GENERAL DISCUSSION OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

About the Company

NLV Financial Corporation ("NLVF") through its subsidiaries (collectively, the "Company", "we", "our") offers life insurance policies, annuity contracts, and investment products and services. The Company's principal insurance product lines include whole life, term life, universal life, indexed universal life, variable universal life, fixed annuities, indexed annuities, and variable annuities. The Company also offers mutual funds and investment brokerage services.

In 1999, National Life Insurance Company ("NLIC") reorganized from a mutual to a stock insurance company as part of a reorganization into a mutual insurance holding company structure in order, among other things, 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 of life insurance and annuity policies to provide reasonable assurance to owners of policies in the Closed Block that assets will be available to provide for the continuation of dividend payments following the reorganization. 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, Sentinel Asset Management, Inc. ("Sentinel Investments"), Equity Services, Inc. ("ESI"), Catamount Reinsurance Company, and certain other subsidiaries, and indirectly owns 100% of the outstanding common stock of Life Insurance Company of the Southwest ("LSW"), and Longhorn Reinsurance Company which are wholly owned by NLIC. NLVF indirectly owns National Life Distribution, LLC ("NLD"), whose sole member is LSW.

On March 6, 2015, National Life Distribution, LLC was formed as a subsidiary of LSW. NLD serves as a master agency for National Life Group's field force operations. All commission expenses continue to be incurred in the life companies.

On August 15, 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 individual indexed universal life insurance policies issued by LSW from January 1, 2011 through December 31, 2015.

As of December 31, 2016, the Company had $33.1 billion of assets under management and served in excess of 865,000 customers. Of these totals, about $19.8 billion was attributable to life insurance policy and annuity contract values with more than 777,000 policy and contract holders. Approximately $5.5 billion was attributable to mutual fund and other client-managed assets representing approximately 88,000 customers. The remainder is attributable to the corporate segment, including fair value for the investment portfolio, the disability income business, and Company-sponsored pension plans.

Distribution

Our target market is middle America customers comprised primarily of families, small business owners, multicultural markets, and K-12 educators. Our strategy is to leverage our living benefit riders in both our life insurance and 403b products to provide peace of mind to everyone we touch. The Company markets and distributes its products throughout the United States through four principal channels: Career, Affiliated Independent, Sentinel Investments and Institutional Markets.

- ***Career:*** The Career channel consists of approximately 2,600 agents and general agents who specialize in selling products to the middle and emerging affluent markets, professionals, business owners and other affluent individuals for financial and business planning purposes.

- ***Affiliated Independent:*** The Affiliated Independent channel consists of approximately 25,000 agents. While the agents have access to all products, approximately 6,700 of the agents primarily 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. All other agents primarily offer life insurance, annuity, and mutual fund products to the middle and emerging affluent markets, for purposes of providing for the financial consequences of specific life events, such as death, retirement, college funding, and chronic or long term illness.

- ***Sentinel Investments:*** Sentinel Investments consists of wholesale mutual fund distribution through wire-houses and independent financial advisors; mutual fund and sub-advisory investment management services provided to institutional, investment-only retirement, registered investment advisory, and bank trust channels; and investment advisory services provided to the Company's other subsidiaries.

- ***Institutional Markets:*** Institutional Markets works directly with institutional clients, issuing funding agreements directly to Federal Home Loan Bank partners in Boston and Dallas. Additionally, Institutional Markets works directly with fixed income asset managers to provide stable value wrap products to their stable value portfolios. In the future, business partners are expected to expand to include banks, corporations, consultants and some brokers in order to increase Institutional Markets product offerings.

Overview of Financial Results

The following discussion provides an overview of the consolidated financial position and results of operations of the Company for the years ended December 31, 2016 and 2015, and, where applicable, factors that may affect the Company's future financial performance. This discussion and analysis is based on, should be read in conjunction with, and is qualified in its entirety by reference to, the Company's consolidated financial statements as of December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016, which have been audited by PricewaterhouseCoopers LLP. This discussion provides a general overview of, and is not intended to provide a detailed analysis of, the operations, financial results or financial condition of the Company. 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").

Our fixed indexed life and annuity products may experience significant period to period income statement volatility due to changes in external market-related factors that are not aligned with the long-term results of these products. In addition to net income, we use core earnings and pre-tax operating income, both non-GAAP financial measures, to evaluate our financial performance. Pre-tax operating income equals net income before taxes and net realized investment gains (losses) on investments. Core earnings equal pre-tax operating income before changes in the fair value of derivatives and embedded derivatives. Because these items fluctuate from period to period in a manner unrelated to core operations, we believe measures excluding their impact are useful in analyzing operating trends. We believe the combined presentation and discussion of pre-tax operating income and core earnings, together with net income, provides information that will enhance readers' understanding of our underlying results, operating trends, and profitability.

RESULTS OF OPERATIONS

The following tables present the Company's summary consolidated financial and other data for the years ended December 31, 2016, and 2015. The selected consolidated financial data has been derived from the Company's consolidated financial statements.

Core earnings increased $20.0 million, or 10.5%, to $209.9 million in 2016 from $189.9 million in 2015. Net income increased $46.8 million to $156.1 million in 2016 from $109.3 million in 2015. Included in net income are the market related impacts on our product related embedded derivatives of $17.4 million and $(33.7) million in 2016 and 2015, respectively.

	For the Year Ended December 31,	
	2016	**2015**
	(In thousands)	
Revenues:		
Insurance premiums	**$ 218,435**	$ 227,547
Policy and contract charges	**503,559**	445,899
Mutual fund commissions, fees and other income	**119,029**	117,488
Net investment income	**1,032,210**	1,006,498
Change in value of trading equity securities	**425**	(1,130)
Total revenues	**1,873,658**	1,796,302
Benefits and expenses:		
Policy reserves	**$ (72,265)**	$ (1,720)
Policy benefits	**533,071**	440,896
Policyholders' dividends and dividend obligations	**51,632**	64,197
Interest credited to policyholder account liabilities	**569,707**	461,709
Operating expenses	**302,128**	274,790
Interest expense	**39,305**	40,149
Policy acquisition expenses and amortization of present value of present value of future profits, net	**240,134**	326,370
Total benefits and expenses	**1,663,712**	1,606,391
Core Earnings	**$ 209,946**	$ 189,911

Further information about each of these line items is presented below. The Closed Block is referenced in the analysis for various line items, but overall the Closed Block had minimal impact on results. Year over year, the Closed Block income contribution to overall earnings for the year is in line with the expectation laid out on the plan of operations.

Insurance Premiums

Insurance premiums include premiums from whole and term life insurance and disability income. Total insurance premiums for 2016 were $218.4 million as compared to $227.5 million in 2015. The decrease in renewal premiums is consistent with expectations of the Closed Block as the block of business continues to mature and the shift in our mix of business as noted by the increase in Policy and Contract Charges.

Policy and Contract Charges

Policy and contract charges for indexed, fixed, and variable universal life and annuity policies consist of costs of insurance, expense loads, surrender charges and other related fees. Policy and contract charges increased $57.7 million, or 12.9%, to $503.6 million in 2016 from $445.9 million in 2015. The increase is driven by an increase in overall policies in-force due to strong sales of indexed universal life products.

Mutual Fund Commissions, Fees and Other Income

Mutual fund commissions consist of dealer concessions earned by the Company's affiliated broker-dealers, Equity Services, Inc. and Sentinel Financial Services Company. Mutual fund fees consist primarily of mutual fund administration and asset management fees earned by the Company's affiliated administrator and investment advisor, Sentinel Administrative Services, Inc. and Sentinel Asset Management, Inc., respectively. Other income includes revenues from reinsurance, COLI and miscellaneous fee income. Revenues from mutual fund commissions, fees and other income increased $1.5 million, or 1.3%, to $119.0 million in 2016 as compared with $117.5 million in 2015. This increase was primarily due to a favorable reinsurance experience refund on our reinsured block of disability insurance.

Net Investment Income

The table below provides a breakdown of the components of net investment income:

	For the Year Ended December 31,	
	2016	2015
Net Investment Income	(In thousands)	
Debt securities interest	$ 844,022	$ 821,146
Equity securities dividends	3,087	2,936
Mortgage loan interest	140,100	135,120
Policy loan interest	40,565	41,175
Real estate income	8,029	9,254
Derivative income	(8,886)	(5,113)
Partnership distributions	31,554	27,131
Other investment income	1,560	274
Gross investment income	1,060,031	1,031,923
Less: investment expenses	(27,821)	(25,425)
Net investment income	$ 1,032,210	$ 1,006,498

Net investment income includes income earned on our investment portfolio including interest income on bonds, mortgage loans, contract loans and short term investments along with bond premium/discount amortization, dividends on preferred and common stock and real estate and partnership income. Net investment income increased $25.7 million, or 2.6%, to $1,032.2 million in 2016 from $1,006.5 million in 2015. The increase was driven by an increase in the size of the bond and mortgage portfolio driven by the overall growth of our in-force business.

Policy Reserves

Policy reserves reflect the impact of changes in the product liability reserves for life insurance, disability income insurance and the additional reserves held on certain annuities. The change in policy reserves decreased $70.5 million to $(72.3) million in 2016 as compared with $(1.7) million in 2015. This decrease in reserve is primarily related to Closed Block as there was an increase in death benefits as compared to 2015 resulting in higher reserves released than in prior year.

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 $92.2 million, or 20.9%, to $533.1 million in 2016 as compared with $440.9 million in 2015. The increase is primarily related to unfavorable mortality in the Closed Block in 2016 as compared to 2015.

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") arising from the Closed Block. Dividends are based on a scale that seeks to reflect the relative contribution of each group of policies to the Company's overall operating results. The Closed Block dividend scales are approved annually by National Life Insurance Company's Board of Directors. The total policyholder dividend expense decreased $12.5 million, or 19.6%, to $51.6 million in 2016 compared to $64.2 million in 2015. This decrease reflects lower earnings in the Closed Block; the dividend scale was adjusted to more closely align with recent performance on the block of business.

Interest Credited to Policyholder Account Liabilities

Interest credited to policyholder account liabilities consists of interest credited to universal life insurance, fixed deferred annuities and indexed products and changes in the liabilities associated with these products. Interest credited increased $108.0 million to $569.7 million in 2016 from $461.7 million in 2015. The increase is related to the growth in account value within the indexed product lines and unfavorable actuarial assumption changes.

Operating Expenses

Operating expenses consist primarily of administrative and maintenance expenses related to servicing the business and overhead needs of the Company's operations. Operating expenses increased $27.3 million, or 9.9%, to $302.1 million in 2016 from $274.8 million in 2015. The increase is attributable to an increase in personnel costs due to continued growth as well as increased technology spend.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $39.3 million in 2016 and $40.1 million in 2015.

Policy Acquisition Expenses and Amortization of Present Value of Future Profits, Net

Policy acquisition expenses include commissions and other costs that are directly related to the successful acquisition of new or renewal business. Policy acquisition expenses are net of amounts deferred on life and annuity sales and include the amortization of amounts previously deferred. Policy acquisition expenses decreased $86.2 million, or 26.4%, to $240.1 million in 2016 as compared with $326.4 million in 2015. The decrease is primarily related to actuarial assumption changes related to extending the amortization period on indexed annuity products.

Net Income Reconciliation

	For the Year Ended December 31,	
	2016	**2015**
	(In thousands)	
Net Income	**$ 156,069**	$ 109,304
Net realized losses (gains), net of offsets	**6,672**	3,198
Income tax on operations	**64,591**	43,666
Pre-Tax Operating Income	**$ 227,332**	$ 156,168
Net effect of derivatives, embedded derivatives and other market effects	**(17,386)**	33,743
Core Earnings	**$ 209,946**	$ 189,911

Net Realized Investment (Losses) Gains, Net of Offsets

Net realized losses were $(6.7) million in 2016 compared to net losses of $(3.2) million in 2015. Further details are provided in the table below:

	For the Year Ended December 31,	
	2016	**2015**
	(In thousands)	
Debt securities	**$ (6,885)**	$ 1,664
Equity securities	**2,483**	(180)
Mortgage loans	**(2,751)**	(2,802)
Partnerships	**(736)**	(1,725)
Other invested assets	**95**	(156)
Real estate	**334**	26
Debt retirement	**-**	(5,409)
Net realized investment (losses) gains	**$ (7,460)**	$ (8,582)
DAC amortization	**1,684**	2,900
Interest credited	**1,969**	853
Policyholder dividend obligation	**(6,457)**	(92)
Income taxes	**3,592**	1,723
Net realized (losses) gains, net of offsets	**$ (6,672)**	$ (3,198)

Income Tax on Operations

Income tax on operations is the federal income tax expense less any taxes for net realized investment gains (losses). The federal income tax expense for 2016 was $61.0 million, which represents an effective tax rate of 28.1% compared to $41.9 million in 2015 with an effective tax rate of 27.7%. The Company's effective tax rate is less than the nominal income tax rate of 35% primarily due to credits generated from investments in qualified affordable housing projects, non-taxable earnings related to the Company's corporate-owned life insurance investments, and the dividends received deduction.

Net Effect of Derivatives, Embedded Derivatives and Other Market Effects

Net effect of derivatives, embedded derivatives, and other market effects was $17.4 million in 2016 compared to $(33.7) million in 2015. These changes are due to a combination of the impact from the change in the interest rates that influence the values of the embedded derivatives and related options, changes in our portfolio earned rates, and the overall movement of the S&P.

SUMMARY OF FINANCIAL POSITION

The following table provides a summary of balance sheet data:

	As of December 31, 2016	As of December 31, 2015
	(In thousands)	
Balance Sheet Data		
Cash and investments	**$ 24,440,119**	$ 22,058,545
Other general account assets	**2,486,102**	2,221,923
Separate account assets	**733,099**	714,621
Total assets	**$ 27,659,320**	$ 24,995,089
Total liabilities	**$ 25,120,766**	$ 22,725,106
Retained earnings	**2,399,476**	2,243,408
Accumulated other comprehensive income	**139,078**	26,575
Total stockholder's equity	**2,538,554**	2,269,983
Total liabilities and stockholder's equity	**$ 27,659,320**	$ 24,995,089

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2015
	(In thousands)	
Cash Flow Data		
Net cash provided by operating activities	**$ 49,141**	$ 164,999
Net cash used in investing activities	**(1,557,091)**	(1,564,216)
Net cash provided by financing activities	**1,611,282**	1,281,933
Net Decrease in Cash	**$ 103,332**	$ (117,284)

	As of December 31, 2016	As of December 31, 2015	Change
	(In thousands)		
Other Selected Data			
Life insurance in force (before reinsurance ceded)	**$ 104,912,567**	$ 93,769,232	$ 11,143,335
Total assets under management	**$ 33,125,307**	$ 31,068,412	$ 2,056,895
Weighted New Annualized Premium (WNAP)			
Life	**$ 193,225**	$ 184,232	$ 8,993
Annuity	**225,631**	183,575	42,056
Mutual Funds	**68,596**	97,114	(28,518)
Institutional	**151,113**	116,031	35,082
Total WNAP	**$ 638,565**	**$ 580,952**	$ 57,613

CRITICAL ACCOUNTING 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 areas of management's judgment include:

- actuarial assumptions affecting policyholder reserves and estimated gross profits;
- policy liabilities;
- valuation of derivatives;
- valuation of mortgages;
- pension and other postretirement employee benefits;
- evaluation of other-than-temporary impairments;
- goodwill and intangibles impairment; and
- Federal income taxes.

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 consolidated financial statements.

Actuarial Assumptions Affecting Policyholder Reserves and Estimated Gross Profits

Commissions and other costs that are directly related 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. Future gross profits may be revised due to changes in projected investment rates, mortality assumptions, expenses, contract lapses, withdrawals, and surrenders. Deferred policy acquisition costs for these products are adjusted for related unrealized gains (losses) on available-for-sale debt and equity securities (after deducting any related policyholder dividend obligations) through Other Comprehensive Income, net of related deferred income taxes.

DAC for non-participating term and whole life insurance and participating single-payment and limited-payment life insurance is amortized in relation to premium income using assumptions consistent with those used in computing policy benefit liabilities.

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 investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency, DAC amortization period and administrative expenses.

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 4.76% and 4.94% as of December 31, 2016 and 2015, respectively.

Policy benefit liabilities for non-participating life insurance, disability income, 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 life insurance (universal life products) and investment-type annuities represent amounts that inure to the benefit of the policyholders before surrender charges. Policyholder account balances for indexed life insurance and annuity liabilities consist of a combination of underlying account value and embedded derivative values. The underlying account value is primarily based on the initial deposit plus any interest credited. The embedded derivative component is based on the fair value of the contract's expected participation in future increases in the S&P 500, Russell 2000 or MSCI Emerging Markets indexes. 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, the level and limits on contract participation in any future increases in the S&P 500, Russell 2000, or MSCI Emerging Markets indexes, and an explicit risk margin for variance of policyholder behavior along with the associated impact the Company's own credit rating would have in the view of a market participant.

Valuation of Derivatives

Derivatives include long options, short options, swaptions, interest rate swaps, and futures contracts which are carried at fair value. The fair value of derivatives is based on publicly available data. When that data is not available, the Company uses independent broker pricing quotes. Changes in fair value are reflected in the Consolidated Statements of Comprehensive Income as a component of net investment income.

The Company designates interest rate swaps as fair value hedges when they have met the requirements to be deemed 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 hedge items within net investment income on the Consolidated Statements of Comprehensive Income.

Valuation of Mortgages

Mortgage loans on commercial real estate are 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 is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's 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 require the use of significant management judgment and include the probability and timing of borrower default as well as loss frequency and severity estimates. Changes in the valuation allowance are recognized through net realized investment gains (losses).

For mortgage loans that are deemed impaired, an impairment loss is recognized through realized 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 is deemed collectable and the loan continues to perform under its original or restructured terms. Interest income on defaulted loans is recognized when received.

Mortgage loans and related valuation allowances at December 31 were as follows:

	As of December 31,	
	2016	**2015**
	(In thousands)	
Commercial loans	**$3,211,066**	$2,693,531
Related valuation allowances	**(2,119)**	(1,568)
Impaired loans	**(3,335)**	(5,687)
Market value adjustment on hedge	**230**	435
Total	**$3,205,842**	$2,686,711

Pension and Other Postretirement Employee Benefits

The Company sponsors a qualified defined benefit pension plan covering substantially all employees. The plan is non-contributory, with benefits for NLIC employees hired prior to July 1, 2001, based on an employee's retirement age, years of service, and compensation near retirement. Benefits for NLIC 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 Company also sponsors 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 are separately funded. Plan assets are 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 NLIC. None of the securities held in the Company’s separate account were issued by the Company, but some investments are advised by an affiliate.

The Company also sponsors other pension plans, including a non-contributory defined benefit plan for Career 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 postretirement 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.

Evaluation of Other-Than-Temporary Impairments

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in fair value of investments should be recognized in current period earnings and whether the securities are other-than-temporarily impaired (“OTTI”). The risks and uncertainties include changes in general economic conditions, the issuer’s financial condition and/or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. The Company has a security monitoring process overseen by investment and accounting professionals that identifies securities, using certain quantitative and qualitative characteristics, which could be potentially impaired. These identified securities are subjected to an enhanced analysis to determine if the impairments are other-than-temporary.

Goodwill and Intangibles Impairment

Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment in accordance with FASB ASC 350, *Intangibles – Goodwill and Other* on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. The assessment for impairment begins with a qualitative determination of factors that could indicate that an impairment is more likely than not to exist. If it is determined that an impairment is more likely than not to exist, then a quantitative assessment is completed. The quantitative impairment testing is performed using the fair value approach, which requires the use of estimates and judgment, at the reporting unit or intangible asset level. The determination of a reporting unit’s fair value is based on management’s best estimate, which generally considers a discounted cash flow analysis as well as market-based earnings and revenue multiples of the unit’s peer companies. If the carrying value of a reporting unit or intangible asset exceeds its fair value, an impairment is recognized as a charge against income equal to the excess of the carrying value of goodwill or intangible asset over its fair value. The goodwill and intangible balances represent the Company’s acquisition of partnership interests and other mutual funds to enhance its asset management business. In 2016 and 2015, there were no impairments or other reductions recorded.

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.

STATUTORY INFORMATION

Statutory income and surplus amounts may increase or decrease in any period depending upon a variety of factors, and may be compounded in extreme scenarios or if multiple factors occur at the same time.

The table below sets forth statutory income and statutory surplus for NLIC, LSW, Catamount and Longhorn. The statutory surplus amount as of December 31, 2016 and December 31, 2015 in the table below are based on actual statutory filings with the applicable U.S. regulatory authorities.

National Life Insurance Company

	Net Income	Surplus
2016	**$(51.1) million**	**$1,925 million**
2015	$12.0 million	$1,778.0 million

Life Insurance Company of the Southwest

	Net Income	Surplus
2016	**$168.7 million**	**$1,067.9 million**
2015	$35.9 million	$840.9 million

Catamount Reinsurance Company

	Net Income	Surplus
2016	**$10.0 million**	**$63.0 million**
2015	$(83.8) million	$59.3 million

Longhorn Reinsurance Company

	Net Income	Surplus
2016	**$(76.0) million**	**$61.6 million**

**Catamount Reinsurance Company's unfavorable income in 2015 is driven by a nonrecurring transaction which was the payment of a $136 million ceding commission to NLIC. Longhorn Reinsurance Company's unfavorable income in 2016 is driven by a nonrecurring transaction which was the payment of a $100 million ceding commission to LSW.*

The following table summarizes the Company's financial ratings from the major independent rating organizations:

A.M. Best	Standard & Poor's	Moody's
A (Excellent)	A+ (Strong)	A2 (Good)

These ratings are not a recommendation to buy or hold any of the Company's debt securities, and they may be revised or revoked at any time at the sole discretion of the rating organization.

PROSPECTIVE INFORMATION

Forward-looking statements contained in the following discussion 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 some that are relatively illiquid;
- Subjectivity in determining the amount of allowances and impairments taken on certain Company investments;
- Defaults on commercial mortgages held by the Company;
- Exposure to mortgage-backed securities;
- Impairments of other institutions;
- Changes in interest rates;
- Effectiveness of the Company's hedging strategies;
- 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;
- Effectiveness of the Company's risk management policies and procedures;
- Availability of reinsurance;
- Failure of counterparties to perform under reinsurance agreements and 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 the Company's 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 career agents, independent 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 and 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 are to grow and improve our business by continuing responsible growth in life insurance and flow annuity business and to improve the efficiency and effectiveness of the overall organization. The Company will drive production by continuing to deliver new and innovative products and riders. We will also continue to seek efficiencies throughout our operations and invest in our technology infrastructure to improve services for our business, producers, customers, and employees.

We will continue to effectively manage our investment portfolio to maximize risk-adjusted returns and to maintain duration matching of our product obligations and their related investments.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements of NLVF have been prepared in conformity with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts and related disclosures. As a result, these financial statements should be read in conjunction with the related footnotes. Actual results could differ 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,

(in thousands)	2016	2015
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 18,165,166**	$ 17,111,699
Available-for-sale equity securities	**60,142**	60,916
Trading equity securities	**14,764**	14,505
Mortgage loans	**3,205,842**	2,686,711
Policy loans	**838,541**	823,456
Real estate investments	**31,354**	44,667
Derivatives	**824,214**	299,941
Other invested assets	**853,171**	631,439
Short term investments	**202,424**	244,043
Cash and restricted cash	**244,500**	141,168
Total cash and investments	**24,440,118**	22,058,545
Deferred policy acquisition costs	**1,512,211**	1,295,231
Accrued investment income	**208,048**	199,025
Premiums and fees receivable	**19,449**	19,685
Amounts recoverable from reinsurers	**147,489**	135,208
Present value of future profits of insurance acquired	**6,642**	9,751
Property and equipment, net	**186,268**	169,978
Corporate owned life insurance	**273,706**	268,115
Other assets	**132,290**	120,549
Separate account assets	**733,099**	714,621
Total assets	**$ 27,659,320**	$ 24,990,708
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,408,994**	$ 4,509,427
Policyholder account liabilities	**17,679,354**	15,760,710
Policyholders' deposits	**89,115**	85,591
Policy claims payable	**100,487**	61,567
Policyholders' dividends	**145,147**	154,114
Total policy liabilities	**22,423,097**	20,571,409
Amounts payable to reinsurers	**25,891**	26,305
Derivatives	**489,398**	139,507
Other liabilities and accrued expenses	**543,880**	438,724
Pension and other post-retirement benefit obligations	**202,152**	225,680
Deferred income taxes	**231,439**	150,541
Federal income tax payable	**18,201**	576
Debt	**453,610**	453,362
Separate account liabilities	**733,099**	714,621
Total liabilities	**$ 25,120,767**	$ 22,720,725
Stockholder's Equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ -**	$ -
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**-**	-
Preferred stock, 500 shares authorized, no shares issued and outstanding	**-**	-
Retained earnings	**2,399,476**	2,243,408
Accumulated other comprehensive income	**139,077**	26,575
Total stockholder's equity	**$ 2,538,553**	$ 2,269,983
Total liabilities and stockholder's equity	**$ 27,659,320**	$ 24,990,708

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

(in thousands)	2016	2015	2014
Revenues:			
Insurance premiums	**$ 218,435**	$ 227,547	$ 231,629
Policy and contract charges	**503,559**	445,899	396,358
Mutual fund commissions and fee income	**92,351**	100,826	107,321
Net investment income	**1,154,842**	925,208	1,186,100
Net realized investment (losses) gains	**(7,460)**	(8,582)	24,685
Change in value of trading equity securities	**425**	(1,130)	(1,029)
Other income	**26,678**	16,662	15,359
Total revenues	**1,988,830**	1,706,430	1,960,423
Benefits and Expenses:			
Decrease in policy liabilities	**(72,264)**	(1,720)	(50,994)
Policy benefits	**533,071**	440,896	512,671
Policyholders' dividends and dividend obligations	**58,089**	64,289	83,413
Interest credited to policyholder account liabilities	**679,079**	427,754	564,687
Operating expenses	**302,128**	274,790	264,332
Interest expense	**39,305**	40,149	41,434
Policy acquisition expenses and amortization of present value of future profits, net	**232,354**	309,024	338,696
Total benefits and expenses	**1,771,762**	1,555,182	1,754,239
Income before income taxes	**217,068**	151,248	206,184
Income tax expense	**61,000**	41,944	61,866
Net income	**$ 156,068**	$ 109,304	$ 144,318
Other comprehensive income, net of tax:			
Unrealized gains (losses) on available-for-sale securities	**106,164**	(258,047)	83,362
Cash flow hedge on debt issuance	**34**	34	34
Change in funded status of retirement plans	**6,304**	14,917	(76,077)
Other comprehensive income (loss)	**112,502**	(243,096)	7,319
Comprehensive income (loss)	**$ 268,570**	$ (133,792)	$ 151,637

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

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
(in thousands)						
December 31, 2013	$ -	$ -	$ -	$ 1,989,786	$ 262,352	$ 2,252,138
Net income	-	-	-	144,318	-	144,318
Other comprehensive income	-	-	-	-	7,319	7,319
Total comprehensive income						151,637
December 31, 2014	-	-	-	2,134,104	269,671	2,403,775
Net income	-	-	-	109,304	-	109,304
Other comprehensive income	-	-	-	-	(243,096)	(243,096)
Total comprehensive income						(133,792)
December 31, 2015	-	-	-	**2,243,408**	**26,575**	**2,269,983**
Net income	-	-	-	**156,068**	**-**	**156,068**
Other comprehensive income	-	-	-	**-**	**112,502**	**112,502**
Total comprehensive income						**268,570**
December 31, 2016	**$ -**	**$ -**	**$ -**	**$ 2,399,476**	**$ 139,077**	**$ 2,538,553**

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

(in thousands)	**2016**	2015	2014
Cash Flows from Operating Activities:			
Net income	**$ 156,068**	$ 109,304	$ 144,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for deferred income taxes	**20,320**	29,663	42,057
Interest credited to policyholder account liabilities	**679,079**	427,754	564,687
Amortization of deferred policy acquisition costs	**129,733**	202,049	235,482
Policy and contract charges	**(503,559)**	(445,899)	(396,358)
Net realized investment (gains) losses	**7,460**	8,581	(24,685)
Net option (gains) losses	**(122,093)**	79,606	(199,619)
Change on corporate owned life insurance policies	**(5,591)**	(7,156)	(8,700)
Amortization of present value of future profits of insurance acquired	**3,108**	3,485	3,928
Depreciation	**28,242**	24,694	19,996
Other	**(10,625)**	(9,040)	(10,229)
Changes in assets and liabilities:			
Accrued investment income	**(9,023)**	(14,148)	(7,338)
Deferred policy acquisition costs	**(371,790)**	(318,636)	(313,010)
Policy liabilities	**85,138**	67,769	51,488
Other assets and liabilities	**(37,326)**	6,973	(42,165)
Net cash provided (used) by operating activities	**49,141**	164,999	59,852
Cash Flows from Investing Activities:			
Proceeds from sales, maturities and repayments of investments	**3,403,072**	3,272,590	2,805,312
Cost of investments acquired	**(4,990,900)**	(4,613,227)	(3,715,105)
Property and equipment additions	**(41,980)**	(40,036)	(47,585)
Cost of corporate owned life insurance acquired	**-**	(15,934)	-
Change in policy loans	**(15,084)**	(14,858)	(21,627)
Change in short term investments	**41,619**	26,277	74,980
Change in short term broker collateral	**55,650**	(145,130)	(75,790)
Other	**(9,468)**	(33,898)	13,981
Net cash provided (used) by investing activities	**(1,557,091)**	(1,564,216)	(965,834)
Cash Flows from Financing Activities:			
Policyholders' deposits	**2,105,604**	1,823,046	1,825,595
Policyholders' withdrawals	**(1,103,703)**	(1,017,670)	(1,011,044)
Advance from Federal Home Loan Bank	**606,936**	610,770	50,000
Repayments to Federal Home Loan Bank	**-**	(100,000)	-
Debt retirement	**-**	(15,079)	(20,587)
Change in other deposits	**2,445**	(19,134)	(4,601)
Net cash provided (used) by financing activities	**1,611,282**	1,281,933	839,363
Net Increase (Decrease) in Cash	**103,332**	(117,284)	(66,619)
Cash and Restricted Cash:			
Beginning of year	**141,168**	258,452	325,071
End of year	**$ 244,500**	$ 141,168	$ 258,452