

NLV Financial Corporation and Subsidiaries

**Quarterly Performance Review and
Consolidated Financial Statements**

Second Quarter 2023

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 Six Months Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Total revenues	\$ 1,903,497	\$ 931,706
Net investment losses (gains)	15,215	(28,767)
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>(305,748)</u>	505,240
Total revenues on a core earnings basis	<u>\$ 1,612,964</u>	<u>\$ 1,408,179</u>

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

	For the Six Months Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Net income	\$ 148,150	\$ 23,961
Net investment losses (gains)	15,215	(28,767)
Amortization of DAC and sales inducements, and policyholder dividend obligations, and other adjustments related to net investment gains and losses	(104)	(14,559)
Income tax expense	<u>39,382</u>	6,369
Pre-tax operating income (loss)	<u>202,643</u>	(12,996)
Non-core losses, primarily volatility resulting from the measurement of indexed product liabilities	11,270	214,209
Core earnings	<u>\$ 213,913</u>	<u>\$ 201,213</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 six months ended June 30, 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, 2022 and 2021, 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 \$306 million for the six months ended June 30, 2023, compared to derivative losses of \$505 million for the same period in 2022. The derivative losses for the six months ended June 30, 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 first six months of 2023 were up 15% from the same period in 2022. This increase was driven by strong growth in the life insurance business, an increase in policy and contract charges of \$75 million, as well as increased net investment income.

Net income was \$148 million for the six months ended June 30, 2023, compared to \$24 million for the same period in 2022. The six months ended June 30, 2023 included negative non-core earnings of \$11 million, which primarily reflected the equity market volatility and increased interest rates during the period, compared to negative non-core earnings of \$214 million for the same period in 2022. Net income for the six months ended June 30, 2023 also included net investment losses of \$15 million, compared to net investment gains of \$29 million for the same period in 2022. The losses in the second quarter of 2023 and the gains in the second quarter of 2022 were primarily comprised of fair value changes in partnerships.

Core earnings were \$214 million for the six months ended June 30, 2023, up from \$201 million for the same period in 2022. The increase in core earnings was driven by higher revenues from insurance premiums and growth in policy and contract charges as well as higher net investment income, partially offset by higher interest credited driven by increased sales of indexed universal life and annuity products.

Each of the components of core earnings and the factors that contributed to the changes for the six months ended June 30, 2023 and 2022 are described in detail below.

	For the Six Months Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Revenues:		
Insurance premiums	\$ 169,668	\$ 158,891
Policy and contract charges	595,229	519,832
Commissions, fees and other income	43,685	56,710
Net investment income	804,382	672,746
Total revenues, on a core earnings basis	1,612,964	1,408,179
Benefits and expenses:		
Increase in policy liabilities	16,004	38,505
Policy benefits	317,513	300,150
Policyholders' dividends and dividend obligations	14,950	840
Interest credited to policyholder account liabilities	508,629	396,515
Operating expenses	222,287	172,259
Interest expense	33,539	33,497
Policy acquisition expenses	286,129	265,200
Total benefits and expenses, on a core earnings basis	1,399,051	1,206,966
Core earnings	\$ 213,913	\$ 201,213

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 to \$11 million for the six months ended June 30, 2023, from \$159 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 \$75 million, or 14%, to \$595 million for the six months ended June 30, 2023, from \$520 million for the same period 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 to \$44 million for the six months ended June 30, 2023, from \$57 million for the same period in 2022, primarily due to a decrease in reinsurance related revenue and market value decreases on the COLI portfolio.

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 \$804 million for the six months ended June 30, 2023, compared to \$673 million for the same period in 2022. This increase was driven by higher income from the bond portfolio due to the overall growth of the in-force business.

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 Six Months Ended	
	June 30,	
	2023	2022
	<i>(in thousands)</i>	
Net investment income		
Debt securities	\$ 628,389	\$ 516,591
Equity securities	11,325	(12,267)
Mortgage loans	98,775	98,949
Policy loans	26,080	20,958
Real estate	1,697	1,624
Derivatives	(5,382)	(3,102)
Partnerships	49,291	65,358
Other investment income	13,747	1,606
Gross investment income	823,922	689,717
Less: Investment expenses	(19,540)	(16,971)
Net investment income on a core earnings basis	\$ 804,382	\$ 672,746

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 \$16 million for the six months ended June 30, 2023 compared to a net increase of \$39 million for the same period in 2022. The decrease in policy liabilities was primarily due the release of reserves related to higher mortality and surrender activity within the Closed Block during the six months ended June 30, 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 \$18 million to \$318 million for the six months ended June 30, 2023 from \$300 million for the same period in 2022, driven by less favorable experience on accelerated benefits riders and higher surrender benefits.

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 \$14 million for the six months ended June 30, 2023 from the same period in 2022. This increase was primarily driven by an increase 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 \$112 million to \$509 million for the six months ended June 30, 2023, from \$397 million for the same period in 2022. This increase reflected growth in account value within our indexed product lines, driven by sales growth.

Operating Expenses

Operating expenses consist primarily of administrative, maintenance and operational expenses related to servicing the Company's business. Operating expenses were \$222 million for the six months ended June 30, 2023 compared to \$172 million for the same period in 2022. Operating expenses for the six months ended June 30, 2023 included higher growth-related premium taxes and personnel costs. Certain defined contribution deferred compensation liabilities reported in operating expenses were unfavorably impacted by market movement in the first half of 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 \$34 million for the six months ended June 30, 2023, compared to \$33 million for the same period in 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 \$286 million for the six months ended June 30, 2023, up from \$265 million for the same period in 2022. This increase was primarily attributable to higher amortization expense from an increased volume of indexed universal life and annuity products.

Net Investment Gains (Losses)

The Company recorded net investment losses of \$15 million for the six months ended June 30, 2023 compared to net investment gains of \$29 million for the same period 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 for the six months ended June 30, 2023 and the net investment gains for the six months ended June 30, 2022 were primarily driven by the fair value changes in these partnerships. The non-GAAP measure of pre-tax operating income excludes net investment gains (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 (losses) gains by asset category are provided in the table below:

	For the Six Months Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Net investment (losses) gains on:		
Debt securities	\$ (13,840)	\$ (5,641)
Equity securities	8,347	(18,848)
Mortgage loans	(801)	(214)
Partnerships	(17,334)	53,029
Other invested assets	8,413	441
Net investment (losses) gains	<u>\$ (15,215)</u>	<u>\$ 28,767</u>

Federal Income Taxes

Federal income tax expense was \$39 million for the six months ended June 30, 2023 compared to income tax expense of \$6 million for the same period in 2022. The Company's effective tax rate was 21% for the six months ended June 30, 2023 and 2022.

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 \$11 million for the six months ended June 30, 2023 and reduced pre-tax operating earnings by \$214 million for the same period in 2022. The losses (negative non-core earnings) in the six months ended June 30, 2022 reflected the equity market volatility and increased interest rates during the period.

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 June 30, 2023, total assets were \$43.0 billion, primarily attributable to investments that support life insurance policy and annuity contracts with more than 1.2 million customers.

Cash and investments increased \$3.9 billion from December 31, 2022, which included a \$271 million increase in unrealized gains (losses) on available-for-sale debt securities and a \$1.5 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 June 30, 2023 were \$36.8 billion compared to \$34.7 billion as of December 31, 2022, including an increase in available-for-sale debt securities of \$1.5 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 June 30, 2023 were \$40.8 billion, compared to \$36.9 billion as of December 31, 2022. The increase of \$3.9 billion was primarily due to increases in policyholder account liabilities and derivative 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 June 30, 2023	As of December 31, 2022
	<i>(in thousands)</i>	
Assets:		
Cash and investments	\$ 35,922,261	\$ 31,963,411
Other general account assets	6,271,985	6,119,633
Separate account assets	818,167	772,523
Total assets	\$ 43,012,413	\$ 38,855,567
Liabilities and Stockholder's Equity:		
Total liabilities	40,832,798	36,945,170
Stockholder's Equity:		
Retained earnings	3,868,922	3,729,404
Accumulated other comprehensive loss	(1,689,307)	(1,819,007)
Total stockholder's equity	2,179,615	1,910,397
Total liabilities and stockholder's equity	\$ 43,012,413	\$ 38,855,567

Cash Flow and Liquidity Information

Cash and restricted cash was \$556 million as of June 30, 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 June 30, 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 Six Months Ended June 30,	
	2023	2022
	<i>(in thousands)</i>	
Net cash used in operating activities	\$ (81,952)	\$ (83,596)
Net cash used in investing activities	(1,654,645)	(1,522,791)
Net cash provided by financing activities	<u>2,094,859</u>	<u>1,123,668</u>
Net increase (decrease) in cash	<u>\$ 358,262</u>	<u>\$ (482,719)</u>

Net cash used in operating activities was \$82 million for the six months ended June 30, 2023, compared to \$84 million for the same period in 2022. The change in cash used in operating activities compared to the prior year period was primarily due to changes other assets and liabilities.

Net cash used in investing activities was \$1.7 billion for the six months ended June 30, 2023, compared to \$1.5 billion for the same period in 2022. The change in cash used in investing activities compared to the prior year period was primarily due to an increase in cost of investments acquired, net of sales, and change in short-term investments, partially offset by change in short-term broker collateral.

Net cash provided by financing activities was \$2.1 billion for the six months ended June 30, 2023, compared to \$1.1 billion for the same period 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. Policyholder deposits increased \$1.0 billion primarily due to higher sales of indexed universal life and annuity products.

Other Selected Data

	As of June 30, 2023	As of December 31, 2022	Change
	<i>(in billions)</i>		
Life insurance in force (before reinsurance ceded)	\$ 311.4	\$ 291.2	\$ 20.2
Total cash and invested assets (excluding unrealized gains and losses and derivatives)	\$ 36.8	\$ 34.7	\$ 2.1
	For the Six Months Ended		
	June 30, 2023	June 30, 2022	Change
	<i>(in millions)</i>		
<u>Weighted New Annualized Premium ("WNAP") Sales</u>			
Life	\$ 245	\$ 208	\$ 37
Annuity	353	127	226
Total Life and Annuity WNAP	\$ 598	\$ 335	\$ 263

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, 2022 and 2021, 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 June 30, 2023 and 2022

(in thousands)

Assets:

Cash and investments:

	As of June 30, 2023	As of December 31, 2022
Available-for-sale debt securities	\$ 24,766,193	\$ 22,946,775
Equity securities	125,236	111,513
Trading debt securities	156,311	164,106
Mortgage loans	4,751,416	4,967,269
Policy loans	1,147,858	1,067,698
Real estate investments	7,979	7,906
Derivative assets	2,302,102	801,285
Other invested assets	1,445,265	1,403,185
Short term investments	663,477	295,512
Cash and restricted cash	556,424	198,162
Total cash and investments	35,922,261	31,963,411
Deferred policy acquisition costs	4,351,184	4,297,579
Accrued investment income	337,589	304,219
Premiums and fees receivable	8,875	17,829
Amounts recoverable from reinsurers	150,849	150,428
Property and equipment, net	160,320	159,304
Corporate owned life insurance	587,445	573,933
Deferred tax asset	507,900	405,997
Federal income tax recoverable	—	44,400
Other assets	167,823	165,944
Separate account assets	818,167	772,523
Total assets	\$ 43,012,413	\$ 38,855,567

Liabilities:

Policy liabilities:

Policy benefit liabilities	\$ 3,878,670	\$ 3,852,755
Policyholder account liabilities	32,211,606	29,889,964
Policyholders' deposits	143,691	88,837
Policy claims payable	132,820	143,051
Policyholders' dividends and dividend obligations	12,303	10,012
Total policy liabilities	36,379,090	33,984,619
Amounts payable to reinsurers	14,286	27,892
Derivative liabilities	1,472,618	510,660
Other liabilities and accrued expenses	970,593	563,998
Pension and other post-retirement benefit obligations	183,063	169,142
Federal income tax payable	78,362	—
Debt	916,619	916,336
Separate account liabilities	818,167	772,523
Total liabilities	\$ 40,832,798	\$ 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	3,868,922	3,729,404
Accumulated other comprehensive loss	(1,689,307)	(1,819,007)
Total stockholder's equity	\$ 2,179,615	\$ 1,910,397
Total liabilities and stockholder's equity	\$ 43,012,413	\$ 38,855,567

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Comprehensive Income
For the Six Months Ended June 30, 2023 and 2022

	For the Six Months Ended June 30,	
	2023	2022
<i>(in thousands)</i>		
Revenues:		
Insurance premiums	\$ 169,668	\$ 158,891
Policy and contract charges	595,229	519,832
Commissions and fee income	31,181	34,459
Net investment income	1,110,130	167,506
Net investment (losses) gains	(15,215)	28,767
Other income	12,504	22,251
Total revenues	1,903,497	931,706
Benefits and expenses:		
Increase in policy liabilities	16,004	38,505
Policy benefits	317,513	300,150
Policyholders' dividends and dividend obligations	13,170	589
Interest credited to policyholder account liabilities	753,593	188,220
Operating expenses	222,287	172,259
Interest expense	33,539	33,497
Policy acquisition expenses	359,859	168,156
Total benefits and expenses	1,715,965	901,376
Income before income taxes	187,532	30,330
Income tax expense	39,382	6,369
Net income	\$ 148,150	\$ 23,961

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Changes in Stockholder's Equity
For the Six Months Ended June 30, 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	—	—	—	23,961	—	23,961
Change in unrealized losses on available-for-sale securities, net	—	—	—	—	(2,201,117)	(2,201,117)
Change in cash flow hedge on debt issuance, net	—	—	—	—	20	20
Change in additional minimum pension liability, net	—	—	—	—	3,586	3,586
Total comprehensive loss	—	—	—	—	—	(2,173,550)
June 30, 2022	\$ —	\$ —	\$ —	\$ 3,621,002	\$ (1,224,871)	\$ 2,396,131
January 1, 2023	\$ —	\$ —	\$ —	\$ 3,729,404	\$ (1,819,007)	\$ 1,910,397
Net income	—	—	—	148,150	—	148,150
Effect of implementation of ASU 2016-13, net	—	—	—	(8,632)	—	(8,632)
Change in unrealized gains on available-for-sale securities, net	—	—	—	—	126,332	126,332
Change in cash flow hedge on debt issuance, net	—	—	—	—	20	20
Change in additional minimum pension liability, net	—	—	—	—	3,348	3,348
Total comprehensive income	—	—	—	—	—	269,218
June 30, 2023	\$ —	\$ —	\$ —	\$ 3,868,922	\$ (1,689,307)	\$ 2,179,615

NLV Financial Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2023 and 2022

	For the Six Months Ended June 30,	
	2023	2022
<i>(in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 148,150	\$ 23,961
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for deferred income taxes	(136,380)	(5,759)
Interest credited to policyholder account liabilities	753,593	188,220
Amortization of deferred policy acquisition costs	296,576	76,693
Policy and contract charges	(595,229)	(519,832)
Net investment losses (gains)	15,215	(28,767)
Change in fair value of derivatives	(321,172)	517,409
Change in corporate owned life insurance policies	(13,512)	(16,279)
Depreciation	16,612	16,769
Other	(9,209)	(12,308)
Changes in assets and liabilities:		
Accrued investment income	(33,370)	(14,152)
Deferred policy acquisition costs	(434,446)	(339,154)
Policy liabilities	83,932	139,881
Other assets and liabilities	147,288	(110,278)
Net cash used in operating activities	<u>(81,952)</u>	<u>(83,596)</u>
Cash flows from investing activities:		
Proceeds from sales, maturities and repayments of investments	1,566,035	1,416,413
Cost of investments acquired	(3,130,682)	(2,449,302)
Property and equipment additions	(16,969)	(8,440)
Change in policy loans	(80,160)	(36,301)
Change in short term investments	(367,964)	(59,900)
Change in short term broker collateral	361,720	(425,207)
Other	13,375	39,946
Net cash used in investing activities	<u>(1,654,645)</u>	<u>(1,522,791)</u>
Cash flows from financing activities:		
Policyholders' deposits	3,203,627	1,900,579
Policyholders' withdrawals	(1,098,768)	(860,967)
Advances from Federal Home Loan Banks	38,000	519,278
Repayments to Federal Home Loan Banks	(48,000)	(450,641)
Change in other deposits	—	15,419
Net cash provided by financing activities	<u>2,094,859</u>	<u>1,123,668</u>
Net increase (decrease) in cash	358,262	(482,719)
Cash and restricted cash:		
Beginning of period	198,162	640,397
End of period	<u>\$ 556,424</u>	<u>\$ 157,678</u>