life insurance

Deferred tax asset

Federal income tax recoverable

Other assets

Separate account assets

Total assets

	2023	2022
	\$ 26,799,650	\$ 22,946,775
	132,304	111,513
	154,306	164,106
	4,762,202	4,967,269
	1,244,017	1,067,698
	21,584	7,906
	2,494,681	801,285
	1,553,933	1,403,185
	397,965	295,512
	667,541	198,162
	38,228,183	31,963,411
	4,434,425	4,297,579
	353,848	304,219
	19,622	17,829
	139,554	150,428
	170,222	159,304
	598,668	573,933
	515,449	405,997
	—	44,400
	186,299	165,944
	825,824	772,523
	\$ 45,472,094	\$ 38,855,567

Liabilities:

Policy liabilities:

Policy benefit liabilities

Policyholder account liabilities

Policyholders' deposits

Policy claims payable

Policyholders' dividends and dividend obligations

Total policy liabilities

Amounts payable to reinsurers

Derivative liabilities

Other liabilities and accrued expenses

Pension and other post-retirement benefit obligations

Federal income tax payable

Debt

Separate account liabilities

Total liabilities

	\$ 3,935,308	\$ 3,852,755
	34,099,412	29,889,964
	149,630	88,837
	141,356	143,051
	9,307	10,012
	38,335,013	33,984,619
	23,775	27,892
	1,577,475	510,660
	1,031,664	563,998
	183,157	169,142
	29,603	—
	916,904	916,336
	825,824	772,523
	\$ 42,923,415	\$ 36,945,170

Stockholder's equity:

Class A common stock, 2,000 shares authorized, no shares issued and outstanding

Class B common stock, par value of \$0.01, 1,001 shares authorized, 100 shares issued and outstanding

Preferred stock, 500 shares authorized, no shares issued and outstanding

Retained earnings

Accumulated other comprehensive (loss) income

Total stockholder's equity

Total liabilities and stockholder's equity

	\$ —	\$ —
	—	—
	—	—
	3,940,015	3,729,404
	(1,391,336)	(1,819,007)
	\$ 2,548,679	\$ 1,910,397
	\$ 45,472,094	\$ 38,855,567

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2023 and 2022

(in thousands)

	<u>2023</u>	<u>2022</u>
Revenues:		
Insurance premiums	\$ 376,371	\$ 358,085
Policy and contract charges	1,232,932	1,079,828
Commissions and fee income	63,757	65,031
Net investment income	2,087,374	801,259
Net investment (losses) gains	(39,548)	(6,143)
Other income	14,108	41,431
Total revenues	<u>3,734,994</u>	<u>2,339,491</u>
Benefits and expenses:		
Increase in policy liabilities	50,171	105,481
Policy benefits	679,471	593,558
Policyholders' dividends and dividend obligations	21,015	8,708
Interest credited to policyholder account liabilities	1,530,051	530,753
Operating expenses	454,666	401,617
Interest expense	67,014	67,332
Policy acquisition expenses	652,732	473,649
Total benefits and expenses	<u>3,455,120</u>	<u>2,181,098</u>
Income before income taxes	<u>279,874</u>	<u>158,393</u>
Income tax expense	62,437	26,030
Net income	<u>\$ 217,437</u>	<u>\$ 132,363</u>
Other comprehensive income (loss), net of tax:		
Unrealized losses on available-for-sale investments	\$ 421,120	\$ (2,808,295)
Cash flow hedge on debt issuance	41	41
Change in funded status of retirement plans	6,510	16,607
Total other comprehensive income (loss)	<u>427,671</u>	<u>(2,791,647)</u>
Comprehensive income (loss)	<u>\$ 645,108</u>	<u>\$ (2,659,284)</u>

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Years Ended December 31, 2023 and 2022

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
<i>(in thousands)</i>						
December 31, 2021	\$ —	\$ —	\$ —	\$ 3,597,041	\$ 972,640	\$ 4,569,681
Net income	—	—	—	132,363	—	132,363
Other comprehensive loss	—	—	—	—	(2,791,647)	(2,791,647)
Total comprehensive loss				132,363	(2,791,647)	(2,659,284)
December 31, 2022	\$ —	\$ —	\$ —	\$ 3,729,404	\$ (1,819,007)	\$ 1,910,397
Effect of implementation of ASU 2016-13, net				(6,826)	—	(6,826)
Comprehensive income:						
Net income	—	—	—	217,437	—	217,437
Other comprehensive income	—	—	—	—	427,671	427,671
Total comprehensive income				217,437	427,671	645,108
December 31, 2023	\$ —	\$ —	\$ —	\$ 3,940,015	\$ (1,391,336)	\$ 2,548,679

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2023 and 2022

(in thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income	\$ 217,437	\$ 132,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	(223,137)	9
Interest credited to policyholder account liabilities	1,530,051	530,753
Amortization of deferred policy acquisition costs	543,327	294,936
Policy and contract charges	(1,232,932)	(1,079,828)
Net investment losses	39,548	6,143
Change in fair value of derivatives	(437,286)	627,509
Change in corporate owned life insurance policies	(24,735)	(23,277)
Depreciation	(18,848)	33,322
Other	(337)	3,384
Changes in assets and liabilities:		
Accrued investment income	(49,630)	(40,432)
Deferred policy acquisition costs	(922,450)	(730,470)
Policy liabilities	245,647	246,945
Other assets and liabilities	103,764	(37,460)
Net cash used by operating activities	<u>(229,581)</u>	<u>(36,103)</u>
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	2,978,550	2,527,692
Cost of investments acquired	(6,145,903)	(4,692,172)
Property and equipment additions	12,930	(27,501)
Change in policy loans	(176,319)	(100,207)
Change in short term investments	(102,453)	(260,362)
Change in short term broker collateral	429,070	(324,810)
Other	(1,770)	60,305
Net cash used by investing activities	<u>(3,005,895)</u>	<u>(2,817,055)</u>
Cash flows from financing activities:		
Policyholders' deposits	6,097,524	4,210,572
Policyholders' withdrawals	(2,370,742)	(1,863,739)
Advances from Federal Home Loan Banks	132,758	519,278
Repayments to Federal Home Loan Banks	(142,758)	(467,141)
Change in other deposits	(11,927)	11,953
Net cash provided by financing activities	<u>3,704,855</u>	<u>2,410,923</u>
Net increase (decrease) in cash	469,379	(442,235)
Cash and restricted cash:		
Beginning of year	198,162	640,397
End of year	<u>\$ 667,541</u>	<u>\$ 198,162</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 63,415	\$ 63,406
Income taxes paid	<u>\$ 192,072</u>	<u>\$ 56,014</u>

The accompanying notes are an integral part of these financial statements.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 1 – NATURE OF OPERATIONS AND STRUCTURE

NLV Financial Corporation (“NLVF”) and its subsidiaries and affiliates (collectively, the “Company”) offer a broad range of life insurance and annuity products through its insurance operations, which include National Life Insurance Company (“National Life”), which was chartered in Vermont in 1848, and Life Insurance Company of the Southwest (“LSW”), a Texas domiciled stock life insurer, which is a wholly-owned subsidiary of National Life. The Company employs approximately 1,350 people, primarily concentrated in Montpelier, Vermont and Addison, Texas.

On January 1, 1999, pursuant to a mutual holding company reorganization, National Life converted from a mutual to a stock life insurance company. Concurrent with the conversion to a stock life insurance company, National Life created a closed block of insurance and annuity policies (the “Closed Block”). Prior to the conversion, policyowners held policy contractual and membership rights from National Life. The reference to “policyowner,” “policyholder” or “policy” throughout this document includes both life insurance and annuity contract owners. The contractual rights, as defined in the various insurance and annuity policies, remained with National Life after the conversion. This reorganization was approved by policyowners of National Life and was completed with the approval of the Commissioner of the Vermont Department of Financial Regulation. Membership interests held by policyowners of National Life at December 31, 1998, were converted to membership interests in National Life Holding Company (“NLHC”), a mutual insurance holding Company created for this purpose. Under the provisions of the reorganization of National Life from a mutual to a stock life insurance company, National Life issued 2.5 million common stock \$1 par shares to its parent, NLVF, as a transfer from retained earnings.

All of National Life’s outstanding shares are currently held by its parent, NLVF, which is a wholly-owned subsidiary of NLHC, the mutual holding company. Policyholders of National Life hold membership interests in NLHC. NLHC and its subsidiaries are collectively known as the National Life Group. NLHC has ownership of all of NLVF’s common stock class B shares outstanding. NLVF has assets and operations primarily related to the issuance of debt and as the sponsor of certain employee related benefit plans. Under the terms of the reorganization, NLHC must always hold a majority of the voting shares of NLVF.

On March 6, 2015, National Life Distribution, LLC (“NLD”) was formed as a subsidiary of LSW. NLD serves as a master agency for the Company’s field force operations. National Life and LSW incur commission expenses based on applicable product commission schedules agreed to with NLD.

On August 5, 2015, Catamount Reinsurance Company (“Catamount”) was formed as a subsidiary of National Life. Catamount is a special purpose financial insurance company domiciled in the state of Vermont. Catamount entered into a coinsurance with funds withheld agreement with National Life to reinsure the majority of in force Closed Block policies for statutory reporting. In 2016, the Catamount legal entity was transferred as a dividend to NLVF.

On August 17, 2016, Longhorn Reinsurance Company (“Longhorn”) was formed as a subsidiary of National Life. Longhorn is a special purpose financial insurance company domiciled in the state of Vermont. Longhorn entered into a coinsurance with funds withheld agreement with LSW to reinsure certain indexed universal life (“IUL”) insurance policies issued by LSW from January 1, 2011, through December 31, 2016, for statutory reporting. In 2019, the Longhorn legal entity was transferred as a dividend to NLVF.

The Company’s leading life insurance product lines include indexed universal life, whole life, term life and universal life. The Company offers a wide array of options and riders in connection with these policies to provide additional features such as accelerated benefits, waiver of premium, accidental death benefits, paid up additions, supplemental term insurance and lifetime income.

The Company’s leading annuity product lines are indexed annuities and fixed interest rate annuities. The

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 1 – NATURE OF OPERATIONS AND STRUCTURE (continued)

Company offers a guaranteed lifetime income rider on our indexed annuity products, which allows the contract holder the option to elect a guaranteed annual income that is fixed and will continue for the remaining life of the contract holder, even if the annuity's account value reaches zero. The Company also offers variable annuities, but does not offer, and has never offered, guaranteed minimum withdrawal, accumulation or income benefits on our variable annuities. A return of premium guaranteed minimum death benefit is the only guarantee currently offered on our variable annuity products.

The Company provides this broad range of life insurance and annuity products to a national client base through an extensive network of independent agents and an affiliated distribution channel. The Company focuses on serving Middle America in its target market of customers with household income of between \$75,000 and \$150,000, offering products with benefits that help Middle America customers meet needs during their lifetime, including lifetime income in retirement and accelerated death benefits if the insured becomes terminally, chronically or critically ill. In its individual annuity business, the Company focuses on the 403(b) K-12 educator markets. The Company offers products to meet financial and business planning needs, including estate, business succession and retirement planning and deferred compensation and other key executive benefit planning for small business owners, professional, and other middle to upper income individuals. The Company has in excess of 1.3 million customers and, through its subsidiaries, is licensed to do insurance business in all 50 states and the District of Columbia. National Life is licensed to do business in all 50 states and the District of Columbia. LSW is licensed in 49 states and the District of Columbia. Catamount and Longhorn are licensed to do business in Vermont only. About 45% of the Company's total collected premiums and deposits are from residents of the states of California, New York and Texas.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The consolidated financial statements of the Company include the accounts of NLVF and its direct and indirect subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and universal life-type insurance contracts; policy liabilities; valuation of investments; derivative instruments; and embedded derivatives; determination of hedging effectiveness on interest rate swaps; evaluation of impairments; valuations related to benefit plans, income taxes and litigation and regulatory contingencies. Certain of these estimates are particularly sensitive to market conditions, and deterioration and/or volatility in the debt or equity markets could have a material impact on the Company's consolidated financial position, results of operations or cash flows.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The Company has evaluated events subsequent to December 31, 2023, and through the consolidated financial statement issuance date of February 22, 2024. The Company has not evaluated subsequent events after the issuance date for presentation in these consolidated financial statements.

Cash and Restricted Cash

Included in cash are cash equivalents which consist of commercial paper with maturities of three months or less.

At December 31, 2023 and 2022, the Company had restricted cash of \$614.5 million and \$185.8 million, respectively, related to broker collateral on the Company's derivative investments.

Certain non-cash transactions have been excluded from the statement of cash flows in 2023 and 2022. In 2023, these amounts include capitalized bond and bank loan interest of \$3.4 million and loss from equity method partnerships of (\$5.9) million. In 2022, these amounts include capitalized bond interest of \$5.5 million, loss from equity method partnerships of (\$2.8) million and exchange transactions resulting in net bond disposals of \$8.6 million, a partnership acquisition of \$8.6 million and separate account seed money transfer of \$13.7 million.

Short Term Investments

Short term investments include money market accounts that are carried at net asset value ("NAV") which approximates fair value. These short-term investments include liquid debt instruments purchased with original maturities of one year or less.

Investments

The Company's investment portfolio consists primarily of available-for-sale ("AFS") debt securities and equity securities. These securities are reported at fair value. Changes in the fair values of AFS debt securities are reflected in other comprehensive income ("OCI") after adjustments for related deferred policy acquisition costs, policyholder dividend obligations, loss reserve recognition, reserves and deferred income taxes. Changes in the fair values of equity securities are reflected through net investment gains and (losses) in the Consolidated Statements of Comprehensive Income. When determining fair value, the Company utilizes observable market inputs and considers available data from a third-party pricing service, independent brokers and pricing matrices. Publicly available prices are used whenever possible. In the event that publicly available pricing is not available, the securities are submitted to independent brokers for pricing, or they are valued using a pricing matrix, which maximizes the use of observable inputs that include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers and/or cash flows. This process includes quantitative and qualitative analysis and is performed by the Company's investment professionals.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and Presentation of Credit Losses

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties. The Company has a security monitoring process overseen by investment and accounting professionals to identify securities, using certain quantitative and qualitative characteristics, that could potentially be impaired.

AFS Debt Securities

AFS debt securities, where fair value is below amortized cost, are reviewed quarterly to determine whether the amortized cost basis of the security is recoverable. Qualitative factors are first considered including, but not limited to, the extent of the decline and the reasons for the decline in value, credit rating and general credit spread widening, and the financial condition of the issuer. If analysis of these qualitative factors results in potential impairment, and the Company has determined that it does not intend to sell, or is more likely than not, required to sell the asset, the credit impairment is measured as the extent to which the amortized cost exceeds the net present value of projected future cash flows (“net present value”), subject to the asset’s fair value floor. The net present value is calculated by discounting the Company’s best estimate of projected future cash flows at the effective interest rate implicit in the AFS debt security at the date of acquisition. If the Company has determined that it will sell or will more likely than not be required to sell, a security in scope for an impairment assessment, the Company records a write-down of the asset based on the difference between the asset’s amortized cost basis and fair value.

Credit impairment is recognized as an allowance for credit losses and recorded in net investment gains and (losses). If the Company has deemed all or a portion of the amortized cost uncollectible, the allowance is removed from the balance sheet by writing down the amortized cost basis of the AFS debt security. For AFS debt securities with recorded credit allowances recognized from previous assessments, the allowance is subject to reversal in future periods if conditions indicate that the credit quality of the asset has improved.

The Company adopted ASU 2016-13 effective January 1, 2023. Refer to Note 3 for additional information about the adoption. Prior to the adoption of ASU 2016-13, these assets were analyzed under other-than-temporarily impaired (“OTTI”) guidance which considered the length of time and extent to which the fair value has been less than cost or amortized cost and the expected recovery period of the security when determining whether a credit loss exists.

The Company has elected not to measure an allowance for credit losses for accrued interest receivables as uncollectible accrued interest receivable balances are written off in a timely manner, within 90 days past due, by reversing interest income at the individual security level.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trading Debt Securities

Assets held in a segregated custody account in support of a modified coinsurance arrangement have been designated as trading debt securities. Trading debt securities are reported at fair value with changes in fair value recognized in net investment gains and (losses). See Reinsurance Note 6 for additional information on the modified coinsurance arrangement.

Mortgage Loans

Mortgage loans on commercial and residential real estate are carried at amortized cost less a valuation allowance for probable losses for current expected credit losses (CECL). Upon adoption of ASU 2016-13, certain off-balance sheet credit exposures (i.e., unfunded mortgage loan commitments where the Company cannot unconditionally cancel the commitment) are also subject to a CECL allowance. See Note 11 for additional information. The CECL allowance represents the Company's best estimate of expected credit losses over the remaining life of the assets or off-balance sheet credit exposures. The determination of the allowance considers historical credit loss experience, current conditions and reasonable and supportable forecasts.

The CECL allowance reflects the Company's expected credit losses of the amortized cost basis using default adjusted cash flow method, which incorporates property-and loan level cash flow with the estimated default and prepayment assumptions. Model assumptions and factors are reviewed and updated as appropriate.

The CECL allowance on commercial and residential mortgage loans can increase or decrease from period to period based on the factors noted above. The change in allowance is recognized in net investment gains and (losses) in the consolidated statements of comprehensive income. As it relates to unfunded commitments that are in scope of this guidance, the CECL allowance is reported in "Other liabilities," and the change in the allowance is recognized in net investment gains and (losses).

Prior to adoption of ASU 2016-13, mortgage loans on commercial real estate were carried at amortized cost less a valuation allowance for probable losses on unidentified loans. The evaluation and assessment of the adequacy of the provision for losses and the need for mortgage impairments was based on known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, the value of the underlying collateral, composition of the loan portfolio, current economic conditions, loss experience and other relevant factors. These assumptions required the use of significant management judgment and included the probability and timing of borrower default and loss frequency and severity estimates. Changes in the valuation allowance were recognized through net investment gains and (losses).

For mortgage loans that were deemed impaired, an impairment loss was recognized through net investment gains and (losses) as the difference between the carrying amount and the Company's share of either (a) the present value of the expected future cash flows discounted at the loan's original effective interest rate, (b) the loan's observable market price or (c) the fair value of the collateral. Interest income on an impaired loan is accrued to the extent it was deemed collectable and the loan continues to perform under its original or restructured terms. Interest income on defaulted loans was recognized when received.

Policy Loans

Policy loans are reported at their unpaid balance and are fully collateralized by related cash surrender values.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate

Real estate acquired in satisfaction of debt is classified either as held for investment or available for sale and transferred to real estate from mortgage loans at the lower of cost or fair value. Real estate investments held for investment purposes are reported at depreciated cost and real estate investments classified as available for sale are reported at the lower of cost or fair value, less the costs to sell, and are not depreciated. In evaluating real estate impairments, the Company considers, among other things, the fair value of the real estate compared to its carrying value.

Other Invested Assets

Investments in limited partnerships are included in other invested assets. Partnerships over which the Company does not have significant influence are carried at fair value. The Company obtains the fair value of these investments generally from NAV information provided by the general partner or manager of the limited partnership, the financial statements of which generally are audited annually. Changes in the fair value of these limited partnerships are included in net investment gains and (losses) within the Consolidated Statements of Comprehensive Income. Limited partnerships over which the Company has significant influence are accounted for using the equity method. Under the equity method, the Company's pro-rata share of the partnerships' profits and losses are recognized in the Company's net investment income, and dividends received from the partnerships are recognized as return of capital up until the point that the initial investment has been fully recovered.

The Company receives U.S. Treasuries as broker collateral on the Company's derivative investments. These assets are considered restricted and are included in other invested assets. The Company also receives cash as broker collateral. For additional information, see Cash and Restricted Cash herein.

The Company's investments in affordable housing projects are included in other invested assets and are amortized using the proportional amortization method within income tax expense. The associated tax credits are also included as a component of income tax expense. For additional information, see Note 8.

The Company's investments in solar tax credit entities are included in other invested assets and are accounted for using the equity method. The Company's share of the entities' profits and losses are recognized as a component of net investment income.

Variable Interest Entities

A variable interest entity ("VIE") is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions related to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. The primary beneficiary, which is the interest holder that has both the power to direct the activities that most significantly affect the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, is required to consolidate the VIE. The Company has variable interests in VIEs through a certain investment in notes and other invested assets. At December 31, 2023 and 2022, the Company had no interests in VIEs that met the criteria for consolidation. See Note 5 for additional information.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives

Derivatives include long options, short options, swaptions, interest rate swaps and futures contracts. All derivatives are carried at fair value. Changes in the fair value of derivatives not designated as hedges are reflected in net investment income.

The Company designates certain interest rate swaps as fair value hedges when they have met the requirements to be deemed fair value hedges. The interest rate swaps that are designated as fair value hedges are used to convert fixed rate assets to floating rate. The Company recognizes unrealized and realized gains and losses on the swaps and on the related hedged items within net investment income. For additional information, see Note 5.

Net investment gains and (losses)

Net investment gains and (losses) on the Company's Consolidated Statements of Comprehensive Income include realized capital gains (losses) which are recognized using the specific identification method. Net realized capital gains (losses) include adjustments for related deferred policy acquisition costs, sales inducement assets, credit losses, reserves, policyholder dividend obligations, income taxes and impairment of capitalized software.

Accumulated Other Comprehensive Income ("AOCI")

The balance of and changes in each component of AOCI attributable to the Company for the years ended December 31, 2023 and 2022, are as follows (in thousands):

	Unrealized gains (losses) on available-for-sale investments	Cash flow hedge on debt issuances	Change in funded status of retirement plans	Total
Balance, December 31, 2021	\$ 1,080,212	\$ (476)	\$ (107,096)	\$ 972,640
Other comprehensive loss before reclassifications	(2,819,368)	41	9,120	(2,810,207)
Amounts reclassified from AOCI	11,073	—	7,487	18,560
Balance, December 31, 2022	<u>\$ (1,728,083)</u>	<u>\$ (435)</u>	<u>\$ (90,489)</u>	<u>\$ (1,819,007)</u>
Other comprehensive loss before reclassifications	413,870	41	(114)	413,797
Amounts reclassified from AOCI	7,251	—	6,623	13,874
Balance, December 31, 2023	<u>\$ (1,306,962)</u>	<u>\$ (394)</u>	<u>\$ (83,980)</u>	<u>\$ (1,391,336)</u>

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AOCI component	Amounts reclassified out of AOCI (1)	Affected line item in the Consolidated Statements of Comprehensive Income
Unrealized gains (losses) on available-for-sale investments	\$ 17,011	Sale of investments - in net investment gains and (losses)
	<u>(26,189)</u>	Impairment expense - in net investment gains and (losses)
	\$ (9,178)	Total before tax
	<u>1,927</u>	Income tax benefit
	<u><u>(7,251)</u></u>	Net of tax
 Change in funded status of retirement plans (2)	 \$ (8,383)	 Amortization of actuarial gain/(loss) - in operating expenses
	<u>1,760</u>	Income tax benefit
	<u><u>(6,623)</u></u>	Net of tax
 Total reclassifications for the period	 \$ <u><u>(13,874)</u></u>	 Net of tax

(1) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(2) These AOCI components are included in the computation of net periodic pension cost (see Note 9 for additional details).

Reclassifications out of AOCI during the year ended December 31, 2022 were as follows (in thousands):

AOCI component	Amounts reclassified out of AOCI (1)	Affected line item in the Consolidated Statements of Comprehensive Income
Unrealized gains (losses) on available- for-sale investments	\$ (10,097)	Sale of investments - in net investment gains and (losses)
	<u>(3,919)</u>	Impairment expense - in net investment gains and (losses)
	\$ (14,016)	Total before tax
	<u>2,943</u>	Income tax benefit
	<u><u>(11,073)</u></u>	Net of tax
 Change in funded status of retirement plans (2)	 \$ (9,477)	 Amortization of actuarial gain/(loss) - in operating expenses
	<u>1,990</u>	Income tax benefit
	<u><u>(7,487)</u></u>	Net of tax
 Total reclassifications for the period	 \$ <u><u>(18,560)</u></u>	 Net of tax

(1) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(2) These AOCI components are included in the computation of net periodic pension cost (see Note 9 for additional details).

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Home Loan Banks

National Life is a member of the Federal Home Loan Bank of Boston (“FHLB Boston”) which provides National Life with access to a secured asset-based borrowing capacity. National Life had a letter of credit of \$25.0 million as of December 31, 2023 and 2022, and pledged collateral of \$377.7 million and \$354.7 million as of December 31, 2023 and 2022, respectively. Outstanding advances under this program were \$168.1 million as of December 31, 2023 and 2022. The membership requires an investment in the common stock of FHLB Boston. As of December 31, 2023 and 2022, National Life held \$12.0 million and \$12.2 million of FHLB common stock, which is redeemable by FHLB Boston. It is considered restricted and is reported in other invested assets at par value.

LSW is a member of the Federal Home Loan Bank of Dallas (“FHLB Dallas”) which provides LSW with access to a secured asset-based borrowing capacity, including the ability to obtain loans as an alternative source of liquidity and to issue funding agreements. LSW had pledged collateral of \$3.1 billion and \$3.2 billion as of December 31, 2023 and 2022, respectively. Outstanding advances under this program were \$2.1 billion as of December 31, 2023 and 2022. The membership requires an investment in the common stock of FHLB Dallas. As of December 31, 2023 and 2022, LSW held \$73.8 million and \$69.8 million of FHLB common stock, which is redeemable by FHLB Dallas. It is considered restricted and is reported in other invested assets at par value.

All of the outstanding advances in the form of funding agreements are included in policyholder account liabilities. The proceeds from these advances have been invested in a pool of fixed and floating rate income assets. The Company had no outstanding advances in the form of borrowings as of December 31, 2023 and 2022. Total interest expense of \$9.1 million and \$3.3 million was paid to FHLB Boston in 2023 and 2022, respectively. Total interest expense of \$112.5 million and \$40.1 million was paid to FHLB Dallas in 2023 and 2022, respectively.

National Life repaid advances to FHLB Boston of \$38.0 million and \$15.7 million in 2023 and 2022, respectively. LSW repaid advances to FHLB Dallas of \$104.8 million and \$451.4 million in 2023 and 2022, respectively.

Off-Balance Sheet Arrangements

In October 2021, NLVF entered into a facility agreement with a Delaware trust, unrelated to the Company, that gives the Company the right over a 30-year period to issue at any time up to \$750 million of 4.161% Senior Notes due August 15, 2051, to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust. The undrawn amount in association with the facility agreement is an off-balance sheet arrangement unless the Company were to exercise its issuance right. This agreement provides an alternative source of liquid assets that the Company can access at its discretion. For additional details, see Note 10.

Policy Acquisition Expenses

Commissions and other costs that are related directly to the successful acquisition of new or renewal insurance contracts are eligible to be deferred. Deferred policy acquisition costs (“DAC”) for participating life insurance, universal life insurance and annuities are amortized in relation to estimated gross profits. Amortization is adjusted retrospectively for actual experience and when estimates of future gross profits are revised. Deferred policy acquisition costs for these products are adjusted for related unrealized gains (losses) on available-for-sale debt securities and prior to 2019, equity securities, (after deducting any related policyholder dividend obligations), through AOCI, net of related deferred income taxes. DAC for non-participating term and whole life insurance and participating limited-payment and single-payment life insurance is amortized in relation to premium income using assumptions consistent with those used in computing policy benefit liabilities.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy Acquisition Expenses (continued)

At least annually, the Company reviews long-term assumptions underlying the projections of estimated gross profits and its calculation of the recoverability of DAC balances. These assumptions include changes in projected investment rates, interest crediting rates, policyholder dividend rates, mortality, expenses, contract lapses, withdrawals, surrenders and amortization period. The adjustments to DAC to reflect the update of the actuarial assumptions in 2023 and 2022 resulted in a \$14.2 million net increase and \$42.7 million net increase in policy acquisition expenses, respectively. The update of actuarial assumptions also resulted in, to a lesser extent, adjustments to sales inducement assets and liabilities and policy liabilities.

The Company offers various sales incentives including bonus interest credited on its annuity products at the point of sale, as well as higher interest crediting rates in the first policy year. The Company capitalizes and amortizes these sales inducements to the extent they are explicitly identified in the contract at inception, incremental to amounts credited on similar contracts without bonus interest and higher than the contract's expected ongoing crediting rates for periods after the bonus period. Sales inducement assets are reported within DAC and are amortized based on the underlying gross profits of the products, with amortization adjusted periodically to reflect actual experience, as well as updates to assumptions for future estimated gross profits.

For internal replacements of insurance contracts, the Company determines whether the new contract has substantially changed from the original contract based on certain criteria such as whether the change requires additional underwriting, pricing that was not contemplated in the original contract or significant benefit changes. If the Company determines that the contract has substantially changed, the deferred acquisition costs related to the original contract are written off through a charge to policy acquisition expenses.

Property and Equipment

Property and equipment is reported at depreciated cost. Assets are depreciated over their useful life using the straight-line method of depreciation. The table below outlines the useful life for each asset class:

Asset Class	Years
Software	5
Equipment	5
Furniture	7
Renovations/semi-permanent fixtures	20
Home office/other buildings	40

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment (continued)

The tables below reflect the cost and accumulated depreciation for each major asset class as of December 31, 2023 and 2022 (in millions):

	December 31, 2023		
	Cost	Accumulated Depreciation	Carrying Value
Software	\$ 358.7	\$ (241.9)	\$ 116.8
Equipment	35.0	(30.9)	4.1
Furniture	28.1	(24.1)	4.0
Renovations	19.7	(7.6)	12.1
Home office	113.3	(80.1)	33.2
	<u>\$ 554.8</u>	<u>\$ (384.6)</u>	<u>\$ 170.2</u>

	December 31, 2022		
	Cost	Accumulated Depreciation	Carrying Value
Software	\$ 353.4	\$ (250.8)	\$ 102.6
Equipment	46.6	(43.0)	3.6
Furniture	30.8	(25.7)	5.1
Renovations	19.3	(6.6)	12.7
Home office	112.5	(77.2)	35.3
	<u>\$ 562.6</u>	<u>\$ (403.3)</u>	<u>\$ 159.3</u>

Depreciation expense recognized in operating expenses was \$33.7 million and \$33.5 million for the years ended December 31, 2023 and 2022, respectively.

Corporate Owned Life Insurance

The Company holds life insurance contracts on certain members of management and other key individuals. The Company made no corporate owned life insurance (“COLI”) purchases in 2023 or 2022. The Company’s investment in COLI is reported at the cash surrender value of these COLI contracts, which totaled \$598.7 million and \$573.9 million at December 31, 2023 and 2022, respectively.

COLI income includes the net change in cash surrender value and any benefits received or accrued. COLI income was \$27.1 million and \$29.0 million in 2023 and 2022, respectively, and is included in other income.

Receivable from Agents

The Company accrues receivables for amounts due from agents. These amounts due include commissions recoverable from policy lapses or surrenders. As of December 31, 2023 and 2022, the Company had receivables from agents of \$124.5 million and \$98.2 million, respectively, which are included in other assets on the Consolidated Balance Sheets. Upon adoption of ASU 2016-13, the Company assesses whether a credit loss exists for balances receivable from agents. The allowance for credit losses is \$6.0 million as of December 31, 2023. Prior to January 1, 2023, these receivables were reported net of an accrued valuation allowance if it was deemed that amounts may not be collectible. The allowance for receivables from agents was \$11.1 million as of December 31, 2022.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate Accounts

Variable products are reported within the separate accounts when investment risk is borne by the policyholder, investment income and investment gains and losses accrue directly to the policyholder and the separate account meets additional accounting criteria to qualify for separate account treatment. The assets supporting the variable portion of variable annuity and variable universal life contracts that qualify for separate account treatment are carried at fair value and reported as separate account assets, with an equivalent summary total reported as separate account liabilities. Liabilities for minimum guaranteed benefits related to separate account policies are included in policy liabilities. Separate account results related to policyholders' interests are excluded from the Company's consolidated results of operations.

The assets of the Company's separately funded pension plans are held in the Company's separate accounts at fair value.

Policy Liabilities

Policy benefit liabilities for participating life insurance are developed using the net level premium method, with interest and mortality assumptions used in calculating policy cash surrender values. Participating life insurance terminal dividend reserves are accrued in relation to gross profits and are included in policy benefit liabilities. The average investment yield used in estimating gross profits for participating contracts was 4.1% as of December 31, 2023 and 2022.

Policy benefit liabilities for non-participating life insurance, disability income insurance and certain annuities are developed using the net level premium method with assumptions for interest, mortality, morbidity, and voluntary terminations. In addition, disability income policy benefit liabilities include provisions for future claim administration expenses.

Policyholder account liabilities for non-indexed universal life insurance and investment-type annuities represent amounts that inure to the benefit of the policyholders before surrender charges. Policyholder account liabilities for indexed life insurance and annuity liabilities consist of a combination of underlying account value and embedded derivatives. The underlying account value is primarily based on deposits plus any interest credited, less amounts assessed for mortality, administrative and other policy fees. The embedded derivative component represents the fair value of the Company's future obligations related to interest crediting that is based on the performance of various indexes, as specified in the respective contracts. Such embedded derivatives are carried at fair value, with the change in fair value recorded through interest credited to policyholder account liabilities.

The fair value of the embedded derivative component includes assumptions about future interest rates and interest rate structures, future costs for options used to hedge the contract obligations, projected withdrawal and surrender activity, the level and limits on contract participation in any future increases in the underlying indexes and an explicit risk margin for policyholder behavior, as well as a margin to reflect the impact the Company's own credit rating would have in the view of a market participant.

The guaranteed minimum interest rates for the Company's fixed interest rate annuities range from 0.1% to 5.60%. The guaranteed minimum interest rates for the Company's fixed interest rate universal life insurance policies range from 1.0% to 5.0%. These guaranteed minimum rates are before deduction for any policy administration fees or mortality charges.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Policy Liabilities (continued)

As part of the Company’s annual actuarial assumption update, certain assumptions were revised for various blocks of business, including premium persistency, investment income, mortality, pricing, and lapse and surrender rates, which resulted in a \$67.7 million net decrease and \$31.3 million net decrease in policy liabilities as of December 31, 2023 and 2022, respectively.

The Company tests reserves for any premium deficiency using best estimate assumptions. If a deficiency is found to exist, an additional reserve is typically recorded. There were no increases to the premium deficiency reserve in 2023 or 2022. The Company also tests reserves for adequacy assuming that all unrealized gains (losses) on investments are realized and posts shadow reserves for any deficiency. As of December 31, 2023 and 2022, the shadow loss reserve were \$0.

The Company also held a shadow reserve related to its Guaranteed Lifetime Income Rider in policy benefit liabilities of (\$161.1) million and (\$229.1) million as of December 31, 2023 and 2022. The change in this shadow reserve is recorded in unrealized gains (losses) on available-for-sale investments within other comprehensive income. The net impact to accumulated other comprehensive income after shadow DAC and tax offsets was \$90.2 million and (\$128.6) million as of December 31, 2023 and 2022, respectively.

Reserves are established, as appropriate, for separate account product guarantees. These reserves, which are not significant, are primarily related to guaranteed minimum death benefits on variable annuities equal to the amount of premiums paid less prior withdrawals (regardless of investment performance). In addition, a policyholder less than seventy-six years of age may elect, at issue, to purchase an enhanced death benefit rider, which pays a benefit on death equal to the sum of the highest prior anniversary value and the net of premiums received and funds withdrawn since that date. Coverage from this rider ceases at age eighty. Guaranteed death benefits are reduced dollar-for-dollar for partial withdrawals. Partial withdrawals from policies issued after November 1, 2003, will use the pro-rata method. Separate account product guarantee reserves are calculated as a percentage of collected mortality and expense risk and rider charges, with the current period change in reserves reported in policy benefits.

The Company offers persistency bonuses on certain products, whereby policyholders can receive additional interest credits by maintaining their policy in force for predetermined durations. These additional interest credits are accrued ratably over the bonus period and adjusted for actual persistency.

The components of the sales inducement liability (“SIL”) are shown below (in thousands) and are included in policy liabilities:

	SIL	
	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 102,204	\$ 99,316
Increase due to interest, amortization and assumption updates	1,258	5,072
Payments	(5,132)	(2,184)
End of year	<u>\$ 98,330</u>	<u>\$ 102,204</u>

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

Amounts recoverable from and payable to reinsurers are estimated in a manner consistent with the related liabilities associated with the reinsured policies. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

The Company reports its reinsurance recoverables net of an allowance for credit losses. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing and other relevant factors, including information relating to past events, current conditions and reasonable and supportable forecasts. The Company assesses allowance for credit losses by individual reinsurers and uses a probability-of-default method. The establishment of reinsurance recoverables and the related allowance for credit losses is also an inherently uncertain process involving estimates. The allowance can increase or decrease from period to period based on the factors noted above. The change in allowance is recognized in net investment gains and (losses) in the statement of consolidated statement of comprehensive income

Policyholders' Deposits

Policyholders' deposits primarily consist of death benefits held in interest-bearing accounts for life insurance contract beneficiaries.

Policyholders' Dividends and Dividend Obligations

Policyholders' dividends consist of the pro-rata amount of dividends earned that will be paid or credited at the next policy anniversary and policyholder dividend obligations arising from the Closed Block. Dividends are based on a scale that seeks to reflect the relative contribution of each group of policies to LSW's and National Life's overall operating results. The dividend scale is approved annually by the Board of Directors for the respective company.

Recognition of Insurance Revenues and Related Expenses

Premiums from traditional life insurance products, including term and whole life, and from certain annuities are recognized as revenue when due from the policyholder. Benefits and expenses are matched with income by providing for policy benefit liabilities and the deferral and amortization of policy acquisition costs so as to recognize profits over the life of the policies.

Premiums and surrenders from universal life insurance and investment-type annuities are reported as increases and decreases, respectively, in policyholder account liabilities. Revenues for these policies consist of mortality charges, policy administration fees and surrender charges deducted from policyholder account liabilities. Policy benefits charged to expense include benefit claims in excess of related policyholder account liabilities.

Premiums from disability income policies are recognized as revenue over the period to which the premiums relate. Benefits and expenses are matched with income by providing for policy benefit liabilities and the deferral and amortization of policy acquisition costs so as to recognize profits over the life of the policies.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Income Taxes

The Company files a consolidated tax return. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. Deferred income tax assets and liabilities are recognized based on temporary differences between financial statement carrying amounts and income tax bases of assets and liabilities using enacted income tax rates and laws.

NOTE 3 – NEW ACCOUNTING PRONOUNCEMENTS

Adopted

Credit Losses

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Adoption of this ASU requires an entity to estimate lifetime credit losses for most financial assets not reported at fair value, premiums receivable, amounts recoverable from reinsurers and certain off-balance sheet credit exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that may affect the collectability of reported amounts. Additionally, modifications to the impairment model for AFS debt securities remove the requirement for entities to consider the length of time the fair value has been below amortized cost and subsequent fair value recoveries, or declines, when determining if an asset is impaired. Both the current expected credit loss and AFS debt securities impairment models employ an allowance methodology to record impairments that can be modified in following periods due to improvements in expected cash flows.

The guidance was applied through a cumulative-effect adjustment to beginning retained earnings for expected credit losses. Upon adoption of this ASU for AFS debt securities, the Company determined that an additional allowance adjustment to the opening balance of retained earnings as of January 1, 2023 was not necessary due to a qualitative assessment of impairment factors the Company has determined to be sufficient in assessing whether a credit loss existed. Upon adoption and for the year-ended December 31, 2023, this guidance did not have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

The allowance for credit losses is presented parenthetically on relevant line items in the Consolidated Balance Sheets and within net investment gains (losses) in the Consolidated Statements of Comprehensive Income. The presentation of this detail in prior periods is immaterial.

Not Yet Adopted

Long-Duration Contracts

In August 2018, the FASB issued ASU 2018-12 *Financial Services-Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. This guidance is intended to simplify and improve the recognition, measurement, presentation and disclosure requirements for long-duration contracts issued by an insurance entity.

In November 2020, the FASB issued ASU 2020-11, *Financial Services—Insurance (Topic 944), Effective Date and Early Application*, to defer the effective date of Topic 944. For non-public entities, the pronouncement is effective for fiscal years beginning after December 15, 2024. Early application is still permitted. The Company is currently assessing the impact of this standard. The adoption of this standard is expected to have a material effect on the Company's consolidated financial condition and results of operations.

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NOTE 3 – NEW ACCOUNTING PRONOUNCEMENTS (continued)

Leases

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements*. This guidance requires entities to assess whether a related party arrangement between entities under common control is a lease. If the Company determines an arrangement is a lease, it is to be accounted for on the same basis as an arrangement with an unrelated party. Additionally, any leasehold improvements associated with entities under common control have an amortization period consistent with the shorter of the remaining lease term and the useful life of the improvements. Lessees recognize leasehold improvements when they are the accounting owner of those improvements. For non-public entities, the pronouncement is effective for fiscal years beginning after December 15, 2023. Early application is permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial condition and results of operations.

Income Taxes

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*. This guidance provides for more detailed income tax disclosures, including disaggregated information relating to the effective tax rate reconciliation and information on income taxes paid. For non-public entities, the pronouncement is effective for fiscal years beginning after December 15, 2025. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively. Early application is permitted. The Company is currently assessing the impact of this standard.

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Fair value measurement requires consideration of three broad valuation techniques: (i) the market approach, (ii) the income approach and (iii) the cost approach. Entities are required to determine the most appropriate valuation technique to use, given what is being measured and the availability of sufficient inputs. The guidance prioritizes the inputs to fair valuation techniques and allows for the use of unobservable inputs to the extent that observable inputs are not available.

The Company has categorized its assets and liabilities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company categorizes financial assets and liabilities recorded at fair value on the balance sheet as follows:

- **Level 1** - Unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities utilizing Level 1 inputs include equity securities listed in active markets, U.S. Treasury securities and certain short-term investments.

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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

- **Level 2** - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). The types of assets and liabilities utilizing Level 2 inputs generally include U.S. agency and government securities, mortgage-backed securities (“MBSs”) and asset-backed securities (“ABSs”), corporate debt, private placement investments, preferred stocks and derivatives, including options and interest rate swaps and short-term investments. Generally, the Company classifies debt securities in Level 2 as market activity is not deemed to be substantial enough to warrant classification as an active market. Separate account assets classified within this level are generally similar to those classified within this level for the general accounts.
- **Level 3** - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Inputs reflect management’s best estimate about the assumptions market participants would use at the measurement date in pricing the asset or liability. Consideration is given to the risk inherent in both the method of valuation and the valuation inputs. Generally, the types of assets and liabilities utilizing Level 3 valuations are embedded derivative liabilities.

In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value. In most cases, both observable (e.g., changes in interest rates) and unobservable (e.g., changes in risk assumptions) inputs are used in the determination of fair values that the Company has classified within Level 3. Consequently, these values and the related gains and losses are based upon both observable and unobservable inputs. If inputs to pricing models that were previously unobservable become observable, then an asset or liability can be transferred from Level 3 to Level 2.

Determination of fair values

The Company determines the fair values of certain financial assets and financial liabilities based on quoted market prices where available and where prices represent fair value. The Company also determines fair value based on future cash flows discounted at the appropriate current market rate. Fair values reflect adjustments for counterparty credit quality, the Company’s default spreads, liquidity and, where appropriate, risk margins on unobservable parameters. In the event that the Company believes that quoted prices are not representative of the true market value, due to distressed sales or inactive markets, the Company may make adjustments to quoted prices to estimate fair value.

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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques

Available-for-sale debt securities and short-term investments - The fair value of AFS securities and short-term investments in an active and orderly market (e.g., not distressed or forced liquidation) is determined by management after considering one of four primary sources of information: unadjusted quoted prices accessible in active markets for identical assets or liabilities at the measurement date, third-party pricing services, independent broker quotations, or pricing matrices. Security pricing is applied using a “waterfall” approach whereby publicly available prices are first sought from third-party pricing services; the remaining unpriced securities are submitted to independent brokers for prices; or lastly, securities are priced using an internal pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or cash flows and prepayments speeds. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third-party pricing services will normally derive the security prices from recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third-party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and are then discounted at a market rate.

Prices from third-party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market-based data. Additionally, the majority of these independent broker quotations are non-binding. A pricing matrix is used to price securities for which the Company is unable to obtain either a price from a third-party pricing service or an independent broker quotation, by discounting the expected future cash flows from the security by a developed market discount rate utilizing current credit spreads on comparable securities.

The Company has analyzed the third-party pricing services' valuation methodologies and related inputs and has also evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Money markets included in short term investments are valued using NAV as a practical expedient and are not categorized in the fair value hierarchy. Most prices provided by a third-party pricing service are classified into Level 2 because the inputs used in pricing the securities are market observable. Due to a general lack of transparency in the process that brokers use to develop prices, valuations that are based on brokers' prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated.

Information specific to the valuation of certain classes of investment securities is as follows:

U.S. government obligations - The fair values of U.S. government obligations, which include U.S. Treasuries, are based on observable broker bids from active market makers and inter-dealer brokers, as well as yield curves from dealers for same or comparable issues. U.S. Treasury securities are actively traded and categorized in Level 1 of the fair value hierarchy.

Government agencies - Government agencies, authorities and subdivisions securities include U.S. agencies and municipal bonds. The fair values of municipal bonds are using market quotations from recently executed transactions, spread pricing models, as well as interest rates. Government agency securities are valued based on market observable yield curves, interest rates and spreads. Municipal bonds and government agency securities are generally categorized as Level 2.

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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques (continued)

Corporates - Corporate bonds as well as ABS are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates and spreads and are generally categorized as Level 2.

Private placements - Fair values of private placement securities are determined using industry accepted models based on observable spreads. These securities are generally categorized in Level 2 of the fair value hierarchy. However, in instances where significant inputs are unobservable, they are categorized as Level 3.

Mortgage-backed securities - The fair value of the MBS are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates, and spreads and are generally categorized as Level 2.

Included in the pricing of ABS, commercial mortgage-backed securities (“CMBS”) and residential mortgage-backed securities (“RMBS”) are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates. RMBS consist primarily of FNMA and GNMA mortgage-backed securities.

Equity securities - The fair value of equity securities is based on unadjusted quoted market prices from a third-party pricing service as well as primary and secondary broker quotes. These securities are generally categorized as Level 1 for common stocks and Level 2 for preferred stocks. Equity securities that are valued using NAV as a practical expedient are not categorized in the fair value hierarchy.

Trading debt securities - Fair values of exchange-traded debt securities are based on unadjusted quoted market prices from pricing services as well as primary and secondary brokers/dealers. Trading debt securities are generally categorized as Level 2 of the fair value hierarchy.

Derivatives - Derivative instruments held by the Company include options, swaptions, interest rate swaps and futures contracts. Fair value of these over the counter (“OTC”) derivative products is calculated using models such as the Black-Scholes option-pricing model, which uses pricing inputs observed from actively quoted markets and is widely accepted by the financial services industry. The majority of the Company’s OTC derivative products use this and other pricing models and are categorized as Level 2. Fair values of futures are based on quoted prices which are observable and readily and regularly available in an active market. Therefore, futures are categorized as Level 1.

Other invested assets - Investments in limited partnerships are included in other invested assets. Limited partnerships do not have a readily determinable fair value, and, as such, the Company values them at its pro-rata share of the limited partnership’s NAV, or its equivalent. Investments in limited partnerships are not categorized in the fair value hierarchy. Also included in other invested assets are U.S. Treasuries held as restricted collateral, which are categorized as Level 1.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Valuation Techniques (continued)

Separate account assets - Separate account assets include assets supporting our variable products that primarily consist of investments in mutual funds which are carried at fair value utilizing NAV as a practical expedient. Separate account assets also include the assets of the Company's separately funded pension plans, which are primarily comprised of bonds and generally categorized as Level 2. See Note 9 for additional information on the fair value hierarchy and valuation techniques for these pension plan assets. Separate account assets that are valued using NAV as a practical expedient are not categorized in the fair value hierarchy.

Policyholder account liabilities - Embedded derivatives contained in equity-indexed annuity and life contracts are included in policyholder account liabilities at fair value. The fair value of these derivatives is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. Option pricing models are used to estimate fair value, using assumptions about market conditions and policyholder behavior. The fair value measurement incorporates an explicit risk margin for policyholder behavior and for the impact the Company's own credit or nonperformance risk would have in the view of a market participant. Given the significant unobservable inputs used to value embedded derivatives, they are included in Level 3.

Amounts payable to reinsurers – Modco embedded derivatives are carried at fair value and included in amounts payable to reinsurers. The fair value of modco embedded derivatives is measured at an amount equal to the unrealized gains (losses) of trading debt securities held in a segregated custody account in support of modified coinsurance arrangements. Accordingly, such modco embedded derivatives are categorized on a basis consistent with the related trading debt securities.

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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis

Presented below is the fair value of all assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 (in thousands):

Assets	Level 1	Level 2	Level 3	Total
AFS debt securities:				
U.S. government obligations	\$ 259,110	\$ —	\$ —	\$ 259,110
Government agencies, authorities and subdivisions	—	1,836,925	9,580	1,846,505
Corporates	—	19,749,178	63,018	19,812,196
Private placements	—	2,212,508	259,388	2,471,896
Mortgage-backed securities	—	2,409,943	—	2,409,943
Total AFS debt securities	259,110	26,208,554	331,986	26,799,650
Trading debt securities	—	154,306	—	154,306
Equity securities ⁽²⁾	1,694	14,568	25,194	41,456
Derivative assets	2,625	2,492,056	—	2,494,681
Other invested assets ⁽²⁾	77,707	—	—	77,707
Separate account assets ⁽²⁾	586	290,084	—	290,670
Amounts recoverable from reinsurers	—	18,398	4,852	23,250
Total assets subject to fair value disclosure ⁽²⁾	\$ 341,722	\$ 29,177,966	\$ 362,032	\$ 29,881,720
Liabilities	Level 1	Level 2	Level 3	Total
Policyholder account liabilities ⁽¹⁾	\$ —	\$ —	\$ 4,956,842	\$ 4,956,842
Amounts payable to reinsurers	—	—	—	—
Derivative liabilities	—	1,577,475	—	1,577,475
Total liabilities subject to fair value disclosure	\$ —	\$ 1,577,475	\$ 4,956,842	\$ 6,534,317

1. The most sensitive assumption in determining policy liabilities for indexed annuities is the rate used to discount the excess projected contract values. This discount rate reflects the Company's nonperformance risk. If the discount rates used to discount the excess projected contract values at December 31, 2023 were to change by approximately 100 basis points, the fair value of the embedded derivative would change significantly, partially offset by a change to deferred policy acquisition costs.
2. In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. See Financial Instruments Measured Using NAV, below.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis (continued)

The table below summarizes the reconciliation of the beginning and ending balances and related changes for the year ended December 31, 2023 for fair value measurements for which significant unobservable inputs were used in determining each instrument's fair value (in thousands):

	Beginning Balance	Transfer In to Level 3	Transfer Out of Level 3	Net Investment Gains/Loss In Earnings (realized and unrealized) ¹	Unrealized in OCI ²	Purchases	Issuances	Sales	Settlements	Ending Balance	Net Investment Gains/Losses In Earnings for Assets and Liabilities Still Held at the Ending Date
Assets											
Government agencies, authorities and subdivisions	\$ 10,288	\$ —	\$ —	\$ (17)	\$ (691)	\$ —	\$ —	\$ —	\$ —	\$ 9,580	\$ —
Corporates	67,294	—	(12,981)	133	(1,542)	18,558	—	(8,444)	—	63,018	—
Private placements	200,625	1,250	—	—	(830)	62,882	—	(4,539)	—	259,388	—
Mortgage-backed securities	14,505	—	(14,262)	(78)	159	—	—	(324)	—	—	—
Equity securities	26,095	—	—	—	(901)	—	—	—	—	25,194	—
Amounts recoverable from reinsurers	4,024	—	—	1,109	—	—	—	—	(281)	4,852	—
Total assets	\$ 322,831	\$ 1,250	\$ (27,243)	\$ 1,147	\$ (3,805)	\$ 81,440	\$ —	\$ (13,307)	\$ (281)	\$ 362,032	\$ —
Liabilities											
Policyholder account liabilities	\$ 3,553,552	\$ —	\$ —	\$ 729,559	\$ —	\$ —	\$ —	\$ —	\$ 673,731	\$ 4,956,842	\$ —
Total liabilities	\$ 3,553,552	\$ —	\$ —	\$ 729,559	\$ —	\$ —	\$ —	\$ —	\$ 673,731	\$ 4,956,842	\$ —

- Includes (losses) gains on sales of financial instruments, changes in fair value of certain instruments, and impairments.
- Includes changes in fair value of certain instruments.

Presented below is the fair value of all assets and liabilities subject to fair value determination as of December 31, 2022 (in thousands):

Assets	Level 1	Level 2	Level 3	Total
AFS debt securities:				
U.S. government obligations	\$ 240,518	\$ —	\$ —	\$ 240,518
Government agencies, authorities and subdivisions	—	1,370,031	10,288	1,380,319
Corporates	—	17,159,366	67,294	17,226,660
Private placements	—	2,060,967	200,625	2,261,592
Mortgage-backed securities	—	1,823,181	14,505	1,837,686
Total AFS debt securities	240,518	22,413,545	292,712	22,946,775
Trading debt securities	—	164,106	—	164,106
Equity securities ⁽²⁾	1,509	14,910	26,096	42,515
Derivative assets	1,385	799,900	—	801,285
Other invested assets ⁽²⁾	8,188	—	—	8,188
Separate account assets ⁽²⁾	693	291,123	—	291,816
Amounts recoverable from reinsurers	—	25,408	4,024	29,432
Total assets subject to fair value disclosure⁽²⁾	\$ 252,293	\$ 23,708,992	\$ 322,832	\$ 24,284,117
Liabilities				
Policyholder account liabilities ⁽¹⁾	\$ —	\$ —	\$ 3,553,552	\$ 3,553,552
Amounts payable to reinsurers	—	—	—	—
Derivative liabilities	—	510,660	—	510,660
Total liabilities subject to fair value disclosure	\$ —	\$ 510,660	\$ 3,553,552	\$ 4,064,212

- The most sensitive assumption in determining policy liabilities for indexed annuities is the rate used to discount the excess projected contract values. This discount rate reflects the Company's nonperformance risk. If the discount rates used to discount the excess projected contract values at December 31, 2022 were to change by approximately 100 basis points, the fair value of the embedded derivative would change significantly with an offset to deferred policy acquisition costs.
- In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. See Financial Instruments Measured Using NAV, below.

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Notes to Consolidated Financial Statements
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NOTE 4 – FAIR VALUE MEASUREMENTS OF ASSETS AND LIABILITIES (continued)

Financial Instruments Measured at Fair Value on a Recurring Basis (continued)

The table below summarizes the reconciliation of the beginning and ending balances and related changes for the year ended December 31, 2022 for fair value measurements for which significant unobservable inputs were used in determining each instrument's fair value (in thousands):

	Beginning Balance	Transfer In to Level 3	Transfer Out of Level 3	Net Investment Gains/Loss In Earnings (realized and unrealized) ¹	Unrealized in OCI ²	Purchases	Issuances	Sales	Settlements	Ending Balance	Net Investment Gains/Losses In Earnings for Assets and Liabilities Still Held at the Ending Date
Assets											
Government agencies, authorities and subdivisions	\$ —	\$ 13,626	\$ —	\$ (16)	\$ (3,322)	\$ —	\$ —	\$ —	\$ —	\$ 10,288	\$ —
Corporates	87,238	—	—	7	(9,928)	9,643	—	(19,666)	—	67,294	—
Private placements	201,022	—	—	8	(1,608)	3,884	—	(2,681)	—	200,625	—
Trading debt securities	—	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities	18,920	19,958	(11,892)	(82)	(12,973)	874	—	(300)	—	14,505	—
Equity securities	—	3,380	—	—	(2,804)	25,520	—	—	—	26,096	—
Amounts recoverable from reinsurers	4,458	—	—	(71)	—	—	—	—	(363)	4,024	—
Total assets	\$ 311,638	\$ 36,964	\$ (11,892)	\$ (154)	\$ (30,635)	\$ 39,921	\$ —	\$ (22,647)	\$ (363)	\$ 322,832	\$ —
Liabilities											
Policyholder account liabilities	\$ 2,966,360	\$ —	\$ —	\$ 74,043	\$ —	\$ —	\$ —	\$ —	\$ 513,149	\$ 3,553,552	\$ —
Total liabilities	\$ 2,966,360	\$ —	\$ —	\$ 74,043	\$ —	\$ —	\$ —	\$ —	\$ 513,149	\$ 3,553,552	\$ —

1. Includes (losses) gains on sales of financial instruments, changes in fair value of certain instruments, and other-than-temporary impairments.
2. Includes changes in fair value of certain instruments.

Financial Instruments Measured Using NAV

Presented below are investments that are measured using NAV as a practical expedient as of December 31, 2023 and 2022 (in thousands):

Assets	Fair Value as of December 31,		Unfunded	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
	2023	2022	Commitments as of December 31, 2023		
	<i>(in thousands)</i>				
Equity securities	\$ 90,848	\$ 68,998	\$ —	Not applicable	Not applicable
Other invested assets	1,334,697	1,257,107	607,801	Not applicable	Not applicable
Short term investments	397,965	295,512	—	Not applicable	Not applicable
Separate account assets	535,167	480,707	4,660	Not applicable or Quarterly	Not applicable or 70 days
Total	\$ 2,358,677	\$ 2,102,324	\$ 612,461		

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NOTE 5 – INVESTMENTS

Available-for-Sale Debt Securities

The amortized cost and the fair values of AFS debt securities at December 31, 2023 and December 31, 2022 were as follows (in thousands):

At December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Credit Loss Allowance	Fair Value
AFS debt securities:					
U.S. government obligations	\$ 275,180	\$ 37	\$ 16,107	\$ —	\$ 259,110
Government agencies, authorities and subdivisions	2,007,564	6,311	167,370	—	1,846,505
Corporates:					
Asset-backed securities	3,815,545	21,786	96,270	—	3,741,061
Communications	1,244,379	14,604	153,538	7,773	1,097,672
Consumer & retail	5,372,188	41,084	650,707	5,217	4,757,348
Financial institutions	4,270,412	59,093	449,371	296	3,879,838
Industrial and chemicals	2,617,063	36,386	283,217	—	2,370,232
REITS	494,169	3,984	29,414	—	468,739
Transportation	610,543	3,184	67,269	33	546,425
Utilities	3,423,054	30,290	502,399	64	2,950,881
Total corporates	21,847,353	210,411	2,232,185	13,383	19,812,196
Private placements	2,733,462	6,051	265,867	1,750	2,471,896
Mortgage-backed securities	2,596,983	14,180	201,220	—	2,409,943
Total AFS debt securities	\$ 29,460,542	\$ 236,990	\$ 2,882,749	\$ 15,133	26,799,650

At December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS debt securities:				
U.S. government obligations	\$ 259,047	\$ 17	\$ 18,546	\$ 240,518
Government agencies, authorities and subdivisions	1,581,892	3,442	205,015	1,380,319
Corporates:				
Asset-backed securities	2,899,576	3,311	156,357	2,746,530
Communications	1,225,374	6,886	213,760	1,018,500
Consumer & retail	5,196,989	16,339	834,691	4,378,637
Financial institutions	3,952,288	42,950	563,779	3,431,459
Industrial and chemicals	2,586,876	21,625	370,555	2,237,946
REITS	456,826	424	40,257	416,993
Transportation	586,473	2,514	90,464	498,523
Utilities	3,087,504	12,666	602,098	2,498,072
Total corporates	19,991,906	106,715	2,871,961	17,226,660
Private placements	2,575,408	5,445	319,261	2,261,592
Mortgage-backed securities	2,029,801	4,287	196,402	1,837,686
Total AFS debt securities	\$ 26,438,054	\$ 119,906	\$ 3,611,185	\$ 22,946,775

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NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

Unrealized gains (losses) included as a component of accumulated other comprehensive income as of December 31, 2023 and 2022, and changes therein included in other comprehensive income for the years ended December 31, 2023 and 2022, were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ (1,728,083)	\$ 1,080,212
Net unrealized gains (losses) on AFS securities	843,970	(5,901,395)
Net unrealized losses on separate accounts	—	(16,462)
Net unrealized losses on other invested assets	(409)	(142)
Deferred policy acquisition costs	(242,277)	1,718,681
Loss reserve	—	11,971
Reserves	(68,000)	385,669
Deferred income taxes	(111,943)	746,509
Policyholder dividend obligation	(220)	246,874
Increase (decrease) in net unrealized gains (losses)	421,121	(2,808,295)
Balance, end of year	\$ (1,306,962)	\$ (1,728,083)
	<u>2023</u>	<u>2022</u>
Balance, end of year includes:		
Net unrealized (losses) gains on AFS securities	\$ (2,637,260)	\$ (3,481,230)
Net unrealized (losses) gains on separate accounts	—	—
Net unrealized losses on other invested assets	(1,045)	(636)
Deferred policy acquisition costs	822,802	1,065,079
Loss reserve	—	—
Reserves	161,121	229,121
Deferred income taxes	347,420	459,363
Policyholder dividend obligation	—	220
Total	\$ (1,306,962)	\$ (1,728,083)

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NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

The amortized cost and fair values of debt securities by contractual maturity at December 31, 2023, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 741,397	\$ 734,214
Due after one year through 5 years	3,255,342	3,224,062
Due after 5 years through 10 years	5,906,965	5,829,106
Due after ten years	16,959,855	14,602,325
Mortgage-backed securities	2,596,983	2,409,943
Total	<u>\$ 29,460,542</u>	<u>\$ 26,799,650</u>

The Company determines the cost of investments sold based on average cost. The proceeds and gross realized gains (losses) on debt securities are shown below (in millions):

	<u>2023</u>	<u>2022</u>
Proceeds on debt securities	\$ 908.4	\$ 170.0
Gross realized gains on debt securities	26.7	2.9
Gross realized losses on debt securities	(9.2)	(0.7)

The Company recognized realized losses resulting from declines in the fair value of debt securities of \$26.2 million in 2023. In 2022, the Company recognized realized losses resulting from other than temporary declines in the fair value of debt securities of \$3.9 million.

See Note 2 for additional information on the factors considered in determining credit losses.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

Gross unrealized losses and investment fair values, aggregated by investment category, industry sector and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2023 were as follows (in thousands):

Description of securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government obligations	\$ 6,285	\$ 69	\$ 249,397	\$ 16,038	\$ 255,682	\$ 16,107
Government agencies, authorities and subdivisions	411,938	10,241	1,144,817	157,129	1,556,755	167,370
Corporates:						
Asset-backed securities	222,965	2,267	2,026,757	94,003	2,249,722	96,270
Communications	15,417	(7,476)	773,025	161,014	788,442	153,538
Consumer & retail	131,549	3,280	3,618,995	647,427	3,750,544	650,707
Financial institutions	146,544	4,019	2,664,111	445,352	2,810,655	449,371
Industrial and chemicals	80,696	3,372	1,631,011	279,845	1,711,707	283,217
REITS	26,123	795	297,140	28,619	323,263	29,414
Transportation	47,259	7,545	402,061	59,724	449,320	67,269
Utilities	95,740	2,895	2,171,006	499,504	2,266,746	502,399
Total corporates	766,293	16,697	13,584,106	2,215,488	14,350,399	2,232,185
Private placements	57,445	924	1,845,163	264,943	1,902,608	265,867
Mortgage-backed securities	265,642	1,977	1,407,756	199,243	1,673,398	201,220
Total debt securities	\$ 1,507,603	\$ 29,908	\$ 18,231,239	\$ 2,852,841	\$ 19,738,842	\$ 2,882,749

Gross unrealized losses and investment fair values, aggregated by investment category, industry sector and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2022 were as follows (in thousands):

Description of securities	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government obligations	\$ 239,202	\$ 18,485	\$ 1,086	\$ 61	\$ 240,288	\$ 18,546
Government agencies, authorities and subdivisions	1,262,012	189,966	29,279	15,049	1,291,291	205,015
Corporates:						
Asset-backed securities	1,835,632	92,036	726,003	64,321	2,561,635	156,357
Communications	749,140	152,209	132,957	61,551	882,097	213,760
Consumer & retail	3,588,206	655,690	373,290	179,001	3,961,496	834,691
Financial institutions	2,601,093	456,866	259,668	106,913	2,860,761	563,779
Industrial and chemicals	1,713,079	303,002	160,891	67,553	1,873,970	370,555
REITS	365,772	32,271	34,074	7,986	399,846	40,257
Transportation	405,940	74,212	49,558	16,252	455,498	90,464
Utilities	1,782,042	380,685	493,922	221,413	2,275,964	602,098
Total corporates	13,040,904	2,146,971	2,230,363	724,990	15,271,267	2,871,961
Private placements	1,641,454	202,488	361,108	116,773	2,002,562	319,261
Mortgage-backed securities	1,597,191	183,097	49,415	13,305	1,646,606	196,402
Total debt securities	\$ 17,780,763	\$ 2,741,007	\$ 2,671,251	\$ 870,178	\$ 20,452,014	\$ 3,611,185

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Available-for-Sale Debt Securities (continued)

The Company determined that an adjustment to earnings for credit losses related to these debt securities was not warranted at December 31, 2023, based upon the Company's analysis of market factors affecting the fair value of debt securities, as well as facts and circumstances surrounding the individual securities, the Company's assessment of projected future cash flows and the Company's ability and intent to hold the individual securities to maturity or recovery. As of December 31, 2022, the Company believed that the unrealized losses on these securities were temporary.

The Company does not intend to sell these securities nor are there any requirements to sell these securities. The Company will continue to monitor these holdings for any underlying deterioration in future quarters that would indicate that an individual security will not recover and will record credit losses as appropriate.

Trading Debt Securities

Trading debt securities consist of fixed maturity securities held in a segregated custody account, which support a modified coinsurance arrangement. The cost of trading debt securities held at December 31, 2023 and 2022, was \$154.3 million and \$164.1 million, respectively.

Equity Securities

The cost of equity securities held at December 31, 2023 and 2022 was \$132.3 million and \$111.5 million, respectively. The total return on certain equity investments is intended to offset the net appreciation or depreciation in value of certain defined contribution deferred compensation liabilities. The net change in deferred compensation liabilities is included in operating expenses.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate

The distributions of mortgage loans and real estate at December 31 were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
<u>Geographic Region</u>		
New England	4.6 %	6.0 %
Middle Atlantic	6.9	7.0
East North Central	9.3	9.6
West North Central	15.1	14.8
South Atlantic	18.3	19.2
East South Central	3.3	3.7
West South Central	11.1	10.2
Mountain	13.2	12.9
Pacific	18.2	16.6
Total	<u>100.0 %</u>	<u>100.0 %</u>
<u>Property Type</u>		
Apartment	23.0 %	24.1 %
Retail	20.9	21.2
Office Building	20.5	22.3
Industrial	27.7	27.5
Other Commercial	5.2	4.9
Residential	2.7	—
Total	<u>100.0 %</u>	<u>100.0 %</u>
Mortgage loans	\$ 4,762,202	\$ 4,967,269
Real estate investments	21,584	7,906
Total mortgage loans and real estate	<u>\$ 4,783,786</u>	<u>\$ 4,975,175</u>

The Company applies a consistent and disciplined approach to evaluating and monitoring credit risk, and monitors credit quality on an ongoing basis. Quality ratings are based on internal evaluations of each loan's specific characteristics, considering a number of key inputs. The two most significant contributors to the credit quality are debt service coverage and loan-to-value ratios. The debt service coverage ratio measures the amount of property cash flow available to meet annual interest and principal payments on debt. The loan-to-value ratio ("LTV"), commonly expressed as a percentage, compares the amount of the loan to the fair value of the underlying property collateralizing the loan.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate (continued)

The following tables summarize the credit quality of the Company's current commercial mortgage loan portfolio based on loan-to-value and debt service coverage ratios:

Debt Service Coverage Ratios as of December 31, 2023
(amounts in millions)

LTV Range	≥ 2.0x	1.5x to <2.0x	1.25x to <1.5x	1.0x to <1.25x	<1.0x	Total Carrying Value
< 50%	\$ 525.5	\$ 286.0	\$ 32.7	\$ 104.5	\$ 6.1	\$ 954.8
50% - 60%	484.0	523.6	39.4	15.9	3.1	1,066.0
60% - 70%	572.2	476.2	184.6	66.0	—	1,299.0
70% - 80%	408.4	208.0	92.3	37.1	—	745.8
80% - 90%	105.3	107.3	84.3	27.3	7.0	331.2
> 90%	45.8	54.9	61.2	46.1	36.1	244.1
Total	\$ 2,141.2	\$ 1,656.0	\$ 494.5	\$ 296.9	\$ 52.3	\$ 4,640.9

Debt Service Coverage Ratios as of December 31, 2022
(amounts in millions)

LTV Range	≥ 2.0x	1.5x to <2.0x	1.25x to <1.5x	1.0x to <1.25x	<1.0x	Total Carrying Value
< 50%	\$ 734.7	\$ 433.8	\$ 47.6	\$ 103.0	\$ —	\$ 1,319.1
50% - 60%	1,052.6	468.7	152.4	38.9	—	1,712.6
60% - 70%	624.4	372.0	274.4	64.3	—	1,335.1
70% - 80%	166.8	221.4	28.1	7.2	—	423.5
80% - 90%	35.2	7.6	25.6	29.5	—	97.9
> 90%	14.0	31.9	15.8	13.9	8.1	83.7
Total	\$ 2,627.7	\$ 1,535.4	\$ 543.9	\$ 256.8	\$ 8.1	\$ 4,971.9

Upon adoption of ASU 2013-16, the difference between the total carrying value reflected in the tables above and the carrying value of commercial mortgage loans reflected in the Consolidated Balance Sheets is due to the related credit loss allowance which is a general allowance not attributable to any one mortgage and the market value adjustment on the hedge. Additionally, the table above does not reflect residential mortgage loans and the associated credit loss allowance. In 2022, the difference is related to a valuation allowance which was a general allowance not attributable to any one mortgage and the market value adjustment on the hedge.

Mortgage loans and related credit loss allowance at December 31, 2023, and valuation allowance as of December 31, 2022, were as follows (in thousands):

	2023	2022
Commercial loans	\$ 4,640,915	\$ 4,971,887
Residential loans	131,025	—
Credit loss /valuation allowance	(8,680)	(3,542)
Impaired loans	—	—
Market value adjustment on hedge	(1,058)	(1,076)
Total	\$ 4,762,202	\$ 4,967,269

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Mortgage Loans and Real Estate (continued)

The table below includes additional disclosures for impaired loans as of December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Impaired loans:		
Average total investment	\$ —	\$ —
Interest income recognized	—	—
Interest received	—	—
Unpaid principal balance	—	—

No mortgage loan or real estate impairments were recognized in 2023 or 2022.

Mortgage Loans Modified in a Troubled Debt Restructuring

The Company may grant concessions related to the borrowers' financial difficulties, including: 1) reduction of the contractual interest rate, 2) extension of the maturity date at an interest rate lower than current market interest rates and/or 3) a reduction of accrued interest. The Company considers the amount, timing and extent of the concession granted in determining any impairment recorded in connection with the troubled debt restructuring. Upon adoption of ASU 2016-13, a credit loss allowance is recognized for the value of concessions made under a troubled debt restructuring. Through the portfolio monitoring process, the Company may have recorded a specific credit loss allowance prior to the quarter when the loan was modified in a troubled debt restructuring. Accordingly, the carrying value (after specific credit loss allowance) before and after modification through a troubled debt restructuring may not change significantly.

At December 31, 2023 and 2022, no loans were modified during the period in a troubled debt restructuring. Payment default is determined in the same manner as delinquency status, which is when interest and principal payments are 90 days past due.

Other Invested Assets

Other invested assets included the following as of December 31, 2023 and 2022 (in thousands):

	<u>2023</u>	<u>2022</u>
Limited partnerships	\$ 1,331,022	\$ 1,253,200
Affordable housing tax credits	37,881	55,749
Non-cash broker collateral	77,707	8,188
FHLB common stock	85,753	82,011
Other	21,570	4,037
Other invested assets	<u>\$ 1,553,933</u>	<u>\$ 1,403,185</u>

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Variable Interest Entities

The table below includes certain information regarding VIEs in which the Company held a variable interest as of December 31, 2023 and 2022 (in thousands).

Investment Type	2023		2022	
	Total VIE Assets (1)	Maximum Exposure to Loss (2)	Total VIE Assets (1)	Maximum Exposure to Loss (2)
Investment in notes	\$ 417,099	\$ 417,099	\$ 181,363	\$ 181,363
Other invested assets	25,086	22,938	3,980	1,469

1. Represents assets of the VIEs which the Company does not have the right to make use of to satisfy its own obligations.
2. Represents the Company's investments in these entities, plus any accrued receivables due from these entities.

Net Investment Income

The components of net investment income for the years ended December 31, 2023 and 2022, were as follows (in thousands):

	2023	2022
Debt securities	\$ 1,312,352	\$ 1,086,422
Equity securities	8,564	3,526
Mortgage loans	194,876	203,368
Policy loans	55,411	43,841
Real estate	4,728	3,411
Derivatives	432,089	(630,222)
Partnerships	96,787	120,208
Other investment income	22,264	1,999
Gross investment income	2,127,071	832,553
Less: investment expenses	(39,697)	(31,294)
Net investment income	\$ 2,087,374	\$ 801,259

Net Investment Gains and (Losses)

The following summarizes the components of net investment gains and (losses), including impairments, by asset category for the years ended December 31, 2023 and 2022 (in thousands):

	2023	2022
Debt securities	\$ (24,816)	\$ (13,952)
Equity securities	12,487	(5,663)
Mortgage loans	2,799	1,108
Partnerships	(38,197)	11,553
Other invested assets	8,179	811
Total	\$ (39,548)	\$ (6,143)

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Derivatives

The Company enters into interest rate swaps to reduce market risks from changes in interest rates. These swaps are used to hedge changes in fair value of certain bond and mortgage investments. The Company has designated interest rate swaps as fair value hedges. The interest rate swaps are used to convert fixed rate assets to floating rate. The Company recognizes gains and losses on the swaps along with the related hedged items within net investment income on the Consolidated Statements of Comprehensive Income. Ineffectiveness recognized through net investment income in the years ended December 31, 2023 and 2022, was \$8.9 million and \$1.8 million, respectively.

The Company credits interest on policyholder account liabilities for certain of its products based on the performance of certain indexes (such as S&P 500), subject to contractual participation rates and caps on returns. These participation rates and caps are set each policy anniversary. The Company economically hedges the exposure for the next policy year, at the time the participation rates and caps are set, by entering into over-the-counter (OTC) options and exchange-traded futures contracts on the underlying indexes in an amount that approximates the obligation of the Company to credit interest at the policy anniversary, with adjustments for lapse assumptions. These derivative instruments do not qualify for hedge accounting and, therefore, changes in their fair value are included within net investment income. Call options purchased are included in derivatives assets at fair value. Call options written are included in derivatives liabilities and are carried at fair value. Since the derivatives purchased are based on the same indexes that the crediting rates are based upon, they substantially offset the market risk associated with the crediting rate in the policy year being hedged.

Under U.S. GAAP, indexed annuity and life contracts reported in policyholder account liabilities include embedded derivatives, which reflect the fair value of the Company's future obligations related to interest crediting that is based on the performance of certain indexes, as specified in the respective contracts. The embedded derivative liabilities were \$4.96 billion and \$3.55 billion at December 31, 2023 and 2022, respectively.

The Company purchases options only from highly rated counterparties. However, in the event a counterparty failed to perform, the Company's exposure would be equal to the fair value of the net options held from that counterparty. The Company held collateral from counterparties as secured OTC call options to mitigate a portion of this risk in the amount of \$692.6 million and \$194.0 million as of December 31, 2023 and 2022, respectively. The Company utilizes a scale based on credit rating of the counterparty to determine the appropriate amount of counterparty risk. As of December 31, 2023, there was no derivative counterparty exposure that exceeded \$15.2 million, net of collateral. The Company executes transactions in flexible exchange ("FLEX") options in order to hedge equity market volatility. Unlike OTC options, FLEX options are cleared and guaranteed by the Options Clearing Corporation and therefore are not subject to counterparty credit risk.

The Company has embedded derivatives related to reinsurance contracts that are accounted for on a modified coinsurance basis. An embedded derivative exists because the arrangement exposes the reinsurer to third party credit risk. The embedded derivative is included in amounts recoverable from/payable to reinsurers, with changes in the fair value of the embedded derivative reported in net investment gains and (losses).

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 5 – INVESTMENTS (continued)

Derivatives (continued)

The notional amounts and the fair value of derivatives at December 31, 2023 and 2022, excluding embedded derivatives, were as follows (in thousands):

	2023		2022		Primary Underlying Risk Exposure
	Notional	Carrying Value of Assets / (Liabilities)	Notional	Carrying Value of Assets / (Liabilities)	
Derivatives Designated as Hedge Accounting Instruments:					
Interest rate swaps ⁽¹⁾	\$ —	\$ —	\$ 172,750	\$ 9,793	Interest Rates
Total Derivatives Designated as Hedge Accounting Instruments		\$ —		\$ 9,793	
Derivatives Not Designated as Hedge Accounting Instruments:					
Futures - Long ⁽²⁾	\$ 5,302	\$ 158	\$ 9,266	\$ (525)	Equity Market
Futures - Short ⁽²⁾	—	—	(1,737)	98	Equity Market
Interest rate swaps ⁽¹⁾	—	—	24,700	670	Interest Rates
Options - Long	22,868,013	2,489,737	19,156,810	788,688	Equity Market
Options - Short	(15,392,101)	(1,575,889)	(14,458,950)	(505,740)	Equity Market
Swaptions purchased	310,000	2,318	200,000	749	Interest Rates
Swaptions - Short	(150,000)	(1,586)	—	—	Interest Rates
Total Derivatives Not Designated as Hedge Accounting Instruments		\$ 914,738		\$ 283,940	
Total Derivatives		\$ 914,738		\$ 293,733	

- Interest rate swaps are reflected gross of cash margin collateral of (\$4.9) million as of December 31, 2022.
- Futures are reflected gross of cash margin collateral of \$2.5 million and \$1.4 million as of December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the following amounts were recorded on the Company's Consolidated Balance Sheets relating to the carrying amount of hedged assets (liabilities) and cumulative basis adjustments included in the carrying amount for hedged items designated in fair value hedging relationships (in thousands):

	2023		2022	
	Carrying Amount of the Hedged Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Hedged Assets / (Liabilities) ⁽¹⁾	Carrying Amount of the Hedged Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment Included in the Hedged Assets / (Liabilities) ⁽¹⁾
Available-for-sale debt securities	\$ —	\$ (9,556)	\$ 182,584	\$ (10,040)
Mortgage Loans	—	(922)	18,205	(1,086)

- There were material fair value hedging accounting adjustments for hedged assets / (liabilities) for discontinued hedging relationships.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 6 – REINSURANCE

The Company reinsures certain risks assumed in the normal course of business. Effective March 2018, for certain indexed universal life products, the Company may retain up to \$4 million of risk on an individual life. For other individual life products sold on or after August 16, 2004, the Company generally retains no more than \$2 million of risk on any person (excluding accidental death benefits and dividend additions). For individual life products sold after 2001 but prior to August 16, 2004, the Company generally retains no more than \$1 million of risk on any person (excluding accidental death benefits and dividend additions). On individual life business issued prior to 2002, the Company generally retains no more than \$3 million of risk (excluding accidental death benefits and dividend additions). Reinsurance for life, annuity and disability products are ceded under yearly renewable term, coinsurance, modified coinsurance, and funds withheld agreements with various reinsurers for a total reinsurance recoverable of \$139.6 million and \$150.4 million in 2023 and 2022, respectively.

Effective January 1, 2023, new issuances of certain of our indexed universal life products are subject to a quota share modified coinsurance arrangement with an unaffiliated reinsurer. The quota share ceded is currently 10% and may be adjusted for future sales. As the ceding company we retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk.

The effects of reinsurance for the years ended December 31, 2023 and 2022, were as follows (in thousands).

	<u>2023</u>	<u>2022</u>
Insurance premiums:		
Direct	\$ 413,488	\$ 395,615
Reinsurance assumed	175	185
Reinsurance ceded	<u>(37,292)</u>	<u>(37,715)</u>
Total insurance premiums	<u>\$ 376,371</u>	<u>\$ 358,085</u>
Increase (decrease) in policy liabilities:		
Direct	\$ 12,710	\$ 56,296
Reinsurance assumed	—	—
Reinsurance ceded	<u>37,461</u>	<u>49,185</u>
Total increase in policy liabilities	<u>\$ 50,171</u>	<u>\$ 105,481</u>
Policy benefits:		
Direct	\$ 743,473	\$ 630,391
Reinsurance assumed	151	301
Reinsurance ceded	<u>(64,153)</u>	<u>(37,134)</u>
Total policy benefits	<u>\$ 679,471</u>	<u>\$ 593,558</u>
Policyholders' dividends:		
Direct	\$ 21,035	\$ 8,717
Reinsurance ceded	<u>(20)</u>	<u>(9)</u>
Total policyholders' dividends	<u>\$ 21,015</u>	<u>\$ 8,708</u>

The Company remains liable in the event any reinsurer is unable to meet its assumed obligations. The Company regularly evaluates the financial condition of its reinsurers and concentrations of credit risk of reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The Company's largest reserve credit as of December 31, 2023 and 2022, was with Hannover Life Reinsurance Company of America for \$515.2

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 6 – REINSURANCE (continued)

million and \$472.5 million, respectively. Total life insurance in force subject to reinsurance as of December 31, 2023 and 2022, was approximately \$334.4 billion and \$291.2 billion, respectively.

The Company assumes a small amount of reinsurance from other companies. These reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses and provide additional capacity for growth.

NOTE 7 – DEFERRED POLICY ACQUISITION COSTS

The table below reflects the changes in the deferred policy acquisition costs asset for the years ended December 31, 2023 and 2022.

(in thousands)	<u>2023</u>	<u>2022</u>
Balance, beginning of year	\$ 4,297,579	\$ 2,143,365
Acquisition costs deferred	922,450	730,470
Amortization	(543,327)	(294,937)
Adjustment through other comprehensive income	(242,277)	1,718,681
Balance, end of year	<u>\$ 4,434,425</u>	<u>\$ 4,297,579</u>

The components of the sales inducement asset (“SIA”) are shown below (amounts in millions):

	<u>SIA</u>	
	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 226.1	\$ 194.4
Deferral	35.2	29.5
Amortization and assumption changes, net	(21.9)	2.3
End of year	<u>\$ 239.4</u>	<u>\$ 226.2</u>

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 8 – FEDERAL INCOME TAXES

The Company files income tax returns in the U.S. federal and certain state jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2017. The Company's income tax examination by the IRS for the 2017 through 2020 tax years has concluded. The examination results are not expected to have a material impact to the Company's financial statements.

The components of federal income taxes and a reconciliation of the expected and actual federal income taxes and income tax rates for the years ended December 31 were as follows (in thousands):

	2023		2022	
	Amount	Rate	Amount	Rate
Current	\$ 283,768		\$ 26,021	
Deferred	(221,331)		9	
Total income tax expense	\$ 62,437		\$ 26,030	
Expected income taxes	\$ 58,774	21.0 %	\$ 33,305	21.0 %
Dividends received deduction	(1,151)	(0.4)	(826)	(0.5)
Affordable housing tax credits	(15,567)	(5.6)	(18,970)	(12.0)
Corporate owned life insurance	(5,755)	(2.1)	(6,396)	(4.0)
State income taxes	12,278	4.4	2,106	1.3
Other, net	(1,042)	(0.4)	(759)	(0.5)
Total without amortization	\$ 47,537		\$ 8,460	
Effective rate without amortization		17.0 %		5.3 %
Affordable housing tax credit amortization	\$ 14,900	5.3 %	\$ 17,570	11.1 %
Total income tax expense	\$ 62,437		\$ 26,030	
Effective federal income tax rate		22.3 %		16.4 %

The Inflation Reduction Act ("IRA") was enacted on August 16, 2022. The IRA includes a new corporate alternative minimum tax ("CAMT") that goes into effect for tax years beginning after 2022. Based on guidance issued through Notice 2023-64 on September 12, 2023, the Corporation falls under the applicable financial statement income threshold, and therefore is considered a nonapplicable reporting entity in 2023. A nonapplicable reporting entity does not reasonably expect to be subject to the CAMT for the current reporting period and is not required to recognize a payable for the CAMT or further assess the impact of the CAMT on current or deferred tax computations.

The Company paid \$192.0 million and \$50.0 million in federal income taxes during 2023 and 2022, respectively.

As of 2023, there are no unrecognized tax benefits for the Company. It is likely there will be no significant change in the amount of unrecognized tax benefits within the next twelve months.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in tax expense. The Company did not have any interest or penalties accrued at December 31, 2023 and 2022.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 8 – FEDERAL INCOME TAXES (continued)

Components of net deferred income tax liabilities at December 31 were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Deferred income tax assets:		
Net UCG AFS debt/equity securities	\$ 508,647	\$ 682,852
Policy liabilities	736,470	469,347
Pension and other employee benefits	44,645	43,972
Loss carryforwards	4,372	1,650
Tax credits	—	1,290
Other	—	1,673
Total deferred income tax assets	<u>1,294,134</u>	<u>1,200,784</u>
Deferred income tax liabilities:		
Deferred policy acquisition costs	694,292	701,837
Debt/equity securities	31,880	27,188
Other invested assets	38,311	46,638
Property and equipment	9,995	19,124
Other	4,207	—
Total deferred income tax liabilities	<u>778,685</u>	<u>794,787</u>
Total net deferred income tax assets (liabilities)	<u>\$ 515,449</u>	<u>\$ 405,997</u>

ASC 740 outlines the requirement to reduce the measurement of deferred tax assets that are not expected to be realized in the form of a valuation allowance. Recent changes in market conditions, including rising interest rates, created significant net unrealized losses in the company's available-for-sale debt security portfolio. The resulting deferred tax assets are due to these unrealized losses, which are capital in nature and if realized, are generally only deductible to the extent of realized capital gains. When evaluating the need for a valuation allowance, the Company assessed their ability and intent to hold the underlying securities to recovery. After weighing all positive and negative evidence, including management's assertion that the available-for-sale debt security portfolio will be held to recovery, no valuation allowance is necessary at December 31, 2023.

At December 31, 2023, the Company has \$4.4 million of federal net operating loss carryforwards with no expiration date and no tax credit carryforwards.

NOTE 9 – BENEFIT PLANS

The Company sponsors a qualified defined benefit pension plan covering nearly all employees. The plan is non-contributory, with benefits for National Life employees hired prior to July 1, 2001, based on an employee's retirement age, years of service and compensation near retirement. Benefits for National Life employees hired after June 30, 2001, and other Company employees, are based on the amount credited to the employee's account each year, which is a factor of the employee's age, service and compensation, increased at a specified rate of interest. The plan was closed to new employees hired on or after January 1, 2021.

The Company also sponsored a frozen non-contributory qualified defined benefit plan that provided benefits to employees in the career channel general agencies. The plan was amended effective January 1, 2004, to freeze plan benefits. No new participants were admitted to the plan after December 31, 2003, and there were no increases in benefits after December 31, 2003, for existing participants. These pension plans were separately funded. Plan assets were primarily mutual funds and bonds held in a Company separate account and funds invested in a group variable annuity contract held in the general account of National Life. None of the securities held in the Company's separate account were issued by the Company. The plan was terminated effective July 31, 2023.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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NOTE 9 – BENEFIT PLANS (continued)

The Company sponsors other pension plans, including a non-contributory defined benefit plan for National Life affiliated general agents who met the eligibility requirements to enter the plan prior to January 1, 2005, and a non-contributory defined supplemental benefit plan for certain executives. These defined benefit pension plans are non-qualified and are not separately funded.

The Company sponsors defined benefit postemployment plans that provide medical benefits to employees, agency staff and agents. Medical coverage is contributory; with retiree contributions adjusted annually, and contain cost sharing features such as deductibles and copayments. The postemployment plans are not separately funded, and the Company, therefore, pays for plan benefits from operating cash flows. The costs of providing these benefits are recognized as they are earned by employees.

The Company also sponsors various defined contribution and deferred compensation plans. The Company provides employees with a 401(k) plan. Under the Company's 401(k) plan for employees, eligible employees earning less than a specified amount and hired prior to January 1, 2021 receive a 75% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Employees earning more than the specified amount receive a 50% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Employees hired on or after January 1, 2021 will receive a 100% match up to 6% of an employee's salary, subject to maximum contribution guidelines. Additional employee voluntary contributions may be made to the plans subject to contribution guidelines. Vesting and withdrawal privilege schedules are attached to the Company's matching contributions. Effective January 1, 2016, agency employees became a part of the employee 401(k) plan with the same matching contributions as home office employees.

The Company also provides a 401(k) plan for its regular full-time agents. The Company makes an annual contribution equal to 6.1% of an agent's compensation up to the Social Security Taxable Wage Base plus 7.5% of the agent's compensation in excess of the Social Security Taxable Wage Base. In addition, the agent may elect to defer a portion of the agent's compensation, up to the legal limit on elective deferrals, and have that amount contributed to the plan. Total annual contributions cannot exceed certain limits which vary based on total agent compensation.

For all of the Company's 401(k) plans, accumulated funds may be invested in a group annuity contract issued by National Life or in mutual funds. These plans are not separately funded. Costs associated with these plans are included in operating expenses. Liabilities for these plans are included in pension and other post-retirement benefit obligations.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – BENEFIT PLANS (continued)

Information with respect to the defined benefit plans as of and for the years ended December 31, 2023 and 2022, was as follows (in thousands):

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Change in benefit obligation:				
Benefit obligation, beginning of year	\$ 398,621	\$ 508,167	\$ 16,181	\$ 26,357
Service cost for benefits earned during the period	4,964	7,738	141	251
Interest cost on benefit obligation	19,585	14,372	817	771
Plan participants' contributions	—	—	481	1,042
Actuarial (gains) losses	9,671	(105,567)	552	(9,196)
Settlement/curtailment	(11,865)	—	—	—
Benefits paid	(25,645)	(26,089)	(1,774)	(3,044)
Benefit obligation, end of year	395,331	398,621	16,398	16,181
Change in plan assets:				
Plan assets, beginning of year	322,131	409,376	—	—
Actual return on plan assets	25,272	(83,385)	—	—
Employer contributions	13,475	22,229	1,293	2,002
Settlement/curtailment	(12,419)	—	—	—
Plan participants' contributions	—	—	481	1,042
Benefits paid	(25,645)	(26,089)	(1,774)	(3,044)
Plan assets, end of year	322,814	322,131	—	—
Funded Status	\$ (72,517)	\$ (76,490)	\$ (16,398)	\$ (16,181)

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Amounts recognized in the Consolidated Balance Sheets as of December 31,:				
Pension and other post-retirement benefit obligations liability	\$ (38,816)	\$ (44,809)	\$ 21,520	\$ 23,042
Accumulated other comprehensive income	111,333	121,299	(5,122)	(6,861)
Net amount recognized	\$ 72,517	\$ 76,490	\$ 16,398	\$ 16,181
Pension and other post-retirement benefit obligations liability	\$ (72,517)	\$ (76,490)	\$ (16,398)	\$ (16,181)
Amounts recognized in accumulated other comprehensive income consists of:				
Net actuarial loss	\$ 111,333	\$ 121,299	\$ (5,122)	\$ (6,861)
Net prior service cost	45	59	—	—
	\$ 111,378	\$ 121,358	\$ (5,122)	\$ (6,861)

The actuarial losses included in the December 31, 2023 defined benefit obligation resulted primarily from a decrease in the discount rate.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – BENEFIT PLANS (continued)

The total accumulated benefit obligation (“ABO”), the accumulated benefit obligation and fair value of plan assets for the Company’s pension plans with accumulated benefit obligations in excess of plan assets, and the projected benefit obligation (“PBO”) and fair value of plan assets for pension plans with projected benefit obligations in excess of plan assets as of the measurement date was as follows as of December 31, 2023 and 2022 (in thousands):

	2023	2022
Total Accumulated Benefit Obligation	\$ 375,256	\$ 378,765
Plans with ABO in excess of plan assets:		
ABO	375,256	378,765
Fair value of plan assets ⁽¹⁾	322,806	322,116
Plans with PBO in excess of plan assets:		
PBO	395,331	398,621
Fair value of plan assets ⁽¹⁾	322,806	322,116

(1) The difference to total plan assets shown on the prior page is due to accrual for income and liabilities that are not carried at fair value.

The components of net periodic benefit cost for the years ended December 31, 2023 and 2022, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Service cost for benefits earned during the period	\$ 4,964	\$ 7,738	\$ 141	\$ 251
Interest cost on benefit obligation	19,585	14,372	817	771
Expected income on plan assets	(18,163)	(19,786)	—	—
Net amortization of actuarial losses (gains)	9,556	9,507	(1,187)	(44)
Amortization of prior service benefits and plan amendments	14	14	—	—
Net periodic benefit cost (included in operating expenses)	\$ 15,956	\$ 11,845	\$ (229)	\$ 978

Other changes in plan assets and benefit obligations recognized in other comprehensive income (in thousands):

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Net (loss) gain	\$ (2,562)	\$ 2,396	\$ (552)	\$ 9,196
Amortization of loss	9,556	9,507	(1,187)	(44)
Amortization of prior service cost (benefits)	14	14	—	—
Total recognized in other comprehensive income	\$ 7,008	\$ 11,917	\$ (1,739)	\$ 9,152

The actuarial assumptions used in determining benefit obligations at the measurement dates were as follows:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Discount rate	4.65% - 5.05%	5.25%	4.85% - 5.05%	5.25%
Rate of increase in future compensation levels	4.0% - 5.0%	4.0% - 5.0%		

The weighted-average assumptions used to determine net periodic benefit cost:

	Pension Benefits		Other Benefits	
	2023	2022	2023	2022
Discount rate	5.25%	2.90%	5.25%	2.90%
Rate of increase in future compensation levels	4.0% - 5.0%	4.0% - 5.0%		
Expected long term return on plan assets	6.00%	4.75%		

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – BENEFIT PLANS (continued)

Included in the pension and other post-retirement benefit obligations liability as reported on the Consolidated Balance Sheets are deferred compensation and employee disability liabilities of \$94.7 million and \$76.4 million as of December 31, 2023 and 2022, respectively.

The assumed weighted average health care trend rate for next year is 6.50%. Trend rates are developed and reviewed annually based on discussions with various carriers and a comprehensive review of available surveys.

The Company uses the straight-line method of amortization for prior service cost and unrecognized gains and losses.

The percentage distribution of the fair value of total plan assets held as of the measurement date is as follows:

Plan Asset Category	December 31, 2023	December 31, 2022
Fixed income	90%	90%
Group annuity contract and other	10%	10%
Total	100%	100%

The primary objective is to maximize long-term total return within the investment policy and guidelines. The Company's investment policy for the plan assets associated with the separately funded plans is to maintain a target allocation of approximately 90%-100% fixed income and 0–10% alternative investments when measured at fair value.

The Company's expected future long-term rate of return is 6.00% for the home office employee plan is based upon the combination of current asset mix of partnerships and fixed income, the Company's historical and projected experience and on long-term projections by investment research organizations.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – BENEFIT PLANS (continued)

The concentrations of credit risk associated with the plan assets are shown in the table below (in thousands):

	2023	2022
Fixed income		
Aerospace/Defense	\$ 11,132	\$ 10,646
Airlines	463	491
Airports	4,331	—
Automotive	2,946	3,341
Banking	30,134	29,223
Cable	5,358	5,317
Chemicals	4,118	4,154
Consumer products	3,309	3,224
Food and Beverage	17,502	17,606
Government agency	3,528	3,347
Health Care	10,807	11,492
Housing	19,066	21,006
Insurance - Health	3,345	3,382
Insurance - Property and Casualty	13,994	13,438
Insurance - Life	4,839	4,804
Independent	2,214	2,269
Integrated	3,655	3,740
Local authorities	7,772	12,588
Machine Construction	1,660	1,642
Manufacturing	4,900	5,004
Media	3,750	3,889
Metals/Mining	7,746	7,786
Midstream	1,176	1,350
Pharmaceuticals	18,456	19,255
Railroads	9,259	9,058
Real Estate Investment Trusts	5,197	4,954
Retailers	12,836	12,974
Technology	26,088	25,241
Transportation	4,345	4,397
Utilities	31,309	30,573
Wireless	5,365	5,354
Wirelines	6,379	6,353
Total fixed income	286,979	287,898
Partnerships	24,957	26,593
Cash	4	88
Short term cash equivalents	7,305	3,371
Group annuity	533	975
Total Investments ⁽¹⁾	\$ 319,778	\$ 318,925

(1) The difference to total plan assets of \$322,814 in 2023 and \$322,131 for 2022 shown in the changes in plan assets are accruals for income and liabilities.

The assets of the Company's separately funded pension plans are held in the Company's separate account.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 9 – BENEFIT PLANS (continued)

The valuation techniques used for the plan assets are:

Corporates – Corporate bonds are valued using cash flow models based on appropriate observable inputs such as market quotes, yield curves, interest rates and spreads. Corporate bonds are categorized as Level 2 in the fair value hierarchy. Bond mutual funds that have a readily determinable NAV are not categorized in the fair value hierarchy.

Partnerships - Investments in limited partnerships do not have a readily determinable fair value, and, as such, the Company values them at its pro-rata share of the limited partnership's NAV, or its equivalent. Investments in limited partnerships are not categorized in the fair value hierarchy.

Short-term cash equivalents – Short-term investments include money market accounts that are carried at NAV which approximates fair value. Investments in short term cash equivalents are not categorized in the fair value hierarchy.

Group annuity - This category consists of an investment in a National Life group variable annuity contract. The contract is carried at amortized cost, which approximates fair value. These assets are categorized in Level 2 of the hierarchy.

The valuation of plan assets as of December 31, 2023 and 2022, is as follows (in thousands):

2023 Fair Value	Level 1	Level 2	Level 3	Total
Assets				
Corporates ⁽¹⁾	\$ —	\$ 290,084	\$ —	\$ 290,084
Cash	4	—	—	4
Group annuity	—	533	—	533
Total Plan Assets ⁽¹⁾	\$ 4	\$ 290,617	\$ —	\$ 290,621

2022 Fair Value	Level 1	Level 2	Level 3	Total
Assets				
Corporates ⁽¹⁾	\$ —	\$ 291,123	\$ —	\$ 291,123
Cash	88	—	—	88
Group annuity	—	975	—	975
Total Plan Assets ⁽¹⁾	\$ 88	\$ 292,098	\$ —	\$ 292,186

1. In accordance with Topic 820, certain investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. As of December 31, 2023, the fair value of these investments in partnerships and short-term cash equivalents were \$24,957 and \$7,305, respectively. As of December 31, 2022, the fair value of these investments in partnerships and short-term cash equivalents were \$26,593 and \$3,371, respectively.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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NOTE 9 – BENEFIT PLANS (continued)

Projected benefit payments for defined benefit obligations for each of the five years following December 31, 2023, and in aggregate for the five years thereafter is as follows (in thousands):

Year	Projected Pension Benefit Payments	Projected Other Benefit Payments
2024	\$ 29,210	\$ 1,258
2025	29,279	1,284
2026	28,908	1,261
2027	27,638	1,248
2028	28,698	1,206
2029-2033	141,050	5,500

The Company's general policy is to contribute the regulatory minimum required amount into its separately funded defined benefit pension plan. However, the Company may elect to make larger contributions subject to maximum contribution limitations. The Company's expected contribution for 2024 into its separately funded defined benefit pension plans is anticipated to be up to \$6 million.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 10 – DEBT

Debt consists of the following (in thousands):

	<u>2023</u>	<u>2022</u>
7.5% Senior Notes: \$200 million, maturing August 2033, interest payable semiannually on February 15 and August 15. The notes are unsecured and subordinated to any existing or future indebtedness of NLVF and its subsidiaries.	\$ 198,779	\$ 198,654
6.5% Senior Notes: Original issue of \$75 million, maturing March 2035, interest payable semiannually on March 15 and September 15. The notes are unsecured and subordinated to any existing or future indebtedness of NLVF and its subsidiaries. In 2009, the Company's subsidiary, National Life repurchased \$7.0 million of the senior notes. Interest paid to the subsidiary is eliminated in consolidation.	67,617	67,581
10.5% Surplus Notes: Original issue of \$200 million, maturing September 15, 2039, interest payable semiannually on March 15 and September 15. The notes are unsecured and subordinated to any existing or future indebtedness of National Life.	166,656	166,569
5.25% Surplus Notes: \$500 million, maturing July 19, 2068, interest payable semiannually on January 19 and July 19. The notes are unsecured and subordinated to any existing or future indebtedness of National Life.	483,852	483,532
Total debt	<u>\$ 916,904</u>	<u>\$ 916,336</u>

In July 2018, National Life issued surplus notes with a principal balance of \$350 million that mature in 2068. These surplus notes will accrue interest at a fixed rate of 5.25% until July 18, 2048, and thereafter at a floating rate equal to the Three-month USD LIBOR rate, or applicable LIBOR benchmark successor rate with an additional spread adjustment, plus 3.314%. The surplus notes are redeemable by National Life on or after July 19, 2048. In July 2018, National Life also completed an exchange transaction, in which it issued an additional \$22.1 million of the 5.25% surplus notes in exchange for its 10.5% surplus notes, originally issued in 2009, with a principal balance of \$12.8 million. The discount at the time of the exchange, \$9.3 million, will be recognized in interest expense over the life of the 5.25% surplus notes. In April 2019, National Life issued an additional \$128 million of the 2068 5.25% surplus notes, which brought the total of that issuance to \$500 million.

Interest paid on the 7.5% senior notes was \$15.0 million in 2023 and 2022. Interest paid on the 6.5% senior notes was \$4.9 million in 2023 and 2022. Interest paid on the 10.5% surplus note was \$17.6 million in 2023 and 2022. Interest paid on the 5.25% surplus note was \$26.3 million in 2023 and 2022.

Subject to state regulatory limits and collateral requirements, National Life and LSW have secured asset-borrowing capacity available from FHLB Boston and FHLB Dallas, respectively. For additional information on FHLB, see Note 2.

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 10 – DEBT (continued)

Facility Agreement for Senior Notes Issuance

In October 2021, NLVF entered into a 30-year facility agreement with a Delaware trust in connection with the sale by the Delaware trust of \$750 million of pre-capitalized trust securities in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. The Delaware trust invested the proceeds from the sale of the Delaware trust securities in a portfolio of principal and interest strips of U.S. Treasury securities. The facility agreement provides the Company the right to issue and sell to the Delaware trust up to an aggregate principal amount outstanding at any one time of \$750 million of NLVF's 4.161% Senior Notes due August 15, 2051, in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust. NLVF's 4.161% Senior Notes will not be issued unless and until the issuance right is exercised. In return, NLVF pays a semi-annual facility fee to the Delaware trust at a rate of 2.0665% per year (applied to the unexercised portion of the maximum amount of Senior Notes that NLVF could issue and sell to the Delaware trust), and NLVF reimburses the Delaware trust for its expenses. The facility fees paid were \$15.5 million in each of 2023 and 2022.

The issuance right will be exercised automatically in full upon our failure to make certain payments to the Delaware trust, such as paying the facility fee, reimbursing the Delaware trust for its expenses, or paying for any defaulted assets required to be purchased at their face amount from the Delaware trust, if the failure to pay is not cured within 30 days, or upon certain bankruptcy events involving NLVF. The Company is also required to exercise the issuance right in full if NLVF's consolidated net worth has fallen below \$1.0 billion, subject to adjustment from time to time in certain cases, and upon certain other events described in the facility agreement.

Prior to any involuntary exercise of the issuance right, NLVF has the right to repurchase any or all of the 4.161% senior notes then held by the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities. At any time and from time to time prior to February 15, 2051, NLVF may redeem any outstanding senior notes, in whole or in part, at a redemption price equal to the greater of par or a make-whole price, or thereafter, at par. As of December 31, 2023, NLVF has not exercised its issuance right with respect to the facility agreement and there are no 4.161% Senior Notes outstanding.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Company is subject, in the ordinary course of business, to claims, litigation, arbitration proceedings and governmental examinations. Although the Company is not aware of any actions, proceedings or allegations that reasonably should give rise to a material adverse impact to the Company's financial position or liquidity, the outcome of any particular matter cannot be foreseen with certainty. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company's financial condition.

The Company is also involved in class action or putative class action litigation.

On April 30, 2020, two individuals filed a Consolidated Class Action Complaint in a lawsuit pending in the U.S. District Court for the Northern District of California and captioned In re PFA Insurance Marketing Litigation. Plaintiffs bring claims against Premier Financial Alliance, Inc. ("PFA"), an independent marketing organization with which LSW does business, for alleged violations of the California Unfair Competition and Endless Chain Scheme Laws and New Jersey Consumer Fraud Act and allege that LSW should be held liable as a result of its business relationship with PFA. The Company strongly disputes these allegations and has contested them vigorously. The parties have reached an agreement to settle the lawsuit. The Company is not conceding or admitting any wrongdoing or liability as part of the settlement and continues to deny each, any and all allegations of wrongdoing, fault, liability, or damage whatsoever that have or could have been asserted in the lawsuit. The court entered an order on February 5, 2024, granting final approval of the settlement. Absent an

NLV Financial Corporation and Subsidiaries
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NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

appeal of the court's order, the parties will proceed with administration of the settlement. The deadline for an appeal is March 6, 2024.

The Company has a multi-year contract with NTT Data, Inc. which expires September 30, 2028. The contract provides data processing, application development, information systems application and infrastructure services from NTT Data. The Company paid \$44.4 million and \$36.9 million under this contract in 2023 and 2022, respectively.

The Company has a multi-year contract with I-Pipeline which expires December 31, 2026. The contract provides business support through electronic applications. Application development is provided under separate agreements. The Company paid \$5.4 million and \$4.5 million under this contract in 2023 and 2022, respectively.

The Company has a multi-year contract with Cognizant which expires June 30, 2029. The contract provides application support, application development and Quality Assurance (QA") services. The Company paid \$18.0 million and \$17.6 million under this contract in 2023 and 2022, respectively.

The Company has a multi-year contract with Microsoft which expires June 30, 2025. The contract provides software licenses to Microsoft end-user and data center products. The Company paid \$6.8 million and \$4.9 million under this contract in 2023 and 2022, respectively.

The Company signed a multi-year contract with Salesforce.com which expires January 31, 2024. The contract provides customer relationship management application licenses and support. The Company paid \$1.1 million under this contract in 2023 and 2022.

The Company has a multi-year contract with Ultimate Software Group which expires December 31, 2027. The contract provides agent/agency and employee payroll services and support. The Company paid \$1.6 million and \$2.1 million under this contract in 2023 and 2022, respectively.

The Company has a multi-year contract with Zinnia Tech Solutions, LLC which expires February 26, 2026. The contract provides services for managing annuity and life products. Build services are provided under separate agreements. The Company paid \$1.4 million under this contract in 2023.

As a lessee, the Company leases office space and office equipment under various operating leases. Lease assets and liabilities are recognized at the commencement of a lease based on the present value of lease payments over the lease term. The Company elected to adopt the package of practical expedients allowed in ASU 842. The Company applies a risk-free rate as the discount rate when determining lease classification and valuing the right of use assets and lease liabilities. Leases for office facilities contain options for renewals that may be exercised.

The lease assets and liabilities as of December 31, 2023 and 2022, were as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Assets		
Operating lease assets (1)	\$ 23,336	\$ 22,368
Total lease assets	<u>\$ 23,336</u>	<u>\$ 22,368</u>
Liabilities		
Operating lease liabilities (2)	\$ 27,940	\$ 27,421
Total lease liabilities	<u>\$ 27,940</u>	<u>\$ 27,421</u>

NLV Financial Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

- (1) Operating lease assets are primarily reported within Other assets on the Consolidated Balance Sheets.
(2) Operating lease liabilities are reported within Other liabilities and accrued expenses on the Consolidated Balance Sheets.

The lease cost for the year ended December 31, 2023 and 2022, was as follows (in thousands):

	<u>2023</u>	<u>2022</u>
Operating lease cost (1)	<u>6,085</u>	<u>6,228</u>
Total lease cost	<u>\$ 6,085</u>	<u>\$ 6,228</u>

- (1) Operating lease costs are primarily included in Operating expenses on the Consolidated Statements of Comprehensive Income.

Payments for operating leases were for the year ended December 31, 2023, were \$6.6 million.

The following represents future payments due by period for lease obligations (in thousands):

	<u>Operating leases</u>
For the year ending December 31:	
2024	\$ 6,659
2025	5,285
2026	4,946
2027	4,578
2028	4,536
Thereafter	<u>3,964</u>
Total lease payments	29,968
Less: interest	<u>2,028</u>
Present value of lease liabilities	<u>\$ 27,940</u>

The weighted-average remaining lease term and weighted-average discount rate as of December 31, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Weighted-average remaining lease term (in years):		
Operating leases	5.4	5.6
Weighted-average discount rate:		
Operating leases	2.44 %	1.78 %

The Company had unfunded mortgage loan, partnership and AFS debt security commitments of \$25.0 million, \$607.8 million and \$260.4 million, respectively, at December 31, 2023. Partnership commitments may be called by the partnership during the commitment period (on average two to five years) to fund the purchase of new investments and partnership expenses. Once the commitment period expires, the Company is under no obligation to fund the remaining unfunded commitment but may elect to do so. However, the Company may elect to fund the remaining unfunded commitment. The liability for expected credit losses related to these unfunded mortgage loan commitments is reported in miscellaneous liabilities. The liability is measured in the manner as the funded mortgage loan portfolio. As of December 31, 2023, the amount of the liability for expected credit losses of unfunded commitments is \$0.1 million.

NLV Financial Corporation and Subsidiaries
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December 31, 2023

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

Alternative Sources of Liquidity

In October 2021, NLVF entered into a facility agreement with a Delaware trust that gives the Company the right over a 30-year period to issue at any time up to \$750 million of 4.161% Senior Notes due August 15, 2051, to the Delaware trust in exchange for a corresponding amount of U.S. Treasury securities held by the Delaware trust, therefore providing an alternative source of liquidity. This agreement provides an alternative source of liquid assets that the Company can access at its discretion. For additional details, see Note 10.

NOTE 12 – NATIONAL LIFE CLOSED BLOCK

National Life established and began operating the Closed Block on January 1, 1999. The Closed Block was established pursuant to regulatory requirements as part of the reorganization into a mutual holding company corporate structure. The Closed Block was established for the benefit of holders of certain of National Life's individual participating life insurance and annuity policies in force at December 31, 1998. The Closed Block is designed to give reasonable assurance to holders of policies in the Closed Block that assets will be available to provide for payment of policy benefits, including the continuation of dividends throughout the life of such policies based upon the 1998 dividend scale if the experience underlying such dividend scale (including portfolio interest rates) continues as it was in 1998, and for appropriate adjustment in such dividend scale if the experience changes. The Closed Block is expected to remain in effect until all policies within the Closed Block are no longer in force. Assets assigned to the Closed Block at January 1, 1999, together with projected future premiums and investment returns, are reasonably expected to be sufficient to pay out all future Closed Block policy benefits, expenses and taxes. Such benefits include dividends paid out under the current dividend scale, adjusted to reflect future changes in the underlying experience. The assets and liabilities allocated to the Closed Block are recorded in the Company's financial statements on the same basis as other similar assets and liabilities. National Life remains contingently liable for all contractual benefits and expenses of the Closed Block.

If actual cumulative Closed Block earnings are greater than expected cumulative earnings, only the expected earnings will be recognized in net income of the Company. Actual cumulative earnings in excess of expected earnings represent undistributed earnings attributable to Closed Block policyholders.

These excess earnings are recorded as a policyholder dividend obligation (included in policyholders' dividend liability) to be paid to Closed Block policyholders unless offset by future results that are less than expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in income. In 2023 and 2022, the Company recorded increases in policyholder dividend obligation of \$0 and \$0.2 million, respectively. Unrealized gains in the Closed Block generated a policyholder dividend obligation through accumulated other comprehensive income of \$0 and (\$0.2) million at December 31, 2023 and 2022, respectively. The total policyholder dividend obligation at December 31, 2023 and 2022, was \$0.

NLV Financial Corporation and Subsidiaries
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NOTE 12 – NATIONAL LIFE CLOSED BLOCK (continued)

Summarized financial information for the Closed Block effects included in the consolidated financial statements as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Liabilities:		
Policy liabilities and accruals	\$ 2,353,736	\$ 2,461,396
Other liabilities	530	187
Total liabilities	\$ 2,354,266	\$ 2,461,583
Assets:		
Cash	\$ 154	\$ 496
Short-term investments	690	4,960
Available-for-sale debt securities	1,653,546	1,686,488
Mortgage loans	98,351	102,156
Policy loans	240,195	252,502
Accrued investment income	23,193	24,148
Premiums and fees receivable	2,073	2,244
Other assets	28,038	45,880
Total assets	\$ 2,046,240	\$ 2,118,874
Excess of reported liabilities over assets	\$ 308,026	\$ 342,709
Accumulated other comprehensive loss represented above	(144,186)	(175,644)
Unrealized loss and liabilities	\$ 163,840	\$ 167,065
	2023	2022
Revenues:		
Insurance premiums and other income	\$ 45,434	\$ 48,214
Net investment income	89,873	94,401
Net investment (losses) gains	(5,206)	(962)
Total revenues	\$ 130,101	\$ 141,653
Benefits and Expenses:		
Decrease in policy liabilities	(107,654)	(60,636)
Policy benefits	210,751	177,048
Policyholders' dividends and dividend obligations	14,494	2,504
Interest credited to policyholder account liabilities	4,860	5,063
Operating expenses	3,043	3,107
Commission expenses	554	1,107
Total benefits and expenses	\$ 126,048	\$ 128,193
Pre-tax results of operations	4,053	13,460
Income tax expense	851	2,827
Closed Block results of operations	\$ 3,202	\$ 10,633
Excess of reported Closed Block liabilities over Closed Block assets:		
Beginning of year	167,065	177,698
Closed Block results of operations	3,202	10,633
Effect of implementation of ASU 2016-13, net	23	—
End of year	\$ 163,840	\$ 167,065

NLV Financial Corporation and Subsidiaries
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NOTE 12 – NATIONAL LIFE CLOSED BLOCK (continued)

Amortized cost of available-for-sale debt securities held by the Closed Block was \$1.8 billion and \$1.9 billion at December 31, 2023 and 2022, respectively.

Participating insurance in force within the Closed Block at December 31, 2023 and 2022, was \$3.9 billion and \$4.2 billion, respectively.

Many expenses related to Closed Block policies and operations, including amortization of policy acquisition costs, are charged to operations outside the Closed Block; accordingly, the contribution from the Closed Block presented above does not represent the actual profitability of the Closed Block operations. Operating costs and expenses outside the Closed Block are therefore disproportionate to the actual business outside the Closed Block.

NOTE 13 – STATUTORY INFORMATION AND RESTRICTIONS

The Company's insurance operations, domiciled in the states of Vermont (National Life, Catamount and Longhorn) and Texas (LSW), prepare statutory financial statements in accordance with statutory accounting principles ("SAP") prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting principles include the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state but allowed by the domiciliary state regulatory authority. National Life and LSW do not have any permitted practices. Catamount and Longhorn have permitted practices approved by the State of Vermont.

LSW paid no dividends to National Life in 2023 or 2022. National Life paid a cash dividend to NLVF of \$50 million and \$55 million in 2023 and 2022, respectively. For U.S. GAAP, the dividends were eliminated in consolidation. Dividends declared by National Life and LSW in excess of the greater of ten percent of statutory surplus or statutory net gain from operations require pre-approval by the Commissioner of the Vermont Department of Financial Regulation and Commissioner of the Texas Department of Insurance, respectively.

No capital contributions occurred in 2023 or 2022.

National Life's statutory surplus was \$3.06 billion (unaudited) and \$2.53 billion at December 31, 2023 and 2022, respectively. Statutory net income (loss) was a net gain of \$62.6 million (unaudited) and a net loss of (\$63.7) million (unaudited) in 2023 and 2022, respectively.

LSW's statutory surplus was \$2.31 billion (unaudited) and \$1.77 billion at December 31, 2023 and 2022, respectively. Statutory net income (loss) was a net gain of \$585.7 million (unaudited) and a net loss of (\$164.3) million (unaudited) in 2023 and 2022, respectively.

Pursuant to certain statutory requirements, as of December 31, 2023, National Life and LSW had securities on deposit with a statutory carrying value of \$7.6 million and \$3.3 million, respectively, in insurance department special deposit accounts.

NOTE 14 – PARTICIPATING LIFE INSURANCE

Participating life insurance in force was 9.7% and 10.7% of the face value of total insurance in force at December 31, 2023 and 2022, respectively. The premiums on participating life insurance policies were 4.0% and 4.7% of total individual life insurance premiums in 2023 and 2022, respectively.