NLV Financial Corporation and Subsidiaries

Quarterly Performance Review and Consolidated Financial Statements

First Quarter 2020

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 primary insurance subsidiaries are 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 career 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 markets. National Life Group also provides financial solutions in the form of estate, business succession and retirement planning, and deferred compensation and other key executive benefit planning to 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, 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 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 for payment of 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, Sentinel Asset Management, Inc. ("Sentinel Investments"), 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-U.S. GAAP Measures

The discussion herein, unless otherwise noted, is prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition to net income, we use pre-tax operating income and core earnings, which are both pre-tax, non-U.S. GAAP financial measures, to evaluate our financial performance. Pre-tax operating income excludes income taxes and net 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 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 U.S. 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-U.S. GAAP core earnings basis, we also exclude from revenues any investment income (losses) from derivative instruments that hedge 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 U.S. GAAP basis to total revenues on a core earnings basis is presented below:

	For the Three Months Ended March 31,	
	2020	**2019**
Total revenues	**$ 175,576**	$ 739,509
Net losses	**14,394**	481
Net investment loss (gain) from derivatives that hedge equity indexed products, which is included in interest credited to policyholder liabilities on a core earnings basis	**386,480**	(209,922)
Total revenues on a core earnings basis	**$ 576,450**	$ 530,068

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

	For the Three Months Ended March 31,	
	2020	**2019**
Net income	**$ 21,728**	$ 40,854
Net losses	**14,394**	481
Amortization of DAC and sales inducements, and policyholder dividend obligations, and other adjustments related to net gains and losses	**107**	517
Income tax (benefit) expense	**(25,586)**	10,860
Pre-tax operating income	**10,643**	52,712
Non-core losses (earnings), primarily volatility resulting from the measurement of indexed product liabilities	**50,319**	(13,482)
Core earnings	**$ 60,962**	$ 39,230

QUARTERLY FINANCIAL PERFORMANCE REVIEW

This quarterly financial performance review provides an overview of the Company's results of operations and financial position as of and for the three months ended March 31, 2020 and 2019, 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, 2019 and 2018, which have been audited by PricewaterhouseCoopers LLP.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economics and the Company are highly uncertain and cannot be predicted at this time. A severe pandemic may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. The resulting macroeconomic conditions could materially and adversely affect the Company's cash flows, as well as the value and liquidity of its invested assets. In addition, the Company's mortality and/or morbidity experience could be adversely affected by the COVID-19 pandemic.

On March 17, 2020, the Company transitioned the majority of its operations to a work-from-home environment, and acted quickly to enhance its digital capabilities, adapting tools and processes to better enable remote sales and interactions. The Company was proactive in communicating with its distribution partners, providing information and education on strategies to support customer engagement. As a result, life sales and application volumes have remained within expectations, although annuity sales are challenged by the extraordinarily low rate environment. The Company's liquidity, invested asset quality and capital position remained strong as of March 31, 2020. Revenues and earnings on a core earnings basis were up 9% and 55%, respectively, compared to the same period in the prior year.

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 U.S. GAAP basis, investment income includes 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 decrease in the Company's total revenues on a U.S. GAAP basis was driven by investment losses on derivative instruments of $386 million for the three months ended March 31, 2020, compared to investment gains of $210 million for the same period in 2019. The losses in the first three months of 2020 were due to a decrease in the value of derivatives due to equity market volatility during the period. On a core earnings basis, which excludes from revenue such derivative gains (losses) as well as net gains (losses), the Company's total revenues for the first three months of 2020 grew 9% or $46 million. This included an increase in net investment income of 3% and an increase in policy and contract charges of 13% for the three months ended March 31, 2020 compared to the same period in 2019, due to growth in the Company's volume of business.

Net income decreased from $41 million to $22 million for the first three months of 2020 compared to the same period in 2019, due to negative non-core earnings, which more than offset favorable variances in core earnings and income tax expense. The three months ended March 31, 2020 included negative non-core earnings of $50 million, which reflected the volatility and decline in equity markets during the period. The negative non-core earnings were partially offset by a tax benefit of $25 million, as a result of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), enacted in response to the COVID-19 pandemic. The three months ended March 31, 2019 included positive non-core earnings of $13 million, which reflected the rebound in equity markets after the volatility and decline in the fourth quarter of 2018.

Core earnings of $61 million for the three months ended March 31, 2020 were up from $39 million for the same time period in 2019. The increase in core earnings was driven by resilient performance in all of our lines of business, including significant growth in policy and contract charge revenues from our indexed universal life business and higher investment income from our partnership portfolio, as well as a decrease in operating expenses.

Each of the components of core earnings and the factors that contributed to the changes for the three months ended March 31, 2020, and 2019 are described in detail below.

	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Revenues:		
Insurance premiums	**$ 53,749**	$ 46,541
Policy and contract charges	**201,563**	178,132
Mutual fund commissions, fees and other income	**21,921**	16,525
Net investment income	**299,217**	288,870
Total revenues, on a core earnings basis	**576,450**	530,068
Benefits and expenses:		
Decrease in policy liabilities	**(16,402)**	(22,144)
Policy benefits	**148,180**	130,685
Policyholders' dividends and dividend obligations	**5,099**	11,352
Interest credited to policyholder account liabilities	**184,443**	172,540
Operating expenses	**81,095**	94,379
Interest expense	**16,305**	14,581
Policy acquisition expenses	**96,768**	89,445
Total benefits and expenses, on a core earnings basis	**515,488**	490,838
Core earnings	**$ 60,962**	**$** 39,230

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, index 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 to $54 million for the three months ended March 31, 2020 from $47 million for the same period in 2019. This increase was driven by higher term life and whole life product sales, partially offset by a decrease in renewal premiums due to the expected run-off of the Closed Block.

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 $24 million, or 13%, to $202 million for the three months ended March 31, 2020 from $178 million for the same period in 2019. This increase was driven by growth in overall account value due primarily to continued 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-dealer, Equity Services, Inc. Other income includes revenues from reinsurance, corporate owned life insurance and miscellaneous fee income. Revenues from mutual fund commissions, fees and other income increased to $22 million for the three months ended March 31, 2020 from $17 million for the same period in 2019, primarily due to increases in income from dealer concessions and other income from corporate-owned life insurance.

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-U.S. GAAP core earnings basis, we exclude from net investment income any income (losses) from derivative instruments that hedge indexed product liabilities; instead, those hedging results are presented within interest credited to policyholder account liabilities. Net investment income on a core earnings basis increased $10 million, or 3%, to $299 million for the three months ended March 31, 2020 from $289 million for the same period in 2019. This increase was driven by higher income from the bond portfolio due to the overall growth of in-force business, as well as higher partnership income in the current quarter.

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 Three Months Ended March 31,	
	2020	**2019**
Net investment income		
Debt securities interest	**$ 240,973**	$ 230,870
Equity securities	**(5,856)**	919
Mortgage loan interest	**39,471**	41,548
Policy loan interest	**11,348**	10,766
Real estate income	**1,110**	506
Derivative (loss) income	**(162)**	819
Partnership income	**19,812**	11,834
Other investment income	**578**	133
Gross investment income	**307,274**	297,395
Less: Investment expenses	**(8,057)**	(8,525)
Net investment income on a core earnings basis	**$ 299,217**	$ 288,870

Increase (Decrease) in Policy Liabilities

The increase (decrease) in policy liabilities reflects changes in the product liability reserves for whole and term life insurance, disability income insurance and in additional reserves held on certain annuities. The change in policy reserves was a net decrease of $16 million for the three months ended March 31, 2020 compared to a net decrease of $22 million for the same period in 2019. The smaller net decrease in the first quarter of 2020 compared to the first quarter of 2019 was primarily due to higher term life premiums in the first quarter of 2020.

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 $17 million to $148 million for the three months ended March 31, 2020 from $131 million for the same period in 2019. This increase was primarily due to mortality experience that was within expectations but less favorable than first quarter 2019, including higher death benefits for fixed universal life and indexed universal life polices during the first quarter of 2020 compared to the prior year.

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-U.S. GAAP measure of core earnings, policyholders’ dividends and dividend obligations exclude amounts related to current period net gains (losses). Policyholders’ dividends and dividend obligations included in core earnings decreased $6 million for the three months ended March 31, 2020 from the same period in 2019. This decrease was due to a decrease in the PDO liability, as the Closed Block runs off, as well as lower dividends paid during the first quarter of 2020.

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-U.S. GAAP presentation of core earnings, interest credited also includes income (losses) on options that economically hedge our indexed products. Core interest credited increased $11 million to $184 million for the three months ended March 31, 2020 from $173 million the same period in 2019. This increase reflected growth in account value within our indexed product lines.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company’s business. Operating expenses were $81 million for the three months ended March 31, 2020 compared to $94 million for the same period in 2019. Operating expenses for the three months ended March 31, 2020 included lower personnel costs, software maintenance costs and significantly lower deferred compensation costs. The net change in certain defined contribution deferred compensation liabilities reported in operating expenses is largely offset by changes in the fair value of certain equity investments, which are reported within net investment income (loss). Excluding the changes in deferred compensation, operating expenses decreased approximately 6% over the first quarter of 2019.

Interest Expense

Interest expense consists of interest paid on the Company's surplus notes and senior notes. Interest expense totaled $16 million for the three months ended March 31, 2020 compared to $15 million the same period in 2019. The increase in interest expense was due to $128 million of 5.25% surplus notes due 2068 that were issued by NLIC in April 2019.

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 U.S. 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-U.S. GAAP presentation of core earnings, policy acquisition expenses exclude amortization of DAC related to net 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 $97 million for the three months ended March 31, 2020, up from $89 million for the same period in 2019. This increase was primarily attributable to higher amortization expense driven by higher gross profits on an increased volume of indexed universal life and annuity products.

Net Gains (Losses)

The Company recorded net losses of $14 million for the three months ended March 31, 2020 compared to net losses of $0.5 million the same period in 2019. Net losses included losses of $10 million in the current quarter and $5 million in the same period in 2019 from decreases in the fair value of partnerships over which the Company does not have significant influence. Net losses in the three months ended March 31, 2020 included impairments on debt securities of $3 million; there were no asset impairments recorded in the three months ended March 31, 2019. The non-U.S. GAAP measure of pre-tax operating income excludes net gains (losses) and is also adjusted to exclude amortization of DAC and sales inducements, and policyholder dividend obligations, related to net gains (losses) (see “Non-U.S. GAAP Measures,” above).

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

	For the Three Months Ended March 31,	
	2020	**2019**
Net gains (losses) on:		
Debt securities	**$ (1,676)**	$ 1,246
Equity securities	**(2,328)**	4,595
Mortgage loans	**(83)**	(54)
Partnerships	**(10,264)**	(5,318)
Other invested assets	**(43)**	(262)
Debt retirement	**—**	(688)
Net losses	**$ (14,394)**	$ (481)

Federal Income Taxes

Federal income tax benefit for the three months ended March 31, 2020 was $26 million compared to income tax expense of $11 million for the three months ended March 31, 2019. The Company's net tax benefit in the first quarter of 2020 was due to a one-time tax benefit of $25 million resulting from the Company's ability to carryback its 2018 net operating loss to prior tax years, as a result of the CARES Act enacted on March 27, 2020. Income tax (benefit) expense for the three months ended March 31, 2020 and 2019 included income tax benefits of $3 million and $1 million, respectively, that were related to net gains and losses.

Non-Core Earnings

Non-core earnings primarily include short-term income volatility that results from the fair value measurement under U.S. GAAP of certain indexed product liabilities, and the related impact to DAC and deferred sales inducements, which are sensitive to movement in equity market indexes and future interest rate assumptions. Non-core earnings reduced pre-tax operating earnings by $50 million for the three months ended March 31, 2020 and contributed $13 million of positive non-core earnings to pre-tax operating earnings for the same period in 2019. The losses (negative non-core earnings) in the first quarter of 2020 were primarily due to significant equity market volatility during the period. The positive non-core earnings in the first quarter of 2019 reflected positive movement in the equity markets, which rebounded after the decrease in equity market values in the fourth quarter of 2018.

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 and 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 March 31, 2020, total assets were $33.9 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 958,000 customers. Cash and investments decreased $2.1 billion from December 31, 2019, which included a $1.1 billion decrease in the fair value of derivative assets, primarily equity index options used to hedge our indexed product liabilities, and a $1.0 billion decrease in net unrealized gains on available-for-sale debt securities. After excluding net unrealized gains and losses, total cash and invested assets as of March 31, 2020 were $28.7 billion compared to $28.8 billion at December 31, 2019, including an increase in available-for-sale debt securities of $165 million, driven primarily by cash flows from our growing life and annuity business. The remainder of the portfolio consists primarily of commercial mortgage loans, other invested assets, cash, trading debt and equity securities, policy loans, and other short-term investments.

Total liabilities as of March 31, 2020 were $30.8 billion, compared to $32.1 billion as of December 31, 2019. The decrease of $1.4 billion for the three months ended March 31, 2020 was primarily due to a decrease in the market value of derivative liabilities and a decrease in other liabilities primarily related to the timing of cash settlements on investment purchases.

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 March 31, 2020	**As of December 31, 2019**
	(in thousands)	
Assets:		
Cash and investments	**$ 29,746,014**	$ 31,849,806
Other general account assets	**3,346,159**	3,034,511
Separate account assets	**776,110**	881,791
Total assets	**$ 33,868,283**	$ 35,766,108
Liabilities and Stockholder's Equity:		
Total liabilities	**30,753,991**	32,119,741
Stockholder's Equity:		
Retained earnings	**3,033,010**	3,011,282
Accumulated other comprehensive income	**81,282**	635,085
Total stockholder's equity	**3,114,292**	3,646,367
Total liabilities and stockholder's equity	**$ 33,868,283**	$ 35,766,108

Cash Flow and Liquidity Information

Cash and restricted cash was $181 million at March 31, 2020, compared to $453 million at December 31, 2019. The decrease was primarily due to a decrease in broker cash collateral, due to the decline in the equity markets and related impact on option values. 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.

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

	For the Three Months Ended March 31,	
	2020	**2019**
	(in thousands)	
Net cash used by operating activities	**$ (73,472)**	$ (93,453)
Net cash used in investing activities	**(591,994)**	(337,522)
Net cash provided by financing activities	**392,984**	549,519
Net (decrease) increase in cash	**$ (272,482)**	$ 118,544

Net cash used by operations was $73 million for the three months ended March 31, 2020, compared to $93 million net cash used by operations the same period in 2019. The decrease in cash used by operations compared to the prior year was primarily due to changes in other assets and liabilities.

Net cash used in investing activities was $592 million for the three months ended March 31, 2020, compared to $338 million the same period in 2019 which primarily represented the investment of positive net cash provided by financing activities. The increase in cash used in investing activities in the first quarter of 2020 was primarily due to the decrease in short term broker collateral.

Net cash provided by financing activities was $393 million for the three months ended March 31, 2020, compared to $550 million the same period in 2019. The decrease in net cash provided by financing activities was primarily due to a $86 million decrease in policyholder deposits, net of withdrawals, which was primarily related to lower sales of single premium annuities. Net issuances of FHLB funding agreements (net of repayments) were $49 million for the three months ended March 31, 2020, compared to $111 million for the same period in 2019. Our Institutional Markets FHLB activity is managed opportunistically, so the volume of funding agreements issued depends on pricing and the availability of desirable assets to support these liabilities.

Other Selected Data	As of March 31, 2020	As of December 31, 2019	Change
		(in millions)	
Life insurance in force (before reinsurance ceded)	**$ 180,414**	$ 173,316	$ 7,098
Total cash and invested assets (excluding unrealized gains and losses)	**$ 28,697**	$ 28,753	$ (56)

	For the Three Months Ended		
	March 31, 2020	March 31, 2019	Change
Weighted New Annualized Premium (WNAP) Sales		*(in millions)*	
Life	**$ 73**	$ 90	$ (17)
Annuity	**57**	69	(12)
Total Life and Annuity WNAP	**$ 130**	$ 159	$ (29)

Life WNAP sales were lower in the first quarter of 2020 compared to a very strong first quarter of 2019, but sales and application volumes remained healthy and above our planned levels for the current period. Annuity sales are expected to continue to be challenged by the very low interest rate environment.

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 effectively manage our investment portfolio.

Basis of Presentation and Principles of Consolidation

The following consolidated financial statements of NLVF have been prepared in conformity with U.S. 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, 2019 and 2018, 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 U.S. 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 March 31, 2020 and December 31, 2019

(in thousands)	As of March 31, 2020	As of December 31, 2019
Assets:		
Cash and investments:		
Available-for-sale debt securities	**$ 22,885,651**	$ 23,700,099
Equity securities	**51,366**	62,882
Trading debt securities	**142,119**	136,630
Mortgage loans	**3,819,800**	3,718,391
Policy loans	**975,076**	959,969
Real estate investments	**11,606**	11,806
Derivative assets	**341,104**	1,409,070
Other invested assets	**1,216,849**	1,236,434
Short term investments	**121,850**	161,450
Cash and restricted cash	**180,593**	453,075
Total cash and investments	**29,746,014**	31,849,806
Deferred policy acquisition costs	**2,166,796**	1,856,701
Accrued investment income	**253,055**	248,668
Premiums and fees receivable	**10,858**	22,109
Amounts recoverable from reinsurers	**117,374**	108,588
Property and equipment, net	**174,102**	173,100
Corporate owned life insurance	**512,715**	507,237
Other assets	**111,259**	118,108
Separate account assets	**776,110**	881,791
Total assets	**$ 33,868,283**	$ 35,766,108
Liabilities:		
Policy liabilities:		
Policy benefit liabilities	**$ 4,160,627**	$ 4,255,302
Policyholder account liabilities	**23,650,111**	23,565,407
Policyholders' deposits	**95,764**	99,692
Policy claims payable	**94,521**	76,447
Policyholders' dividends and dividend obligations	**243,417**	233,491
Total policy liabilities	**28,244,440**	28,230,339
Amounts payable to reinsurers	**8,901**	36,509
Derivative liabilities	**220,790**	881,670
Other liabilities and accrued expenses	**316,752**	715,966
Pension and other post-retirement benefit obligations	**159,384**	165,753
Deferred income taxes	**107,718**	257,671
Federal income tax payable	**5,080**	35,362
Debt	**914,816**	914,680
Separate account liabilities	**776,110**	881,791
Total liabilities	**$ 30,753,991**	$ 32,119,741
Stockholder's equity:		
Class A common stock, 2,000 shares authorized, no shares issued and outstanding	**$ —**	$ —
Class B common stock, par value of $0.01, 1,001 shares authorized, 100 shares issued and outstanding	**—**	—
Preferred stock, 500 shares authorized, no shares issued and outstanding	**—**	—
Retained earnings	**3,033,010**	3,011,282
Accumulated other comprehensive income	**81,282**	635,085
Total stockholder's equity	**$ 3,114,292**	$ 3,646,367
Total liabilities and stockholder's equity	**$ 33,868,283**	$ 35,766,108

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2020 and 2019

(in thousands)	For the Three Months Ended March 31, 2020	For the Three Months Ended March 31, 2019
Revenues:		
Insurance premiums	**$ 53,749**	$ 46,541
Policy and contract charges	**201,563**	178,132
Mutual fund commissions and fee income	**14,351**	11,531
Net investment (loss) income	**(87,263)**	503,053
Net losses	**(14,394)**	(481)
Other income	**7,570**	733
Total revenues	**175,576**	739,509
Benefits and expenses:		
Decrease in policy liabilities	**(16,402)**	(22,144)
Policy benefits	**148,180**	130,685
Policyholders' dividends and dividend obligations	**5,098**	11,771
Interest credited to policyholder account liabilities	**(156,011)**	345,522
Operating expenses	**81,095**	97,194
Interest expense	**16,305**	14,581
Policy acquisition expenses	**101,169**	110,186
Total benefits and expenses	**179,434**	687,795
(Loss) income before income taxes	**(3,858)**	51,714
Income tax (benefit) expense	**(25,586)**	10,860
Net income	**$ 21,728**	$ 40,854

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Three Months Ended March 31, 2020 and 2019

	Class A Common Stock	Class B Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
(in thousands)						
January 1, 2019	$ —	$ —	$ —	$ 2,741,935	$ (80,925)	$ 2,661,010
Net income	—	—	—	40,854	—	40,854
Effect of implementation of *ASU 2016-01*, net	—	—	—	45,804	(45,804)	—
Change in unrealized gains on available-for-sale securities, net	—	—	—	—	352,251	352,251
Change in cash flow hedge on debt issuance, net					10	10
Change in additional minimum pension liability, net					1,905	1,905
Total comprehensive income						395,020
March 31, 2019	$ —	$ —	$ —	$ 2,828,593	$ 227,437	$ 3,056,030
January 1, 2020	**$ —**	**$ —**	**$ —**	**$ 3,011,282**	**$ 635,085**	**$ 3,646,367**
Net income	—	—	—	**21,728**	**—**	**21,728**
Change in unrealized losses on available-for-sale securities, net	—	—	—	**—**	**(555,664)**	**(555,664)**
Change in cash flow hedge on debt issuance, net					**10**	**10**
Change in additional minimum pension liability, net					**1,851**	**1,851**
Total comprehensive loss						**(532,075)**
March 31, 2020	**$ —**	**$ —**	**$ —**	**$ 3,033,010**	**$ 81,282**	**$ 3,114,292**

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2020 and 2019

(in thousands)	For the Three Months Ended March 31, 2020	2019
Cash flows from operating activities:		
Net income	**$ 21,728**	$ 40,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	**(32,211)**	3,187
Interest credited to policyholder account liabilities	**(156,011)**	345,522
Amortization of deferred policy acquisition costs	**76,839**	88,115
Policy and contract charges	**(201,563)**	(178,132)
Net losses	**14,394**	481
Change in fair value of derivatives	**386,411**	(214,028)
Change in corporate owned life insurance policies	**(5,478)**	(2,864)
Depreciation	**7,398**	7,879
Other	**9,878**	3,049
Changes in assets and liabilities:		
Accrued investment income	**(4,387)**	(15,525)
Deferred policy acquisition costs	**(146,833)**	(144,257)
Policy liabilities	**36,650**	9,666
Other assets and liabilities	**(80,287)**	(37,400)
Net cash used by operating activities	**(73,472)**	(93,453)
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	**832,728**	647,799
Cost of investments acquired	**(1,144,481)**	(1,228,400)
Property and equipment additions	**(5,841)**	(8,302)
Change in policy loans	**(15,107)**	(838)
Change in short term investments	**39,600**	136,900
Change in short term broker collateral	**(207,678)**	114,990
Other	**(91,215)**	329
Net cash used in investing activities	**(591,994)**	(337,522)
Cash flows from financing activities:		
Policyholders' deposits	**738,848**	768,874
Policyholders' withdrawals	**(387,193)**	(330,863)
Advances from Federal Home Loan Banks	**173,277**	115,123
Repayments to Federal Home Loan Banks	**(124,052)**	(3,982)
Debt retirement	**—**	(1,921)
Change in other deposits	**(7,896)**	2,288
Net cash provided by financing activities	**392,984**	549,519
Net (decrease) increase in cash	**(272,482)**	118,544
Cash and restricted cash:		
Beginning of year	**453,075**	157,586
End of year	**$ 180,593**	$ 276,130